

OFFICE OF THE COMPTROLLER OF THE CURRENCY
Washington, D. C. 20219

FORM 10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT
For the transition period from _____ to _____

Commerce National Bank

(Exact name of registrant as specified in its charter)

**National Banking Association Organized
Under the Laws of the United States and
Headquartered in California**

(State or other jurisdiction of
incorporation or organization)

58-2671498
(I.R.S. Employer
Identification No.)

**4040 MacArthur Boulevard, Suite 100
Newport Beach, California 92660**
(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (949) 474-1020

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "Accelerated Filer and Large Accelerated Filer" in Rule 12b-2 of the Exchange Act. (check one): Large Accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

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

As of June 29, 2007, the last trading day of the second quarter, the aggregate market value of the voting common stock held by non-affiliates of the registrant (based on share ownership by officers and directors as of December 31, 2007), computed on the basis of the closing share price of \$16.50 as reported on The NASDAQ's website was approximately \$39,221,424. Registrant does not have any nonvoting common equities.

As of March 19, 2008, there were 2,660,593 shares of registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into this Form 10-K: Part III, Items 10 through 14 from registrant's definitive proxy statement for its 2008 annual meeting of shareholders.

**Commerce National Bank
Form 10-K**

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PART I

Item 1. Business.

Cautionary Statements Regarding Forward-Looking Statements

Certain matters discussed or incorporated by reference in this Annual Report on Form 10-K including, but not limited to, matters described in "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations," are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, Section 27A of the Securities Act of 1933, as amended, and subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may contain words related to future projections including, but not limited to, words such as "believe," "expect," "anticipate," "intend," "may," "will," "should," "could," "would," and variations of those words and similar words that are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those projected. Factors that could cause or contribute to such differences include, but are not limited to, the following: (1) variances in the actual versus projected growth in assets; (2) return on assets; (3) loan losses; (4) expenses; (5) changes in the interest rate environment including interest rates charged on loans, earned on securities investments and paid on deposits; (6) competition effects; (7) fee and other noninterest income earned; (8) general economic conditions nationally, regionally, and in the operating market areas of the Bank; (9) changes in the regulatory environment; (10) changes in business conditions and inflation; (11) changes in securities markets; (12) data processing problems; (13) a decline in real estate values in the Bank's operating market areas; (14) the effects of terrorism, the threat of terrorism or the impact of the current military conflicts in Afghanistan and Iraq and the conduct of the war on terrorism by the United States and its allies, as well as other factors. The factors set forth under "Item 1A - Risk Factors" in this report and other cautionary statements and information set forth in this report should be carefully considered and understood as being applicable to all related forward-looking statements contained in this report, when evaluating the business prospects of the Bank.

Forward-looking statements are not guarantees of performance. By their nature, they involve risks, uncertainties and assumptions. The future results and shareholder values may differ significantly from those expressed in these forward-looking statements. You are cautioned not to put undue reliance on any forward-looking statement. Any such statement speaks only as of the date of this report, and in the case of any documents that may be incorporated by reference, as of the date of those documents. We do not undertake any obligation to update or release any revisions to any forward-looking statements, to report any new information, future event or other circumstances after the date of this report or to reflect the occurrence of unanticipated events, except as required by law. However, your attention is directed to any further disclosures made on related subjects in our subsequent reports filed with the Office of the Comptroller of the Currency (hereinafter referred to as the "OCC"), on Forms 10-K, 10-Q and 8-K.

Introduction

Commerce National Bank, or the Bank, opened for business on December 17, 2003. Also on that date, stock certificates for the shares of common stock subscribed for in the stock offering were issued and distributed to the shareholders. On February 28, 2005, the Board of Directors authorized a rights offering and a secondary public offering of its common stock at \$13.00 per share to raise an additional \$15,000,000, up to a maximum of \$18,000,000. The purpose of the offering was to raise additional capital to expand the services the Bank could provide to its customers. On July 29, 2005, the Bank successfully completed its rights offering and secondary public stock offering and sold 1,384,616 shares of its common stock at \$13.00 per share, for an aggregate sales price of \$18,000,008.

The Bank and its operations are subject to federal and state laws applicable to national banks and to the supervision of, and regular examination by, the OCC. The Bank is also a member of the Federal Reserve System and its deposits are insured up to applicable limits by the Federal Deposit Insurance Corporation (hereinafter referred to as the "FDIC"). The Bank has no holding company and no subsidiaries.

The Bank achieved significant growth in 2007, ending the year with assets totaling \$205.8 million, an increase of \$37.1 million, or 22.0 percent over December 31, 2006. At December 31, 2007, net loans totaled \$119.1 million, total deposits equaled \$176.8 million and total capital was \$28.3 million.

The net income for the year ended December 31, 2007 was \$1,048,636 or \$0.39 per basic and diluted common share, compared to net income for the year ended December 31, 2006 of \$684,341 or \$0.26 per basic common share and \$0.25 per diluted common share.

The Bank is a community bank conducting a general commercial banking business. On January 12, 2007, the Bank opened a new branch office at 4040 MacArthur Boulevard, Suite 100, Newport Beach, California 92660, moved the loans and deposits from its Irvine branch to the Newport Beach location, and closed the Irvine branch. The Bank then obtained shareholder and OCC approval to relocate its headquarters office from its office located at 270 E. Orangethorpe Avenue, Fullerton, California 92832 to its Newport Beach office. The Bank continues to operate a full service branch at its former main office location in Fullerton.

The Bank's telephone number at its headquarters office in Newport Beach is (949) 474-1020. The telephone number at the Fullerton branch office is (714) 451-8650.

Bank Services

The Bank, as an independent community bank, offers a full range of commercial banking services, primarily to the business and professional community and individuals located in and around Orange County and neighboring communities.

The Bank offers a wide range of deposit instruments. These include personal and business checking accounts and savings accounts, interest-bearing negotiable orders of withdrawal ("NOW") accounts, money market deposit accounts ("MMDA"), and time certificates of deposit ("TCD"). Most of the Bank's deposits are attracted from small to medium-sized businesses and related sources, and from individuals. The Bank may also hold, from time to time, significant amounts of deposits from the State of California, or other public entities.

The Bank engages in a variety of lending activities, including commercial, Small Business Administration ("SBA"), consumer, and real estate loans, with particular emphasis on short and medium term obligations. Commercial lending activities are directed principally towards businesses whose demand for funds falls within the Bank's lending limit, such as small to medium-sized professional firms, retail and wholesale outlets, and light manufacturing concerns. Consumer lending activities include loans for automobiles, boats, recreation vehicles, home improvement, home equity, debt consolidation and other personal needs. Real estate loans include both commercial real estate and construction loans.

The Bank also offers a wide range of specialized services designed to attract and service the needs of commercial customers and account holders. These services include on-line banking, electronic bill pay, automated teller machines ("ATM"), cashier's checks, travelers' checks, foreign drafts and Automated Clearing House ("ACH") origination services. The Bank does not operate a Trust Department, however, it makes arrangements with its correspondent bank to offer trust services to its customers on request.

The majority of the Bank's business originates from within Orange County, California. The Bank's business activities, loan and deposit demand, and liquidity levels are typically not seasonal.

Competition

The banking business in California, generally, and in the Bank's market area, in particular, is highly competitive with respect to both deposits and loans and is dominated by a relatively small number of major banks, which have many offices operating over a wide geographic area. Among the advantages that some of these institutions have over the Bank is their ability to undertake extensive advertising campaigns and to allocate their investment assets to areas of highest yield and demand. The Bank competes for deposits and loans, principally with these banks, as well as savings and loan associations, thrift and loan associations, credit unions, mortgage companies, insurance companies, other financial service institutions, and money market mutual funds.

In competing for deposits, the Bank is subject to certain limitations not applicable to non-bank financial institutions. Deregulation of interest rate ceilings payable on deposits has increased, and will continue to increase, competition for deposits. In addition, other entities (both public and private) seeking to raise capital through the issuance and sale of debt or equity securities will also compete with the Bank for investment capital, which may otherwise be available for deposit into insured institutions.

Many of the major commercial banks operating in the Bank's market area offer certain services such as trust services and international banking that the Bank does not offer directly. By virtue of their greater total capitalization, such major banks have substantially higher lending limits than the Bank. As a national bank, the Bank is permitted to make loans to one person up to 15 percent of unimpaired capital and unimpaired surplus if not fully secured by readily marketable collateral (real estate is not considered readily marketable collateral). Also, a national bank may lend an additional 10 percent of unimpaired capital and unimpaired surplus to a person if fully secured by readily marketable collateral. California state-chartered banks are permitted to make unsecured loans in an amount up to 15 percent of their capital including allowance for possible loan losses, and loans on a secured basis in an amount equal to 25 percent of their capital including allowance for possible loan loss, provided that all loans to any one borrower, secured and unsecured, do not exceed the 25 percent limit. Savings and loan associations are continuing to offer products and services, which compete with the products and services offered by banking institutions, including the Bank. Independent banks also represent a significant competitive force. In order to compete, the Bank relies upon personal contacts by the officers, directors, and employees of the Bank to establish and maintain relationships with customers. The Bank focuses its efforts on the needs of professionals and small and medium-sized businesses. In the event there are customers whose loan demands exceed the Bank's lending limit, the Bank seeks to arrange for such loans on a participation basis with other financial institutions and intermediaries. The Bank also assists those customers requiring other services not offered by the Bank by obtaining such services from its correspondent banks.

Management believes that a portion of the Bank's customer base derives from customers who were dissatisfied with the level of service provided at larger financial institutions. While some customers have followed officers of those institutions who were hired by the Bank, others were attracted by calling programs of its officers and referrals from other customers. The Bank has sought, in the past, and intends to continue in the future, to hire customer contact officers who have a history of establishing good relationships with desirable customers. Hiring officers who have proven their ability to establish and maintain personal banking relationships, providing a high level of service, and earning referrals from satisfied customers, form the basis of the Bank's competitive approach.

In the past, the principal competitors for deposits and loans have been other banks (particularly major banks), savings and loan associations, and credit unions. To a lesser extent, thrift and loan companies, mortgage brokerage companies and insurance companies also have provided competition. Both federal and state legislation in the 1980's have increased competition by expanding the authority of savings and loan associations to make consumer and commercial loans. Legislation has eliminated all interest rate differentials between banks and savings and loans, further increasing the ability of savings and loans to compete with commercial banks and thrift and loan companies. In the past several years, other financial intermediaries have begun to offer financial services traditionally offered by banks.

Institutions, such as brokerage houses and even retail establishments, also offer new investment vehicles such as money-market funds.

Since 1982, federal legislation has authorized certain financial institutions to pay money-market interest rates on certain types of accounts. This has led to increased competition between financial institutions and money-market funds and has increased the Bank's relative cost of funds. Within the financial industry, the trend has been towards offering more varied services, such as discount brokerage services, often through affiliate relationships. The direction of federal legislation seems to favor competition between different types of financial institutions and to foster new entries into the financial service market.

To compete with major financial institutions in its market area, the Bank relies upon specialized services, local promotional activity, and personal contacts by its officers, directors and staff. The Bank believes that the high quality of customer service and attention and the availability to customers of prompt responses to lending requests is a contributing factor to the Bank's position in the area.

According to the Summary of Deposits issued by the Federal Deposit Insurance Corporation as of June 30, 2007, the most current data available, the Bank's market area of Orange County, California, had 684 offices in its market area being operated by 105 depository institutions. The total deposits maintained in these offices were \$67.9 billion at June 30, 2007. Of these totals, the Bank had two offices with a total of \$148.5 million in deposits, accounting for 0.22 percent of the market share in Orange County as of that date.

Supervision and Regulation

The following discussion of statutes and regulations affecting banks is only a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to such statutes and regulations. No assurances can be given that such statutes and regulations will not change in the future.

Various requirements and restrictions under federal and state laws affect our operations. Federal regulations address several areas including loans, investments, mergers and acquisitions, borrowings, dividends, and the number and locations of branch offices. Our deposits are insured up to the maximum limits (presently \$100,000 per account and \$250,000 on certain retirement accounts) allowed by the FDIC. As a result of this deposit insurance function, the FDIC has certain supervisory authority and powers over FDIC-insured institutions. We are also subject to applicable provisions of California law if not in conflict with, or preempted by federal law.

Office of the Comptroller of the Currency ("OCC")

As a nationally-chartered bank, we are regulated, supervised and regularly examined by the OCC, the head of which is the Comptroller of the Currency (the "Comptroller") who is appointed by the President of the United States. The OCC's supervisory and regulatory powers, which are similar, but not identical to, other federal banking regulations, are codified in Section 1 of the National Bank Act. The scope of the oversight and regulation responsibility of the OCC includes imposing minimum capitalization requirements, placing limits on lending and on the distribution of shareholder dividends, restricting affiliate transactions, and approving or denying approval for proposed bank sales, mergers, consolidations and other change in control transactions. The OCC must also approve such actions as the opening, closing or relocation of branch offices, the use of ATMs and Internet banking, the sale of bank securities, and the acquisition and disposition of real property.

As a national bank, we may generally make loans to one person up to 15 percent of unimpaired capital and unimpaired surplus if not fully secured by readily marketable collateral (real estate is not considered readily marketable collateral). A national bank may lend an additional 10 percent of

unimpaired capital and unimpaired surplus to a person if fully secured by readily marketable collateral. Additionally, California law exempts banks, including national banks, from California usury law.

The Comptroller has all powers necessary or convenient for the administration and enforcement of these and other statutory requirements, including the power to issue such rules and regulations as the Comptroller may deem necessary or advisable in executing the powers, duties and responsibilities of the OCC.

Impact of Monetary Policies

In general, Banking is a business dependent on interest rate spreads, which are the difference between the interest rates paid by the bank on its deposits and other borrowings and the interest rate earned by the bank on loans, securities and other interest-earning assets. The "spread" is the major source of a bank's earnings.

Interest rates are highly sensitive to many factors which are beyond our control. Accordingly, our earnings and growth are subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment, as well as to the influence of monetary and fiscal policies of the United States government and its agencies, particularly the Federal Reserve Board ("FRB").

The FRB implements national monetary policies, such as seeking to curb inflation and combat recession, by its open-market dealings in U.S. government securities, by adjusting the required level of reserves for financial institutions subject to reserve requirements, by placing limitations upon savings and time deposit interest rates, and through adjustments to the discount rate applicable to borrowings by banks that are members of the Federal Reserve System. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates. The nature and timing of any future changes in such policies and the impact of such changes on us cannot be predicted. However, the impact on our net interest margin, whether positive or negative, will depend on the degree to which our interest-earning assets and interest-bearing liabilities are rate sensitive. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting our net income.

The Bank is subject to regulation, supervision and regular examination by the OCC. Each depositor's account with the Bank is insured by the FDIC to the maximum amount permitted by law, which is currently \$100,000 for each insured deposit (and \$250,000 on certain retirement accounts). The Bank is also subject to certain regulations promulgated by the FRB and applicable provisions of California law, insofar as they do not conflict with or are not preempted by federal banking law.

Recent Legislation

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial intermediaries. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial intermediaries are frequently made in Congress, in the California legislature and before various bank regulatory and other professional agencies. The likelihood of any major changes and the impact such changes might have on the Bank are impossible to predict. Certain of the potentially significant changes which have been enacted, and proposals which have been made recently are discussed below.

Federal Deposit Insurance Reform Act of 2005

On February 8, 2006, President Bush signed into law The Federal Deposit Insurance Reform Act of 2005, or the FDI Reform Act. Some commentators have stated that the FDI Reform Act represents the

most significant reform in the deposit insurance system in decades. The FDI Reform Act (i) merges the Bank Insurance Fund, or BIF, and the Savings Association Insurance Fund, or SAIF, with the new combined fund to be called the Deposit Insurance Fund, or DIF, (ii) indexes the \$100,000 insurance level to reflect inflation (the first adjustment for inflation will be effective January 1, 2011 and thereafter adjustments will occur every five years), (iii) increases deposit insurance coverage for retirement accounts to \$250,000, which will also be subject to the adjustment process every five years, (iv) offers credits to banks that historically have capitalized the FDIC which can be used to offset premiums otherwise due (this addresses the fact that institutions that have grown rapidly have not had to pay deposit premiums), (v) imposes a cap on the level of the deposit insurance fund and provide for dividends when the fund grows beyond a specified threshold, (vi) adopts the historical basis concept for distributing the aforementioned one-time credit and dividends, and (vii) authorizes revisions to the current risk-based system for assessing premiums.

On November 2, 2006, the FDIC adopted two final rules implementing the FDI Reform Act. One rule creates a new system for risk-based assessments and sets assessment rates beginning January 1, 2007. The other rule sets the designated reserve ratio, or DRR, at 1.25 percent. The new system for risk-based assessment includes the following:

- *Risk Categories.* The existing nine assessment rate categories are consolidated into four new categories. Risk Category I, the lowest risk category, replaces the prior 1A risk category.
- *Most Risk Category I Institutions.* For most institutions within Risk Category I, assessment rates will depend upon a combination of CAMELS component ratings and financial ratios.
- *Large Risk Category I Institutions with Long-Term Debt Issuer Ratings.* For large institutions in Risk Category I that have long-term debt issuer ratings, assessment rates will depend upon these ratings (50 percent) and CAMELS component ratings (50 percent).
- *Rate Adjustments for Large Risk Category I Institutions.* For large institutions within Risk Category I, initial assessment rate determinations may be modified within limits upon review of additional relevant information. In the near future, the FDIC plans to propose guidelines for public comment on how adjustments will be made. No adjustments will be made before the guidelines have been adopted. For assessment purposes, a large institution is one that has at least \$10 billion in assets, but an institution that has between \$5 billion and \$10 billion in assets may request treatment as a large institution for assessment purposes, subject to FDIC approval.
- *New Institutions.* Until January 1, 2010, new institutions will be assessed as all other institutions are assessed. Thereafter, subject to exceptions, new institutions (those less than five years old) in Risk Category I will be assessed at the maximum rate applicable to that category. The exceptions apply to certain institutions that result from mergers or consolidations that are owned by a holding company for an older bank or thrift, that are directly owned by an older bank or thrift, or that are converted credit unions.
- *Base Assessment Rates.* Base assessment rates will range from 2 to 4 basis points for Risk Category I institutions and will be 7 basis points for Risk Category II institutions, 25 basis points for Risk Category III institutions and 40 basis points for Risk Category IV institutions. The FDIC may adjust rates without further notice-and-comment rulemaking, provided that no such adjustment can be greater than three basis points from one quarter to the next that adjustments cannot result in rates more than three basis points above or below the base rates, and that rates cannot be negative.
- *Assessment Rates.* Effective January 1, 2007, the FDIC set assessment rates that are three basis points above the base rates. Assessment rates will, therefore, range from 5 to 7 basis points for Risk Category I institutions and will be 10 basis points for Risk Category II institutions, 28 basis points for Risk Category III institutions and 43 basis points for Risk Category IV institutions. Deposit insurance assessments will be in addition to FICO assessments.

Based upon the current risk-based assessment rate schedule, the Bank's current capital ratios and levels of deposits, the Bank does not anticipate a significant increase in operating expenses due to the assessment rate applicable to it during 2008 compared to 2007.

Check Clearing for the 21st Century Act

The Check Clearing for the 21st Century Act (commonly referred to as “Check 21”) was signed into law in 2003 and became effective on October 28, 2004. The law facilitates check truncation by creating a new negotiable instrument called a “substitute check” which permits banks to truncate original checks, to process check information electronically and to deliver “substitute checks” to banks that want to continue receiving paper checks. Check 21 is intended to reduce the dependence of the check payment system on physical transportation networks (which can be disrupted by terrorist attacks of the type which occurred on September 11, 2001) and to streamline the collection and return process. The law does not require banks to accept checks in electronic form, nor does it require banks to use the new authority granted by the Act to create “substitute checks.” The Bank does not currently anticipate that compliance with the Act will have a material effect upon its financial position or results of its operations or its cash flows.

Fair and Accurate Credit Transactions Act

In December 2003, President Bush signed into law the Fair and Accurate Credit Transactions Act (“FACT Act”) which sets new obligations for financial firms to help deter identity theft and give consumers more control of their credit data. It also reauthorizes a federal ban on state laws that interfere with corporate credit granting and marketing practices.

The Board of Governors, the FDIC, the other federal financial institution regulatory agencies, and the Federal Trade Commission issued a joint press release on October 31, 2007, and final rules and guidelines effective January 1, 2008, subject to mandatory compliance as of November 1, 2008, implementing sections 114 and 315 of the Fair and Accurate Credit Transactions Act of 2003 to require financial institutions and other creditors to develop and implement a written identity theft prevention program. The program must include reasonable policies and procedures for detecting, preventing, and mitigating identity theft in connection with certain new and existing covered accounts. Covered accounts are defined as (i) an account primarily for personal, family, or household purposes (i.e., consumer accounts), or (ii) any other account for which there is a reasonably foreseeable risk to customers or the safety and soundness of the financial institution or creditor from identity theft. The program must be appropriate to the size and complexity of the financial institution or creditor and the nature and scope of its activities and should be designed to:

- identify relevant patterns, practices, and specific forms of activity that are “red flags” of possible identity theft and incorporate those red flags into the program;
- detect the occurrence of red flags incorporated into the program;
- respond appropriately to any red flags that are detected to prevent and mitigate identity theft; and
- ensure that the program is updated periodically to reflect changes in risks to customers or to the safety and soundness of the financial institution or creditor from identity theft.

The regulations include guidelines that each financial institution must consider and, to the extent appropriate, include in its program and steps that must be taken to administer the program including (i) obtaining approval of the program by the board of directors or a committee of the board, (ii) ensuring oversight of the development, implementation and administration of the program, (iii) training staff, and (iv) overseeing service provider arrangements. The guidelines contemplate that existing fraud prevention procedures may be incorporated into the program.

In addition to legislative changes, the various Federal and state financial institution regulatory agencies frequently propose rules and regulations to implement and enforce already existing legislation. It cannot be predicted whether or in what form any such rules or regulations will be enacted or the effect that such regulations may have on the Bank.

Interagency Guidance on Response Programs to Protect Against Identity Theft

The federal bank and thrift regulatory agencies have issued a guidance requiring financial institutions to develop programs to respond to incidents of unauthorized access to customer information, including procedures for notifying customers under certain circumstances. The guidance:

- interprets previously issued interagency customer information security guidelines that require financial institutions to implement information security programs designed to protect their customers' information; and
- describes the components of a response program and sets a standard for providing notice to customers affected by unauthorized access to or use of customer information that could result in substantial harm or inconvenience to those customers, thereby reducing the risk of losses due to fraud or identity theft.

Money Laundering and Currency Controls

Various federal statutory and regulatory provisions are designed to enhance record-keeping and reporting of currency and foreign transactions. Pursuant to the Bank Secrecy Act, financial institutions must report high levels of currency transactions or face the imposition of civil monetary penalties for reporting violations. The Money Laundering Control Act imposes sanctions, including revocation of federal deposit insurance, for institutions convicted of money laundering.

The Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed the Sarbanes-Oxley Act of 2002 into law. This Act addresses accounting oversight and corporate governance matters of companies whose securities are registered under the Securities Exchange Act of 1934 ("public companies") and, therefore, does not directly apply to the Bank. However, the OCC requires national banks, even those that are not public companies, to comply with many of the requirements of Sarbanes-Oxley on a "best practices" basis. Among other things, the Sarbanes-Oxley Act:

- provides for the establishment of a five-member oversight board, known as the Public Bank Accounting Oversight Board (the "PCAOB"), which is appointed by the Securities and Exchange Commission and that will set standards for and will have investigative and disciplinary powers over accountants;
- prohibits accounting firms from providing various types of consulting services to their public Bank clients and requires accounting firms to rotate partners among public Bank clients every five years;
- increases the criminal penalties for financial crimes and securities fraud;
- expands disclosure of corporate operations and requires public companies to implement disclosure controls and procedures designed to assure that material information regarding their business and financial performance is included in the public reports they file under the Exchange Act ("Exchange Act Reports");
- requires the chief executive and chief financial officers of public companies to certify as to the

accuracy and completeness of the Exchange Act Reports that their companies file, the financial statements included in those Reports and the adequacy of their disclosure procedures and controls and the adequacy and integrity of their internal controls;

- requires the directors of public companies that serve on audit committees to meet stringent independence standards;
- requires public companies whose publicly traded securities have a value in excess of \$75 million to file their Exchange Act Reports on a more accelerated basis than is currently required;
- requires more expeditious reporting by directors and officers and other public Bank insiders regarding their trading in Bank securities; and
- establishes statutory separations between investment banking firms and analysts.

The Bank has implemented disclosure controls and procedures and will take other actions to meet the expanded disclosure requirements and certification requirements of the Sarbanes-Oxley Act. Additionally, the Bank has determined that the members of the Bank's audit committee meet the independence standards imposed by that Act. A number of the requirements under that Act will become effective during fiscal 2008.

The NASDAQ Stock Market, Inc. ("NASDAQ") has also adopted more than 25 new corporate governance rules which apply to companies that list their securities with NASDAQ (the "NASDAQ Corporate Governance Rules"). These rules are intended to enable shareholders and prospective investors to more easily and efficiently monitor the performance of companies and directors. In anticipation of the possible future listing of the Bank's common stock with NASDAQ, the Bank is in the process of evaluating and adopting policies that are consistent with the NASDAQ Corporate Governance Rules.

The USA PATRIOT Act

After the September 11, 2001, terrorist attacks, the United States government acted in several ways to tighten control on activities perceived to be connected to money laundering and terrorist funding. A series of orders were issued which identify terrorists and terrorist organizations and require the blocking of property and assets of, as well as prohibiting all transactions or dealings with, such terrorists, terrorist organizations and those that assist or sponsor them.

The USA Patriot Act, signed into law by President Bush on October 26, 2001, substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposes new compliance and due diligence obligations, creates new crimes and penalties, compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States, and clarifies the safe harbor from civil liability to customers. In addition, the United States Treasury Department issued regulations in cooperation with the federal banking agencies, the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Department of Justice to require customer identification and verification, expand the money-laundering program requirement to the major financial services sectors, including insurance and unregistered investment companies, such as hedge funds, and facilitate and permit the sharing of information between law enforcement and financial institutions, as well as among financial institutions themselves. The United States Treasury Department also has created the Treasury USA PATRIOT Act Task Force to work with other financial regulators, the regulated community, law enforcement and consumers to continually improve the regulations.

The USA Patriot Act has had a significant effect upon the federal laws affecting the banking industry, including amendments to, among other federal statutes, the Computer Fraud and Abuse Act, the

Foreign Intelligence Surveillance Act, the Money Laundering Act, the Money Laundering Control Act, the Bank Secrecy Act, the Right to Financial Privacy Act and the Fair Credit Reporting Act.

It is not anticipated that the USA Patriot Act will have a significant impact on the financial condition or results of operations of the Bank.

International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001

The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, or IMLAFATA, a part of the Patriot Act, authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks and other financial institutions to enhance record-keeping and reporting requirements for certain financial transactions that are of primary money laundering concern. Among its provisions, IMLAFATA requires each financial institution to (i) establish an anti-laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLAFATA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The Treasury Department regulations implementing IMLAFATA mandate that federally-insured banks and other financial institutions establish customer identification programs designed to verify the identity of persons opening new accounts, maintain the records used for verification, and determine whether the person appears on any list of known or suspected terrorists or terrorist organizations.

Regulatory Advisory on Brokered and Rate-Sensitive Deposits

On May 11, 2001, the federal banking regulators issued an advisory reminding bankers and examiners of the potential risks associated with excessive reliance on brokered and other highly rate-sensitive deposits. These deposits may include those obtained through the internet, certificate of deposit listing services, and similar advertising programs. The agencies stated that while they believe these deposits can be, and often are, beneficial to banks if prudently managed, without proper monitoring and management, they might be an unstable source of funding for an institution. The advisory reminds bankers that under the agencies' safety and soundness standards, a bank's asset growth should be prudent and its management must consider the source, volatility and use of the funds generated to support asset growth. The advisory states that the agencies expect bank management to implement risk management systems commensurate in complexity with the liquidity and funding risks undertaken.

Protection of Customer Information

On February 1, 2001, the federal banking regulators issued final regulations implementing the provisions of Gramm-Leach relating to the protection of customer information. The effective date of these regulations was July 1, 2001. The regulations establish administrative, technical, and physical safeguards for customer records and information. These safeguards are intended to: insure the security and confidentiality of customer records and information; protect against any anticipated threats or hazards to the security or integrity of such records; and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Financial Services Modernization Legislation

The Financial Services Modernization Act, which also is known as the Gramm-Leach-Bliley Act ("Gramm-Leach"), was enacted into law in 1999. The principal objectives of that Act are to establish a

comprehensive framework to permit affiliations among commercial banks, insurance companies, securities and investment banking firms, and other financial service providers by revising and expanding the Bank Holding Company Act to permit a holding company system, meeting certain specified qualifications, to engage in broader range of financial activities, primarily through wholly-owned subsidiaries, and, thereby, to foster greater competition among financial services companies. To accomplish those objectives, among other things, the Act repealed the two affiliation provisions of the Glass-Steagall Act that had been adopted in the early 1930's during the Depression: Section 20, which restricted the affiliation of banks with firms "engaged principally" in specified securities activities; and Section 32, which restricted officer, director, or employee interlocks between a bank and any Bank or person "primarily engaged" in specified securities activities. The Financial Services Modernization Act also contains provisions that expressly preempt any state law restricting the establishment of financial affiliations, primarily related to insurance. That Act also:

- broadens the activities that may be conducted by national banks, banking subsidiaries of bank holding companies, and their financial subsidiaries;
- provides an enhanced framework for protecting the privacy of consumer information;
- adopts a number of provisions related to the capitalization, membership, corporate governance, and other measures designed to modernize the Federal Home Loan Bank system;
- modifies the laws governing the implementation of the Community Reinvestment Act (which is described in greater detail below); and
- addresses a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

A bank holding company that qualifies and elects to become a financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or are incidental or complementary to activities that are financial in nature. According to current Federal Reserve Board regulations, activities that are financial in nature and may be engaged in by financial holding companies include: securities underwriting; dealing and market making; sponsoring mutual funds and investment companies and engaging in insurance underwriting and brokerage; and engaging in merchant banking activities.

A bank holding company that is not also a financial holding company may not engage in such financial activities. Instead, as discussed above, it is limited to engaging in banking and such other activities as determined by the Federal Reserve Board to be as closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Bank does not believe that the Financial Services Modernization Act will have a material effect on its operations, at least in the near-term. However, to the extent that it enables banks, securities firms, and insurance companies to affiliate, the financial services industry may experience further consolidation. Additionally, the Act may have the result of increasing the level of competition that the Bank faces from larger institutions and other types of companies offering diversified financial products, many of which may have substantially greater financial resources than the Bank has.

Privacy Provisions of the Financial Services Modernization Act

As required by the Financial Services Modernization Act, federal banking regulators have adopted rules that limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to nonaffiliated third parties. Pursuant to the rules, financial institutions must provide:

- initial notices to customers about their privacy policies, describing the conditions under which they may disclose non-public personal information to non-affiliated third parties and affiliates;

- annual notices of their privacy policies to current customers; and
- a reasonable method for customers to “opt out” of disclosures to nonaffiliated third parties.

Interstate Banking and Branching Legislation

Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the “Interstate Banking and Branching Act”), which became effective September 29, 1995, a bank holding company may acquire banks in states other than its home state, without regard to the permissibility of such acquisition under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and the requirement that the bank holding company, prior to or following the proposed acquisition, controls no more than 10 percent of the total amount of deposits of insured depository institutions in the United States and no more than 30 percent of such deposits in that state (or such lesser or greater amount set by state law).

The Interstate Banking and Branching Act also authorized banks to merge across state lines, thereby creating interstate branches. Under such legislation, each state had the opportunity either to “opt out” of this provision, thereby prohibiting interstate branching in such states, or to “opt in”. The State of California elected to “opt in” to such legislation. Furthermore, pursuant to the Interstate Banking and Branching Act, a bank is now able to open new branches in a state in which it does not already have banking operations, if the laws of such state permit such de novo branching.

Capital Standards Under FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. In addition, pursuant to FDICIA, the various regulatory agencies have prescribed certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and such agencies may take action against a financial institution that does not meet the applicable standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the Total Risk-Based Capital, Tier 1 Risk-Based Capital and Leverage Capital Ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a “well capitalized” institution must have a Tier 1 Capital ratio of at least 6.00 percent, a Total Capital ratio of at least 10.00 percent and a Leverage ratio of at least 5.00 percent and not be subject to a capital directive order. An “adequately capitalized” institution must have a Tier 1 Capital ratio of at least 4.00 percent, a Total Capital ratio of at least 8.00 percent and a Leverage ratio of at least 4.00 percent, or 3.00 percent in some cases.

Banking agencies have also adopted regulations which mandate that regulators take into consideration (i) concentrations of credit risk, (ii) interest rate risk (when the interest rate sensitivity of an institution’s assets does not match the sensitivity of its liabilities or its off-balance sheet position) and (iii) risks from non-traditional activities, as well as an institution’s ability to manage those risks, when determining the adequacy of an institution’s capital. This evaluation is made as a part of the institution’s

regular safety and soundness examination. In addition, the banking agencies have amended their regulatory capital guidelines to incorporate a measure for market risk. In accordance with amended guidelines, a bank with significant trading activity (as defined in the amendment) must incorporate a measure for market risk in its regulatory capital calculations.

State and federal bank regulators responsible for supervising banks retain great discretion in determining whether and to what extent any bank meets applicable capital requirements through the examination process. The regulators determine and verify the amount of capital an institution has after examining its financial condition and operations, including, among other things, the quality of its loan portfolio and other assets, the adequacy of its reserves against loan losses, the cost of its deposits, the bank's exposure to fluctuations in interest rates and other risks attendant to the operations of the bank. The regulators are also charged by applicable law with developing and promulgating regulations governing the standards for the adequacy of a bank's capital. For example, the FDIC is currently considering proposals to increase minimum capital requirements for financial institutions which specialize in financing riskier credits, such as so-called "sub-prime" mortgages and automobile contracts. Such dependency on supervisory discretion of the regulatory agencies is inherent in highly regulated businesses, such as banking.

The following table sets forth the regulatory capital guidelines and the actual capitalization levels for the Bank as of December 31, 2007:

Capital Standard	Adequately Capitalized (greater than or equal to)	Well Capitalized	Commerce National Bank
Total risk-based capital ratio	8.00%	10.00%	21.0%
Tier 1 risk-based capital ratio	4.00%	6.00%	19.9%
Tier 1 leverage capital ratio	4.00%	5.00%	13.3%

As of December 31, 2007, the Bank was considered "well-capitalized" under the regulatory framework for prompt corrective action.

Risk Management of Technology Outsourcing

Federal regulators, through the Federal Financial Institutions Examination Council (the "FFIEC"), have issued guidance for institutions on management issues when using outsourced technology, including risk assessment, service provider selection, contract terms and oversight of outsourcing arrangements. The FFIEC guidelines state that the first step to be used by management is risk assessment, noting that special attention should be given to use of the internet. Once the potential risks have been identified and assessed, management should perform due diligence in evaluating potential service providers in order to determine if they can meet the needs of the institution on both an operational and financial level. The FFIEC guidelines describe a comprehensive list of factors to consider in this due diligence phase. The guidelines then describe the issues of importance in contract negotiation and the controls that should be made a part of the contract. The FFIEC stresses that internet-related services require special attention to security issues and suggests independent audit by a third party with sufficient expertise. Finally, the institution needs to implement a program to monitor the performance of each vendor, including its controls and financial condition.

Predatory Lending

The term "predatory lending," much like the terms "safety and soundness" and "unfair and deceptive practices," is far-reaching and covers a potentially broad range of behavior. As such, it does not lend itself to a concise or a comprehensive definition, but typically predatory lending involves at least one, and perhaps all three, of the following elements:

- making unaffordable loans based on the assets of the borrower rather than on the borrower's ability to repay an obligation (“asset-based lending”);
- inducing a borrower to refinance a loan repeatedly in order to charge high points and fees each time the loan is refinanced (“loan flipping”); and
- engaging in fraud or deception to conceal the true nature of the loan obligation from an unsuspecting or unsophisticated borrower.

Federal Reserve Board regulations aimed at curbing such lending significantly widened the pool of high-cost home-secured loans covered by the Home Ownership and Equity Protection Act of 1994, a federal law that requires extra disclosures and consumer protections to borrowers. The following triggers coverage under the Act:

- interest rates for first lien mortgage loans in excess of 8 percentage points above comparable Treasury securities,
- subordinate-lien loans of 10 percentage points above Treasury securities, and
- fees such as optional insurance and similar debt protection costs paid in connection with the credit transaction, when combined with points and fees if deemed excessive.

In addition, the regulation bars loan flipping by the same lender or loan servicer within a year. Lenders also will be presumed to have violated the law—which says loans shouldn't be made to people unable to repay them—unless they document that the borrower has the ability to repay. Lenders that violate the rules face cancellation of loans and penalties equal to the finance charges paid.

The Bank does not expect these rules and potential state action in this area to have a material impact on the Bank's financial condition or results of operation.

Community Reinvestment Act

The Bank is also subject to the Community Reinvestment Act (“CRA”). The CRA generally requires the federal banking agencies to evaluate the record of a financial institution in meeting the needs of local communities, including low- and moderate-income neighborhoods. In addition to substantive penalties and corrective measures that may be required for a violation of certain fair lending laws, the federal banking agencies may take compliance with such laws and CRA into account when regulating and supervising other activities, and in evaluating whether to approve applications for permission to engage in new activities or for acquisitions of other banks or companies. An unsatisfactory rating may be the basis for denying the application. Based on the most current regulatory review of the Bank's compliance with the requirements of the CRA, the Bank was rated “satisfactory.”

Future Legislation

Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such proposals or bills being enacted and the impact they might have on the Bank cannot be determined at this time.

Federal Reserve System

Federal Reserve regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts) and non-personal time deposits. The reserve balance required to be maintained at the Federal

Reserve Bank of San Francisco ("FRB") was \$774,000 and \$400,000 at December 31, 2007 and 2006, respectively.

The Bank, as a member of the FRB and the Federal Home Loan Bank ("FHLB") systems, is required to maintain investments in the capital stock of the FHLB and FRB. No ready market exists for these stocks and they have no quoted market value. The aggregate cost of such stock together with other equity investments of the Bank, was \$1.3 million and \$1.2 million at December 31, 2007 and 2006, respectively.

Limitations on Dividends

The Bank's shareholders are entitled to receive dividends when and as declared by its board of directors, out of funds legally available there for, subject to the restrictions set forth in the National Bank Act.

The payment of cash dividends by the Bank may be subject to the approval of the OCC, as well as restrictions established by federal banking law and the FDIC. Approval of the OCC is required if the total of all dividends declared by the Bank's board of directors in any calendar year will exceed the Bank's net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus or to a fund for the retirement of preferred stock. Additionally, the FDIC or the OCC might, under some circumstances, place restrictions on the ability of a bank to pay dividends based upon peer group averages and the performance and maturity of that bank.

To date, the Bank has not paid any dividends to its shareholders.

Employees

At December 31, 2007, the Bank employed 32 full-time employees. The Bank believes that its employee relations are positive.

Item 1A. Risk Factors.

The Bank conducts business in an environment that includes certain risks described below which could have a material adverse effect on the Bank's business, results of operations, financial condition, future prospects and stock price. You are also referred to the matters described under the heading "Cautionary Statements Regarding Forward-Looking Statements," in Part I, Item 1 and Part II, Item 7 of this report on Form 10-K for additional information regarding factors that may affect the Bank's business.

- The Bank's business is subject to interest rate risk, and variations in interest rates may negatively affect its financial performance.

Changes in the interest rate environment may increase or decrease the Bank's net interest income. It is expected that the Bank will continue to realize income from the differential or "spread" between the interest earned on loans, securities and other interest-earning assets, and the interest paid on deposits, borrowings and other interest-bearing liabilities. The amount of spread is dependent upon many factors, including the level of market interest rates, changes in market interest rates, the mix and the characteristics of the Bank's loans and investments, and the mix and characteristics of the Bank's deposits and other borrowings. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan balances, volumes and yields are affected by market interest rates, and rising interest rates generally are associated with a lower volume of loan originations. Conversely, while falling interest rates can be associated with increasing loan volumes, falling rates can also increase the incentive for borrowers to refinance existing loans into lower rate products, which can reduce yields for the Bank. In addition, an increase in the general level of interest rates may adversely affect the ability of certain borrowers to pay the interest on

and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect the Bank's net interest spread, asset quality, loan origination volume and overall profitability.

Governmental monetary policies affect the Bank's business and are beyond the control of the Bank.

The business of banking is affected significantly by the fiscal and monetary policies of the federal government and its agencies. Such policies are beyond the control of the Bank. The Bank is particularly affected by the policies established by the Board of Governors in relation to the supply of money and credit in the United States. The instruments of monetary policy available to the Board of Governors can be used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits, and this can and does have a material effect on the Bank's business, results of operations and financial condition.

- **The Bank faces strong competition from banks, financial service companies and other companies that offer banking services, which could adversely affect the Bank's business.**

Increased competition in the Bank's marketplace may result in reduced loans and deposits. Ultimately, the Bank may not be able to compete successfully against current and future competitors. Many competitors offer the banking services that are offered by the Bank in its service area. These competitors include national and super-regional banks, finance companies, investment banking and brokerage firms, credit unions, government-assisted farm credit programs, other community banks and technology-oriented financial institutions offering online services. In particular, the Bank's competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and mount extensive promotional and advertising campaigns. Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances, such as Internet-based banking services that cross traditional geographic bounds, enable more companies to provide financial services. If the Bank is unable to attract and retain banking customers, it may be unable to continue its loan growth and level of deposits, which may adversely affect its results of operations, financial condition and future prospects.

- **Worsening economic conditions in Southern California could adversely affect the Bank's business.**

The Bank conducts banking operations principally in Orange County and the counties surrounding Orange County. As a result, the Bank's financial condition, results of operations and cash flows are subject to changes in the economic conditions in Southern California. The Bank's business results are dependent in large part upon the business activity, population, income levels, deposits and real estate activity in Southern California, and adverse economic conditions could have adverse effects upon the Bank. The State of California is currently experiencing significant budgetary and fiscal difficulties. The Bank can provide no assurance that conditions in the California economy will not deteriorate or that such deterioration will not adversely affect the Bank. Deterioration in economic conditions locally, regionally or nationally, including the economic impact of terrorist activities within and outside California, could result in an economic downturn in Southern California and trigger the following consequences, any of which could adversely affect the Bank's business:

- loan delinquencies and defaults may increase;

- problem assets and foreclosures may increase;
 - demand for the Bank's products and services may decline;
 - low cost or non-interest bearing deposits may decrease; and
 - collateral for loans may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral as sources of repayment of existing loans.
- **The Bank has a concentration risk in commercial real estate related loans.**

On December 6, 2006, the federal bank regulatory agencies issued final joint guidance on Concentrations in Commercial Real Estate Lending, Sound Management Practices ("CRE Concentration Risk Guidance"). Under the CRE Concentration Risk Guidance, institutions with specific types of commercial real estate loans exceeding 300 percent of total capital and experiencing growth rates exceeding 50 percent during the past 36 months will be subject to increased regulatory scrutiny. The CRE Concentration Risk Guidance focuses on commercial real estate loans for which the cash flows from the real estate is the primary source of repayment, effectively excluding properties that are largely owner occupied.

At December 31, 2007, approximately \$52.6 million, or 176.1 percent of the Bank's total capital consisted of commercial real estate loans and construction and land loans covered by the CRE Concentration Risk Guidance. Substantially all of the Bank's real property collateral is located in its operating markets in Southern California. A substantial decline in real estate values in the Bank's primary market areas could occur as a result of worsening economic conditions, a general contraction of available credit in the marketplace, or other events including natural disasters such as earthquakes, fires, and floods. Such a decline in values could have an adverse impact on the Bank by limiting repayment of defaulted loans through sale of the real estate collateral and by likely increasing the number of defaulted loans to the extent that the financial condition of its borrowers is adversely affected by such a decline in values.

- **The Bank is subject to extensive regulation, which could adversely affect its business.**

The Bank's operations are subject to extensive regulation by state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of its operations. The Bank believes that it is in substantial compliance in all material respects with laws, rules and regulations applicable to the conduct of its business. Because the Bank's business is highly regulated, the laws, rules and regulations applicable to it are subject to regular modification and change. There can be no assurance that these laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future, which could make compliance much more difficult or expensive, restrict the Bank's ability to originate, broker or sell loans, further limit or restrict the amount of commissions, interest or other charges earned on loans originated or sold by the Bank, or otherwise adversely affect the Bank's results of operations, financial condition, or future prospects.

- **The Bank's allowance for loan losses may not be adequate to cover actual losses.**

Like all financial institutions, the Bank maintains an allowance for loan losses to provide for possible loan defaults and non-performance, but its allowance for loan losses may not be adequate to cover actual loan losses. In addition, future provisions for loan losses could materially and adversely affect the Bank's and therefore the Bank's operating results. The Bank's allowance for loan losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in the local and California real estate market, and interest rates, that may be beyond the Bank's control, and these losses may exceed current estimates. The OCC, as an integral part of its examination process, reviews the Bank's loans and allowance for loan losses. Although we believe that the Bank's allowance for loan losses is adequate to cover current losses, we cannot assure you that further increases in the allowance for loan losses will not be necessary, or that regulators will not require the Bank to increase

this allowance in the future. Either of these occurrences could materially and adversely affect the Bank's earnings.

- **The Bank's operations are dependent upon key personnel.**

The future prospects of the Bank is highly dependent on its directors, executive officers and other key personnel, and the Bank's ability to attract and retain experienced banking professionals to serve the Bank in other key positions. The unexpected loss of the services of any of these individuals could have a detrimental effect on the Bank.

- **Technology implementation problems or computer system failures could adversely affect the Bank.**

The Bank's future prospects will be highly dependent on the ability of the Bank to implement changes in technology that affect the delivery of banking services such as the increased demand for computer access to bank accounts and the availability to perform banking transactions electronically. The Bank's ability to compete will depend upon its ability to continue to adapt technology on a timely and cost-effective basis to meet such demands. In addition, the business and operations of the Bank will be susceptible to adverse effects from computer failures, communication and energy disruption, and the activities of unethical individuals with the technological ability to cause disruptions or failures of the Bank's data processing system.

- **Information security breaches or other technology difficulties could adversely affect the Bank.**

The Bank cannot be certain that implementation of safeguards will eliminate the risk of vulnerability to technological difficulties or failures or ensure the absence of a breach of information security. The Bank relies on the services of various vendors who provide data processing and communication services to the banking industry. Nonetheless, if information security is compromised or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and the Bank could be exposed to claims from its customers as a result. The occurrence of any of these events could adversely affect the Bank's results of operations, financial condition, prospects, and stock price.

Item 1B. Unresolved Staff Comments.

None.

ITEM 2. PROPERTIES

The Bank has two offices: its main office in Newport Beach and its Fullerton branch office. The Bank's Newport Beach main office is located on the ground floor of a three-story building at the corner of MacArthur Boulevard and Von Karman Avenue in Newport Beach, California. The building, located at 4040 MacArthur Boulevard, Newport Beach, California, is conveniently located near the John Wayne Airport, and the Newport (55) and San Diego (I-405) freeways. The Newport Beach main office, consisting of approximately 11,943 rentable square feet, houses all of the operations and administration, including the location's branch operations. The Fullerton branch office is located in a single story office building in the Fullerton Town Square Shopping Center at the corner of Orangethorpe Avenue and Lemon Street in Fullerton, California.

The Bank's Newport Beach main office is leased for a ten-year period, which commenced on March 1, 2007, the date sixty days after completion of tenant improvements. The monthly rent under the lease is \$29,499 per month for the first and second years of the lease term. The monthly rent will increase to \$30,694 during the third and fourth years, to \$32,246 during the fifth and sixth years, to \$33,440 during the seventh and eighth years, and to \$34,635 during the ninth and tenth years of the lease term. The effective rental rate (average rental rate) over the 120-month term is \$2.62 per rental square foot per

month, or \$31,265 per month. The Bank is also responsible for its pro rata share of any operating expenses incurred by the landlord for common areas of the building.

The Bank's branch office in Fullerton is leased for an initial eighty-eight month period, which commenced October 8, 2003, with two successive seven-year options. The monthly rent under the lease was abated for the first four months, and was \$12,410 per month for months five through sixteen of the lease term. The monthly rent will increase to \$12,782 during months seventeen through twenty-eight of the lease term, to \$13,166 during months twenty-nine through forty, to \$13,561 during months forty-one through fifty-two, to \$13,968 during months fifty-three through sixty-four, to \$14,387 during months sixty-five through seventy-six, and to \$14,818 during months seventy-seven through eighty-eight. The effective rental rate (average rental rate) over the 88-month term is \$1.78 per rental square foot per month, or \$12,967 per month. The Bank is also responsible for its pro rata share of any operating expenses incurred by the landlord for common areas of the shopping center.

The Bank's Irvine office was closed and its business was transferred to the Newport Beach office on January 12, 2007. The Irvine space was subsequently sublet on December 31, 2006, for the same amount of rent that the Bank is obligated to pay on its lease. The space was leased for an initial term of twenty-four months, which commenced August 1, 2004, with a two year renewal option. The lease was renewed on August 1, 2006, for another 24 months. The monthly rent for the first twelve months on a full-service- basis is \$5,434 and will increase to \$5,539 for the last twelve months. The effective rental rate (average rental rate) over the 24-month term is \$2.63 per rental square foot per month, or \$5,486 per month.

Management believes that its existing facilities are adequate for current needs and anticipated future growth. Management expects that in the normal course of business, leases that expire will be renewed or canceled based upon management's assessment of the Bank's needs at that time.

ITEM 3. LEGAL PROCEEDINGS

There are no legal proceedings adverse to the Bank which any director, officer, affiliate of the Bank, or 5 percent shareholder of the Bank, or any associate of any such director, officer, affiliate or 5 percent shareholder of the Bank, is a party, and none of the above persons has a material interest adverse to the Bank.

From time to time, the Bank is a party to claims and legal proceedings arising in the ordinary course of business. The Bank's management is not aware of any material pending legal proceedings to which it may be a party or has recently been a party, which will have a material adverse effect on the financial condition or results of operations of the Bank.

ITEM 4. SUBMISSION OF MATTERS TO THE VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Trading in our common stock has not been extensive and such trades cannot be characterized as constituting an active market. Our common stock is not listed on any exchange or quoted by The NASDAQ® Stock Market, Inc. ("NASDAQ"), although it is quoted on the OTC Bulletin Board® ("OTCBB") under the ticker symbol "CNBF.OB". The OTC Bulletin Board® (OTCBB) is a regulated quotation service that displays real-time quotes, last-sale prices, and volume information in over-the-

counter (OTC) equity securities. An OTC equity security generally is any equity that is not listed or traded on NASDAQ or a national securities exchange. Unlike the NASDAQ, however, the OTCBB does not impose listing standards and does not provide automated trade executions.

The following table sets forth the high and low trading prices and the trading volume of our common stock for the periods indicated. The trading data listed below are based on information obtained from the NASDAQ website, which archives historical trading data for many equity securities, including CNBF.OB.

	Sales Prices		Share Volume
	High	Low	
2007			
Fourth quarter	\$ 15.00	\$ 12.05	107,018
Third quarter	\$ 16.01	\$ 14.05	119,823
Second quarter	\$ 17.25	\$ 15.25	103,231
First quarter	\$ 17.50	\$ 15.00	117,359
2006			
Fourth quarter	\$ 18.00	\$ 15.40	322,925
Third quarter	\$ 17.45	\$ 15.80	71,438
Second quarter	\$ 18.25	\$ 17.00	32,109
First quarter	\$ 19.00	\$ 16.25	95,574
2005			
Fourth quarter	\$ 17.25	\$ 15.50	86,305
Third quarter	\$ 17.75	\$ 13.00	191,059
Second quarter	\$ 13.00	\$ 11.50	22,873
First quarter	\$ 14.25	\$ 12.25	95,444

According to the NASDAQ website, as of March 19, 2008, CNBF closing share price was \$13.90 per share. As of that date, the 52-week range in sales prices for our common stock was between \$13.00 and \$17.50 per share. The “bid” and “asked” prices as of March 19, 2008, were \$13.50 and \$13.90, respectively.

As of December 31, 2007, the Common Stock of the Bank was held by approximately 490 holders.

Dividends

The Bank's shareholders are entitled to receive dividends when and as declared by its board of directors, out of funds legally available there for, subject to the restrictions set forth in the National Bank Act.

The payment of cash dividends by the Bank may be subject to the approval of the Office of the Comptroller of the Currency, as well as restrictions established by federal banking law and the Federal Deposit Insurance Corporation. Approval of the Office of the Comptroller of the Currency is required if the total of all dividends declared by the Bank's board of directors in any calendar year will exceed the Bank's net profits for that year combined with its retained net profits for the preceding two years, less any required transfers to surplus or to a fund for the retirement of preferred stock. Additionally, the Federal Deposit Insurance Corporation and/or the Office of the Comptroller of the Currency might, under some circumstances, place restrictions on the ability of a bank to pay dividends based upon peer group averages and the performance and maturity of that bank.

To date, the Bank has not paid any dividends to its shareholders.

Stock Option Plan Compensation Information

The following table summarizes information as of December 31, 2007, relating to the Bank's 2003 Stock Option Plan pursuant to which grants of options, restricted stock or other rights to acquire shares may be granted from time to time.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans [excluding securities reflected in column (a)] (c)
Equity compensation plan approved by security holders	480,022	\$13.41	95,918
Equity compensation plans not approved by security holders	-	-	-
Total	480,022	\$13.41	95,918

ITEM 6. SELECTED FINANCIAL DATA

Financial Summary

The following table presents certain financial information concerning the business of the Bank. This information should be read in conjunction with the Financial Statements, the notes thereto, and Management's Discussion and Analysis included in this report.

As of and For the Years Ended December 31
(Amounts in thousands, except per share amounts and ratios.)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
STATEMENT OF OPERATIONS DATA:					
Net interest income	\$ 8,337	\$ 6,193	\$ 3,540	\$ 869	\$ 4
Provision for loan and lease losses	304	439	476	310	-
Other income	715	571	104	26	-
Other expenses	8,178	6,120	3,930	3,324	111
Income before income taxes	570	205	(762)	(2,739)	(107)
Income taxes (Benefit)	(479)	(479)	-	-	-
Net income	<u>\$ 1,049</u>	<u>\$ 684</u>	<u>\$ (762)</u>	<u>\$ (2,739)</u>	<u>\$ (107)</u>
Earnings per share – basic	<u>\$ 0.39</u>	<u>\$ 0.26</u>	<u>\$ (0.42)</u>	<u>\$ (2.28)</u>	<u>\$ (0.09)</u>
Earnings per share – diluted	<u>\$ 0.39</u>	<u>\$ 0.25</u>	<u>\$ (0.42)</u>	<u>\$ (2.28)</u>	<u>\$ (0.09)</u>
Cash dividends per share	-	-	-	-	-
Book value per share	10.63	10.01	9.46	6.62	8.89
Tangible book value per share	10.63	10.01	9.46	6.62	8.89
BALANCE SHEET DATA:					
Balance sheet totals-end of period:					
Assets	\$ 205,792	\$ 168,653	\$ 113,741	\$ 61,960	\$ 11,524
Loans, net	119,111	97,617	64,869	24,151	-
Deposits	176,843	141,657	88,867	53,912	722
Shareholders' equity	28,271	26,559	24,667	8,006	10,665
Average balance sheet amounts:					
Assets	185,550	142,586	90,942	34,552	491
Loans, net	113,211	87,241	42,714	9,685	-
Earning assets	179,401	138,379	87,082	31,786	381
Deposits	157,478	117,090	75,529	25,293	16
Shareholders' equity	27,417	25,036	15,241	9,203	447
SELECTED RATIOS:					
For the year:					
Return on average equity	3.8%	2.7%	-5.0%	-29.8%	-23.9%
Return on average assets	0.57%	0.48%	-0.84%	-7.93%	-21.79%
Efficiency ratio	90.3%	90.5%	107.8%	371.4%	2775.0%
Net interest margin	4.65%	4.48%	4.07%	2.73%	1.05%
Net charge-offs to average loans & leases	0.04%	0.00%	0.00%	0.00%	NA
At December 31:					
Average equity to average assets	14.8%	17.6%	16.8%	26.6%	91.0%
Leverage capital to total loans	23.7%	27.2%	38.1%	33.2%	NA

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following is the Bank's management's discussion and analysis of the significant changes in income and expense accounts for the years ended December 31, 2007, 2006, and 2005.

General

The following discussion and analysis highlights the major components affecting the Bank's growth in net income and total assets for each of the three years in the period ended December 31, 2007. This presentation includes and should be reviewed in conjunction with, information derived from financial statements and related notes appearing elsewhere in this report. Reference to 2007, 2006 and 2005 represents activity for the three years in the period ending December 31, 2007.

Forward Looking Statements

This Form 10-K includes forward-looking information, which is subject to the "safe harbor" created by Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We may make forward-looking statements in other filings with the Office of the Comptroller of the Currency, press releases, news articles, conference calls with analysts and shareholders and when we are speaking on behalf of the Bank. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Often, they include the words "believe," "expect," "anticipate," "intend," "plan," "estimate," "project," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may." These forward-looking statements are intended to provide investors with additional information with which they may assess our future potential. All of these forward-looking statements are based on assumptions about an uncertain future and are based on information available at the date such statements are issued.

There are numerous risks and uncertainties that could and will cause actual results to differ from those discussed in our forward-looking statements. Many of these factors are beyond our ability to control or predict and could have a material adverse effect on our stock price, financial condition, results of operations or prospects. Such risks and uncertainties include, but are not limited to, the following factors: adverse economic conditions in California generally and in Orange County specifically, global political and general economic conditions related to the terrorist attacks on September 11, 2001 and their aftermath, adverse economic conditions affecting certain industries, fluctuations in interest rates, any controlling interest in the Bank, competition in the banking industry, restrictions on dividends, adverse effects of current and future banking rules, regulations and legislation, and risks associated with various strategies the Bank may pursue, including potential acquisitions, divestitures and restructurings.

Overview

This discussion is intended to provide a better understanding of the material changes and trends relating to the financial condition, results of operations, and liquidity of the Bank. The following discussion should be read in conjunction with our financial statements and notes thereto included elsewhere in this document.

The Bank achieved significant growth in 2007, ending the year at \$205.8 million in total assets, an increase of \$37.1 million, or 22 percent over December 31, 2006. Total assets of \$168.7 million at December 31, 2006 were an increase of \$54.9 million, or 48.3 percent over total assets at December 31, 2005 of \$113.7 million. Net loans at December 31, 2007 were \$119.1 million, compared to \$97.6 million at December 31, 2006, an increase of \$21.5 million or 22 percent. Net loans at year-end 2006 increased \$32.7 million or 50.5 percent from the \$64.9 million outstanding at December 31, 2005. Deposits at December 31, 2007 were \$176.8 million, compared to \$141.7 million at December 31, 2006, an increase of \$35.1 million or 24.8 percent. Deposits at December 31, 2006 increased \$52.8 million or 59.4 percent from total deposits of \$88.9 million reported at December 31, 2005. Shareholders' equity totaled \$28.3 million, or 13.7 percent of total assets at year-end 2007, as compared with \$26.6 million, or 15.7 percent of assets at year-end 2006, and \$24.7 million, or 21.7 percent of total assets at year-end 2005.

The net income for the year ended December 31, 2007 was \$1,049,000 or \$0.39 per basic and diluted common share, compared to net income for the year ended December 31, 2006 of \$684,000 or

\$0.26 per basic common share and \$0.25 per diluted common share, and a net loss of \$763,000 or \$(0.42) per basic and diluted common share for the year ended December 31, 2005.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and general practices in the banking industry. The accounting policies we follow in determining the sufficiency of our allowance for loan losses and our valuation allowance for deferred income taxes involve judgments, estimates and assumptions which can have a material impact on the carrying value of our loans and deferred income tax assets and, as a result, we consider these accounting policies to be critical accounting policies.

Allowance for Loan Losses. In determining the adequacy of the allowance for loan losses, we use the Bank's credit loss experience and industry peer group loss factors, adjusted for current trends and other economic indicators, to determine the inherent losses that may be present in our loan portfolio.

Actual loan losses could be greater than that predicted by those loss factors and our assessments of current trends and conditions. In such an event, we would be required to increase the allowance for loan losses by means of a charge to income referred to in our financial statements as the "provision for loan losses." Such an increase would reduce the carrying value of our loans on our balance sheet, and the additional provision for loan losses taken to increase that allowance would reduce our income, in the period when it is determined that an increase in the allowance for loan losses is necessary.

Stock-Based Compensation. The Bank has adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R) "*Share-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.

The Bank adopted SFAS No. 123(R) on January 1, 2006 using the "modified prospective method." Under this method compensation expense is recognized using the fair-value method for all new stock option awards as well as any existing awards that are modified, repurchased or cancelled after January 1, 2006, and prior periods are not restated. In addition, the unvested portion of previously awarded options outstanding as of January 1, 2006, will also be recognized as expense over the requisite service period based on the fair value of those options as previously calculated at the grant date under the pro-forma disclosures of SFAS No. 123. The fair value of each grant is estimated using the Black-Scholes option pricing model. During 2007, the Bank recognized pre-tax stock-based compensation expense of \$603,000 as a result of adopting SFAS No. 123(R). In 2006, the Bank recognized pre-tax stock-based compensation expense of \$678,000.

Prior to the adoption of SFAS No. 123(R), the Bank accounted for stock-based awards using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation cost for stock options was measured as the excess, if any, of the quoted market price of the Bank's stock at the date of the grant over the amount an employee must pay to acquire the stock. All of the Bank's stock option grants included exercise prices equal to the Bank's current market price per share at the date of grant; accordingly, no compensation expense was reported using the intrinsic value method of APB Opinion No. 25.

Income Taxes. Deferred income taxes are computed using the asset and liability method, which recognizes a deferred tax 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. Annual deferred tax expense (benefit) is equal to the change in the deferred tax liability (asset) account

from the beginning to the end of the year. A current tax asset or liability is recognized for the estimated taxes refundable or payable for the current year. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax asset will not be realized.

New Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," effective for the Bank as of 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 input 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 conditions or results of operations.

Earnings Overview

Net earnings in 2007 were \$1,049,000, a 53.4 percent increase over 2006 earnings of \$684,000. The Bank's net loss in 2005 totaled \$763,000. On a per share basis, net earnings were \$0.39 in 2007 compared with net earnings of \$0.25 in 2006 and a net loss of \$(0.42) in 2005.

Operating results in 2007 reflected net interest income of \$8.3 million, an increase of \$2.1 million, or 34.6 percent over the \$6.2 million in net interest income reported in 2006. 2006 net interest income increased by \$2.7 million, or 74.9 percent over the \$3.5 million in net interest income reported in 2005. The increases in net interest income were primarily attributable to growth in the Bank's portfolio of interest earning assets. Average interest earning assets during 2007 totaled \$179.4 million, an increase of \$41.0 million, or 29.6 percent over 2006. Average interest earning assets during 2006 totaled \$138.4 million, an increase of \$51.3 million, or 58.9 percent over 2005.

Loan loss provisions were reported totaling \$305,000 in 2007, \$439,000 in 2006, and \$476,000 in 2005. The amount of loan loss provision is dependent upon loan growth, market conditions, and the risk profile of the loan portfolio as of the reporting date. At year-end 2007, the allowance for loan losses was 1.24 percent of outstanding loans as compared to 1.24 percent in 2006 and 1.20 percent in 2005.

Increases in net interest income were offset by increases in non-interest expense. Non-interest expense totaled \$8.2 million in 2007, \$6.1 million in 2006 and \$3.9 million in 2005. Non-interest income also showed increases during the past three years. In 2007, non-interest income totaled \$714,000, up from \$572,000 reported in 2006 and \$104,000 reported in 2005. Income tax benefits of \$479,000 contributed to earnings in both 2007 and 2006.

Results of Operations

Net Interest Income

Net interest income is the difference between the interest yield generated by earning assets and the interest expense associated with the funding of those assets. Net interest income is affected by the interest rate earned or paid and by volume changes in loans, investment securities, deposits and borrowed funds. In 2007, net interest income represented 92.1 percent of net revenues (net interest income plus non-interest income), compared to 91.5 percent in 2006 and 97.2 percent in 2005.

The following Table 1 reflects an analysis of net interest income, asset yields, liability costs, and average balances of assets, liabilities and shareholders' equity in 2007 compared to 2006 and 2005.

Table 1
Net Interest Income and Average Balances
For the Year Ended December 31 2007, 2006 and 2005
(in thousands)

	2007			2006			2005		
	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost	Average Balance	Interest Earned or Paid	Average Yield or Cost
Assets									
Interest-Earning Assets:									
Loans	\$ 113,211	\$ 8,751	7.73%	\$ 87,241	\$ 6,761	7.75%	\$ 42,714	\$ 3,078	7.21%
Investment Securities	14,408	695	4.82%	21,587	867	4.02%	23,116	744	3.22%
Federal Funds Sold	36,065	1,774	4.92%	21,975	1,117	5.08%	13,131	436	3.32%
Other Interest-Bearing Deposits	15,717	832	5.29%	7,576	435	5.74%	8,121	332	4.09%
Total Interest-Earning Assets	179,401	12,052	6.72%	138,379	9,180	6.63%	87,082	4,590	5.27%
Cash and Due from Banks	4,017			3,394			2,727		
Premises and Equipment	1,340			841			1,001		
Accrued Interest and Other Assets	2,165			1,006			630		
Allowance for Loan Losses	(1,373)			(1,034)			(498)		
Total Assets	<u>\$ 185,550</u>			<u>\$142,586</u>			<u>\$ 90,942</u>		
Liabilities and Shareholders' Equity									
Interest-Bearing Liabilities:									
Money Market, Savings and NOW	\$ 110,412	\$ 3,412	3.09%	\$ 83,625	\$ 2,703	3.23%	\$ 50,436	\$ 904	1.79%
Time Deposits under \$100,000	697	27	3.87%	490	19	3.88%	185	4	2.16%
Time Deposits of \$100,000 or More	6,851	276	4.03%	7,073	265	3.75%	4,052	130	3.21%
Other Borrowings	-	-	0.00%	-	-	0.00%	348	12	3.45%
Total Interest-Bearing Liabilities	117,960	3,715	3.15%	91,188	2,987	3.28%	55,021	1,050	1.91%
Demand Deposits	39,518			25,902			20,508		
Other Liabilities	655			460			172		
Shareholders' Equity	27,417			25,036			15,241		
Total Liabilities and Shareholders' Equity	<u>\$ 185,550</u>			<u>\$142,586</u>			<u>\$ 90,942</u>		
Net Interest Income		<u>\$ 8,337</u>			<u>\$ 6,193</u>			<u>\$ 3,540</u>	
Interest Spread ¹			<u>3.57%</u>			<u>3.35%</u>			<u>3.36%</u>
Interest Margin ²			<u>4.65%</u>			<u>4.48%</u>			<u>4.07%</u>

¹ Yield on interest-earning assets less cost of interest-bearing liabilities

² Net interest income divided by average earning assets

The following table analyzes the dollar amount of change in interest income and expense and the changes in dollar amounts attributable to: (a) changes in volume (changes in volume at the current year rate), (b) changes in rate (change in rate times the prior year's volume) and (c) changes in rate volume (change in rate times change in volume). In this table, the dollar change in rate/volume is prorated to volume and rate proportionally.

Table 2
Rate / Volume Variance Analysis
(in thousands)

	Year ended December 31, 2007			Year ended December 31, 2006		
	Compared with			Compared with		
	Year ended December 31, 2006			Year ended December 31, 2005		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
Interest-Earning Assets:						
Loans	\$ 2,013	\$ (23)	\$ 1,990	\$ 3,209	\$ 474	\$ 3,683
Investment Securities	(288)	116	(172)	(49)	172	123
Federal Funds Sold	716	(59)	657	294	387	681
Other Interest Bearing Deposits	467	(70)	397	(22)	125	103
Total Interest Income	<u>2,908</u>	<u>(36)</u>	<u>2,872</u>	<u>3,431</u>	<u>1,159</u>	<u>4,590</u>
Interest-Bearing Liabilities:						
Money Market, Savings and NOW	866	(157)	709	595	1,204	1,799
Time Deposits under \$100,000	8	(0)	8	7	8	15
Time Deposits of \$100,000 or More	(8)	19	11	97	38	135
Other Borrowings	-	-	-	(12)	-	(12)
Total Interest Expense	<u>866</u>	<u>(138)</u>	<u>728</u>	<u>686</u>	<u>1,251</u>	<u>1,937</u>
Net Interest Income	<u>\$ 2,042</u>	<u>\$ 102</u>	<u>\$ 2,144</u>	<u>\$ 2,744</u>	<u>\$ (91)</u>	<u>\$ 2,653</u>

Net interest income is the largest component of net earnings of a financial institution such as our bank. Net interest income refers to the difference between the interest earned on loans and investments and the interest paid on deposits and borrowings. The Bank's net interest income is impacted by the amount and mix of interest earning assets and the amount and mix of interest bearing liabilities. Net interest income is also impacted by the relative yields of different classes of the Bank's assets and the relative costs of different classes of the Bank's liabilities. Taken together, the yields on assets and the costs of liabilities comprise the net interest spread and net interest margin of the Bank.

Net interest spread is defined as the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. In 2007, the Bank's net interest spread was 3.57 percent, which equaled the difference between the average yield on the Bank's interest-earning assets of 6.72 percent and the average cost of the Bank's interest-bearing liabilities of 3.15 percent. The Bank's net interest spread in 2007 of 3.57 percent increased 22 basis points from the net interest spread of 3.35 percent reported in 2006. The Bank's net interest spread in 2006 of 3.35 percent decreased one basis point from the net interest spread of 3.36 percent in 2005.

In contrast with net interest spread, net interest margin includes the impact of differences between the volume of interest earning assets and interest bearing liabilities. In 2007, the Bank's average interest earning assets were \$179.4 million, which exceeded its interest bearing liabilities of \$118.0 million by \$61.4 million. The additional funding sources that account for the \$61.4 million difference between average interest earnings assets and interest bearing liabilities during 2007 were \$39 million in average

non-interest bearing demand deposit accounts and \$27.4 million in average shareholders' equity. In 2006, the Bank's average interest earning assets were \$138.4 million, which exceeded its interest bearing liabilities of \$91.2 million by \$47.2 million. In 2005, the Bank's average interest earning assets were \$87.1 million, which exceeded its interest bearing liabilities of \$55.0 million by \$32.1 million.

Net interest margin is defined as net interest income divided by average earning assets. In 2007, the Bank's net interest margin was 4.65 percent, an increase of 17 basis points over the Bank's net interest margin of 4.48 percent during 2006. The 17 basis point increase in the Bank's net interest margin was due to a 22 basis point increase in interest spread from 3.35 percent during 2006 to 3.57 percent during 2007, and a net increase in interest earning assets of \$14.2 million. The Bank's 4.48 percent net interest margin in 2006 represented a 41 basis point increase over the Bank's 4.07 percent net interest margin reported in 2005. The 41 basis point increase in the Bank's net interest margin resulted from a net increase in interest earning assets of \$15.1 million offset by a one basis point decrease in interest spread from 3.36 percent during 2005 to 3.35 percent during 2006.

Interest and fees on loans for the year ended December 31, 2007 was \$8.8 million as compared to \$6.8 million for the prior year and \$3.1 million in 2005. Interest on investment securities for the year ended December 31, 2007 was \$695,000 as compared to \$867,000 for the prior year and \$744,000 in 2005. Other interest income for the year ended December 31, 2007 was \$2.6 million, as compared to \$1.6 million for 2006 and \$0.8 million in 2005. Total interest and fee income for the year ended December 31, 2007 was \$12.1 million, as compared to \$9.2 million for the year ended December 31, 2006, and \$4.6 million for the year ended December 31, 2005. The Bank's total interest and fee income increased by \$2.9 million in 2007, as compared to 2006, and by \$4.6 million in 2006, as compared to 2005. The year-over-year increases in total interest and fee income were primarily attributable to increases in interest-earning assets.

The Bank's portfolio of average interest earning assets increased by 29.6 percent from \$138.4 million during 2006, to \$179.4 million during 2007. While average interest earning assets increased significantly during 2007, the mix did not change materially. Average total loans to total interest-earning assets were 63.1 percent and 63.0 percent in 2007 and 2006, respectively. During 2006, the Bank's average portfolio of interest earning assets increased by 58.9 percent from \$87.1 million during 2005, to \$138.4 million during 2006. While average interest earning assets increased significantly during 2006, the mix also shifted in favor of higher yielding loans. Average total loans to total interest-earning assets increased from 49.1 percent of total interest earning assets during 2005, to 63.0 percent in 2006.

Interest expense increased to \$3.7 million in 2007, as compared to \$3.0 million in 2006, and \$1.0 million in 2005, due primarily to an increase in average interest bearing liabilities from \$55.0 million in 2005, to \$91.2 million during 2006 and \$118.0 million during 2007. Interest bearing checking accounts, money market accounts and savings accounts were 93.6 percent, 91.7 percent and 92.3 percent of average interest-bearing deposits at December 31, 2007, 2006 and 2005, respectively. Time deposits under \$100,000 were less than one percent of average interest-bearing deposits for 2007, 2006 and 2005, while time deposits over \$100,000 were 5.8 percent, 7.8 percent and 7.4 percent of average interest-bearing deposits at December 31, 2007, 2006 and 2005, respectively. Average non-interest bearing demand deposits during 2007 increased to \$39.5 million, as compared to \$25.9 million in 2006 and \$20.5 million in 2005. During 2007, 2006 and 2005, average non-interest bearing accounts were 25.1 percent, 22.1 percent and 27.3 percent of total average interest-bearing deposits, respectively.

The cost of interest bearing liabilities in 2007 was 3.15 percent, as compared to 3.28 percent in 2006 and 1.91 percent in 2005. The decline in the cost of liabilities from 2006 to 2007 was primarily the result of a decline in the average cost of Money Market, Savings and NOW accounts, which decreased from 3.23 percent in 2006 to 3.09 percent in 2007. The increase in the cost of liabilities from 2005 to 2006 was primarily the result of an increase in the average cost of Money Market, Savings and NOW accounts, which increased from 1.79 percent in 2005 to 3.23 percent in 2006. The majority of the Bank's deposit funding comes from the Bank's Money Market, Savings and NOW accounts. The average rate

paid for time certificates of deposits under \$100,000 was 3.87 percent in 2007, 3.88 percent in 2006 and 2.16 percent in 2005. The average rate paid for time certificates of deposits over \$100,000 was 4.03 percent in 2007, 3.75 percent in 2006 and 3.21 percent in 2005. There were no other borrowings during 2007 or 2006, but a small average balance of \$348,000 during 2005.

Table 3 presents the relationship of the reserve to the loan portfolio over the past five years.

Table 3
Allocation of the Allowance for Loan Losses
(in thousands)

	As of December 31,									
	2007		2006		2005		2004		2003	
	Percent of		Percent of		Percent of		Percent of		Percent of	
Loan	Loans	Loan	Loans	Loan	Loans	Loan	Loans	Loan	Loans	
Loss	In Each	Loss	In Each	Loss	In Each	Loss	In Each	Loss	In Each	
Allow-	Category To	Allow-	Category To	Allow-	Category To	Allow-	Category To	Allow-	Category To	
ance	Total Loans	ance	Total Loans	ance	Total Loans	ance	Total Loans	ance	Total Loans	
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
Construction and Land Development	308	17.3%	\$ 200	20.2%	180	29.5%	\$ 48	17.9%	\$ -	NA
Commercial Real Estate	503	39.5%	292	32.7%	154	25.7%	38	18.8%	-	NA
Commercial	372	24.0%	381	22.9%	164	20.9%	99	34.0%	-	NA
Consumer, including										
Home Equity Lines of Credit	244	18.9%	246	23.8%	178	23.6%	106	29.0%	-	NA
Unallocated	61	-	106	-	110	-	19	-	-	NA
Total	\$ 1,488	99.7%	\$ 1,225	99.6%	\$ 786	99.7%	\$ 310	99.7%	\$ -	-

Provision and Allowance for Loan Losses

The Bank has the responsibility of assessing the overall risks in its loan portfolio, assessing the specific loss expectancy, and testing the adequacy of the loan loss reserve. The level of reserves is determined by internally generating credit quality ratings, reviewing economic conditions in the Bank's market area, and considering the Bank's historical loan loss experience. The Bank is committed to maintaining adequate reserves, identifying credit weaknesses by consistent review of loans, and maintaining the ratings and changing those ratings in a timely manner as circumstances change.

The allowance for loan losses totaled \$1,488,000, \$1,225,000, and \$786,000 at December 31, 2007, 2006 and 2005, respectively. This represented 1.23 percent, 1.24 percent, and 1.20 percent of outstanding loans on those respective dates. The balances reflect an amount that, in management's judgment, is adequate to provide for potential loan losses based on the considerations listed above. During 2007, the provision for loan losses was \$305,000 while write-offs totaled \$42,000, compared to a provision for loan losses of \$439,000 in 2006, and a provision for loan losses of \$476,000 in 2005. There was no significant single loan written off in the periods mentioned.

Table 4 summarizes transactions in the allowance for loan losses and details the charge-offs, recoveries and net loan losses by loan category for the last five years. The amount added to the provision and charged to operating expense for each period is based on loan growth and the risk profile of the loan portfolio.

Table 4
Allowance for Loan Losses
Historical Analysis
(in thousands)

	For the Year Ended December 31				
	2007	2006	2005	2004	2003
Allowance For Loan Losses:					
Balance at Beginning of Period	\$ 1,225	\$ 786	\$ 310	\$ -	\$ -
Charge-Offs:					
Commercial	-	-	-	-	-
Consumer	42	-	-	-	-
Real Estate	-	-	-	-	-
Total Charge-Offs	<u>42</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Recoveries:					
Commercial	-	-	-	-	-
Consumer	-	-	-	-	-
Real Estate	-	-	-	-	-
Total Recoveries	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Loans Charged-Off (Recovered)	42	-	-	-	-
Provision for Loan Losses	305	439	476	310	-
Balance at End of Year	<u><u>\$ 1,488</u></u>	<u><u>\$ 1,225</u></u>	<u><u>\$ 786</u></u>	<u><u>\$ 310</u></u>	<u><u>\$ -</u></u>
Ratios:					
Net Loans Charged-Off (Recovered) to Average Loans	0.04%	NA	NA	NA	NA
Allowance for Loan Losses to Total Loans	1.23%	1.24%	1.20%	1.27%	NA
Net Loans Charged-Off (Recovered) to Beginning Allowance for Loan Losses	3.43%	NA	NA	NA	NA
Net Loans Charged-Off (Recovered) to Provision for Loan Losses	13.77%	NA	NA	NA	NA
Allowance for Loan Losses to Nonperforming Loans	NA	NA	NA	NA	NA

Nonperforming Assets

Non-performing assets consist of nonaccrual loans, foreclosed assets, and loans that are 90 days or more past due but are still accruing interest. Loans are placed on nonaccrual status when, in the judgment of the management of the Bank, serious doubt exists as to the collectibility of additional interest within a reasonable period of time.

Nonperforming loans equaled zero percent of total loans at the end of 2007, 2006 and 2005. There were no past due loans at year end for the past five years. There were no foreclosed assets as of the periods indicated.

Non-Interest Income

The components of the non-interest expense were as follows for the periods indicated:

	2007		2006		2005	
	(000)'s	% Average Assets	(000)'s	% Average Assets	(000)'s	% Average Assets
Service Charges, Fees and Other Income	\$ 185	0.1%	\$ 114	0.1%	\$ 62	0.1%
Gain on Sale of Loans and Referral Fees	529	0.3%	458	0.3%	41	0.0%
Total Noninterest Income	<u>\$ 714</u>	<u>0.4%</u>	<u>\$ 572</u>	<u>0.4%</u>	<u>\$ 103</u>	<u>0.1%</u>

Service charges and fees for the year 2007 increased \$71,000 or 62.3 percent over 2006, and an increase of \$52,000 or 83.9 percent in 2006 over prior year. The increases were due primarily to growth of our deposits.

Gain on sale of loans and referral fees were \$529,000, \$458,000 and \$41,000 in 2007, 2006 and 2005, respectively. Gain on sale of loans is primarily from the sale of the guaranteed portion of the SBA loans. Gain on sale of loans amounting to \$16,000, \$47,000 and \$-0- for 2007, 2006 and 2005, respectively, is included in Gain on Sale of Loans and Referral Fees in the accompanying Statements of Operations.

Included in the Gain on sale of loans and referral fees is the referral fees. Referral fees are the net premiums received as a result of brokered loans to third parties, loans that we do not originate for our own portfolio because of a variety of reasons. Referral fees were \$513,000, \$411,000 and \$41,000 in 2007, 2006 and 2005, respectively.

Non-Interest Expense

The components of the non-interest expense were as follows for the periods indicated:

	2007		2006		2005	
	(000)'s	% Average Assets	(000)'s	% Average Assets	(000)'s	% Average Assets
Salaries & Benefits	\$ 4,441	2.4%	\$ 3,603	2.5%	\$ 2,257	2.5%
Occupancy & Equipment Expense	965	0.5%	598	0.4%	541	0.6%
Director Stock-Based Compensation	204	0.1%	254	0.2%	-	0.0%
Professional Fees	627	0.3%	422	0.3%	281	0.3%
Data Processing	457	0.2%	347	0.2%	287	0.3%
Marketing and Promotional	177	0.1%	215	0.2%	89	0.1%
Customer Service	659	0.4%	155	0.1%	66	0.1%
Office Expenses	107	0.1%	102	0.1%	62	0.1%
Other Expenses	541	0.3%	424	0.3%	347	0.4%
Total non-interest expense	<u>\$ 8,178</u>	<u>4.4%</u>	<u>\$ 6,120</u>	<u>4.3%</u>	<u>\$ 3,930</u>	<u>4.4%</u>

Non-interest expense increased \$2.1 million or 33.6 percent in 2007 over 2006 and \$2.2 million or 55.7 percent in 2006 over 2005. Most of the 2007 increase was from salaries and employee benefits, which increased by \$838,000 and premises expense, which increased \$367,000 over 2006. In 2006, most of the increase was in salaries and employee benefits, which increased \$1.3 million.

Salaries and employee benefits were \$4.4 million in 2007 compared to \$3.6 million for 2006. The increase in 2007 was primarily due to salaries and other incentive compensation including commissions paid to officers and staff. The increase in 2006 was primarily due to salaries and stock option expense adopted pursuant to the requirements of SFAS 123(R) "Share-Based Payments." For further information on stock options, please see the following paragraph in this section and Note K of the

Notes to the Financial Statements. Total full-time equivalent employees remained at 32 at December 31, 2007 and 2006, and 26 at December 31, 2005.

In 2006, the Bank recorded \$678,000 stock option expense, \$424,000 for employees (included in salaries and benefits) and \$254,000 for outside Directors. In 2007, the Bank recorded \$603,000 of stock option expense, \$399,000 for employees (included in salaries and benefits) and \$204,000 for outside Directors.

Occupancy and equipment expense was \$965,000 in 2007 as compared to \$598,000 in 2006 and \$541,000 in 2005. Occupancy expense includes rent expense, net of rental income, of \$409,000, \$215,000 and \$204,000 for 2007, 2006 and 2005, respectively. The Bank has operating lease commitments for its new Newport Beach main office and its Fullerton branch. See Item 2 – Description of Property for details on lease commitments.

Professional expense includes costs related to legal services, audits and examinations, and outside consulting services, which increased \$205,000 in 2007 and \$141,000 in 2006, primarily as a result of the Bank's growth and the expanded scope of audits and consulting engagements, including the implementation of the Sarbanes-Oxley Act of 2002 which became effective in 2007 for the Bank.

Customer services include third-party payments and courier services used to pick up deposits at customers' offices for transport to our processing center. The expense increased \$504,000 in 2007 and \$89,000 in 2006 due primarily to growth in demand deposit customer accounts and the related third-party payments. A portion of these expenses were charged to the Bank's business customer accounts as additional fees.

Data processing costs are the charges associated with providing the infrastructure, servicing and connectivity for data, item processing, ATM, and Internet services for the Bank. Data processing expense increased in 2007 due primarily to the opening of a new headquarters office in Newport Beach, and in 2006 due to the increased volume of loan and deposit activities.

Income Taxes

Income before income taxes totaled \$569,000 and \$205,000 for 2007 and 2006, respectively. The Bank reported income tax benefits of \$479,000 in both 2007 and 2006. The reported tax benefits are related to net operating losses totaling \$4.4 million accumulated from 2003 to 2005. The tax effect of the \$4.4 million in net operating losses, combined with other timing differences, resulted in a total deferred tax asset before valuation allowance of \$2.0 million at year-end 2005. A valuation allowance of \$2.0 million at year-end 2005 was also established because the Bank had not reported earnings sufficient enough to recognize the tax benefits associated with the deferred tax asset. During 2006, the Bank's operations turned profitable and tax benefits of \$479,000 were recognized along with additional valuation allowance utilizations of \$256,000. The valuation allowance balance at year-end 2006 was \$1.3 million. During 2007, tax benefits of \$479,000 were recognized along with additional valuation allowance utilizations of \$392,000. The valuation allowance balance at year-end 2007 was \$382,000.

Balance Sheet Analysis

Total assets were \$205.8 million, \$168.7 million, and \$113.7 million at December 31, 2007, 2006 and 2005, respectively. Assets averaged \$185.6 million in 2007 as compared to \$142.6 million in 2006 and \$90.9 million in 2005. Average earning assets increased from \$87.1 million in 2005 to \$138.4 million in 2006 and \$179.4 million in 2007. Average earning assets were 96.7 percent of total assets in 2007, 97.0 percent in 2006 and 95.8 percent in 2005. Total interest-bearing liabilities averaged \$118.0 million in 2007, \$91.2 million in 2006, and \$55.0 million in 2005, which represented an increase of 29.4 percent in 2007 over 2006 and 65.8 percent in 2006 over 2005. The components of the Bank's average earning assets and interest-bearing liabilities are presented in Table 1.

Loans

The loan portfolio constitutes the Bank's largest earning asset category. Net loans outstanding at December 31, 2007 reflect an increase of \$21.5 million or 22.0 percent from 2006, and \$32.7 million or 50.5 percent from 2005. Commercial loans at December 31, 2007 increased \$6.3 million or 28.0 percent from 2006, and \$9.0 million or 65.4 percent over 2005. Commercial real estate loans at December 31, 2007 increased \$15.3 million or 47.4 percent over 2006, and \$15.4 million or 91.6 percent over 2005. Construction loans at December 31, 2007 increased by \$0.9 million or 4.4 percent from 2006, and \$0.6 million or 3.0 percent from prior year ended 2005. Consumer loans at December 31, 2007 decreased \$0.8 million or (3.5%) percent from 2006, and increased \$8.1 million or 52.0 percent from prior year ended 2005.

The following table presents a detailed analysis of loans outstanding at December 31, 2003 through December 31, 2007.

Table 6
Loan Portfolio
December 31,
(in thousands)

	2007	2006	2005	2004	2003
Loans					
Construction and Land Development	\$ 20,839	\$ 19,958	\$ 19,386	\$ 4,383	\$ -
Commercial Real Estate	47,603	32,294	16,859	4,607	-
Commercial	28,982	22,648	13,691	8,323	-
Consumer, including Home Equity Lines of Credit	22,757	23,554	15,491	7,096	-
Net Deferred Loan Costs	418	388	229	51	-
Total Loans	120,599	98,842	65,656	24,460	-
Allowance for Loan Losses	(1,488)	(1,225)	(786)	(310)	-
Net Loans	\$ 119,111	\$ 97,617	\$ 64,870	\$ 24,150	\$ -
Commitments					
Letters of Credit	\$ 655	\$ 293	\$ 360	\$ 447	\$ -
Undisbursed Loans and Commitments to Grant Loans	24,323	28,660	21,608	8,252	-
Total Commitments	\$ 24,978	\$ 28,953	\$ 21,968	\$ 8,699	\$ -

The following table shows the Bank's loan maturities and sensitivities to changes in interest rates as of December 31, 2007.

	Maturing Within One Year	Maturing After One But Within Five Years	Maturing After Five Years	Total
Construction and Land Development	\$ 20,839	\$ -	\$ -	\$ 20,839
Real Estate	3,079	42,254	2,269	47,602
Commercial	19,983	4,268	4,731	28,982
Consumer, including Home Equity Lines of Credit	6,126	7,531	9,101	22,758
Total	\$ 50,027	\$ 54,053	\$ 16,101	\$ 120,181
With predetermined interest rate	\$ 6,642	\$ 13,322	\$ 16,101	\$ 36,065
With floating interest rate	43,385	40,731	-	84,116
Total	\$ 50,027	\$ 54,053	\$ 16,101	\$ 120,181

The yield on average loans was 7.73%, 7.75% and 7.21% at December 31, 2007, 2006 and 2005, respectively. While the yield on average loans declined by 2 basis points in 2007, the loan yield in 2006 was 54 basis points more than the loan yield earned in 2005, which was due to increase in loan volume and an increasing interest rate environment. Interest income on loans increased by \$2.0 million or 29.4 percent in 2007 from the amount earned in 2006. Interest income on loans increased \$3.7 million or 119.7 percent in 2006 from the prior year. Average loans totaled \$113.2 million during 2007, an increase of \$26.0 million or 29.8 percent from 2006. Average loans totaled \$87.2 million during 2006, an increase of \$44.5 million or 104.2 percent over 2005.

Risk Elements in the Loan Portfolio

The Bank assesses and manages credit risk on an ongoing basis through a total credit culture that emphasizes excellent credit quality, extensive internal monitoring and established formal lending policies. Additionally, the Bank contracts with an outside loan review consultant to periodically review the existing loan portfolio. Management believes its ability to identify and assess risk and return characteristics of the Bank's loan portfolio is critical for profitability and growth. Management strives to continue its emphasis on credit quality in the loan approval process, active credit administration and regular monitoring. With this in mind, management has designed and implemented a comprehensive loan review and grading system that functions to continually assess the credit risk inherent in the loan portfolio.

Ultimately, underlying trends in economic and business cycles may influence credit quality. The Bank's business is concentrated in Orange County, California, which is a diversified economy. The Bank has significant extensions of credit and commitments to extend credit that are secured by real estate. The ultimate repayment of these loans is generally dependent on personal or business cash flows or the sale or refinancing of the real estate. The Bank monitors the effects of current and expected market conditions and other factors on the collectability of real estate loans. The more significant factors management considers include lease rates and terms, absorption and sale rates, real estate values, supply and demand factors, rates of return, operating expenses, inflation, and sufficiency of repayment sources independent of the real estate including personal guarantees.

In extending credit and commitments to borrowers, the Bank generally requires collateral and/or guarantees as security. The repayment of such loans is expected to come from cash flow or from proceeds from the sale of selected assets of the borrowers. The Bank's requirement for collateral and/or guarantees is determined on a case-by-case basis in connection with management's evaluation of the creditworthiness of the borrower. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, income-producing properties, residences and other real property. The Bank's secures its collateral by perfecting its security interest in business assets, and or obtaining deeds of trust.

In management's judgment, a concentration exists in commercial real estate loans. The banking regulator's CRE Concentration Risk Guidance published on December 6, 2006, focuses attention on concentrations in construction and land loans, and certain types of commercial real estate loans. Based upon the defining criteria contained in the CRE Concentration Risk Guidance, at December 31, 2007, the Bank's total reported loans for construction, land development and other land equaled \$21.7 million, or 72.6 percent of total capital. The CRE Concentration Risk Guidance indicates that institutions with total reported loans for construction, land development and other land representing 100 percent, or more of total capital may be identified for further supervisory analysis. The CRE Concentration Risk Guidance also established criteria for certain types of commercial real estate loans, focusing on commercial real estate loans for which the cash flows from the real estate is the primary source of repayment, effectively excluding properties that are largely owner occupied. The CRE Concentration Risk Guidance indicates that institutions with total commercial real estate loans, including construction and land loans, representing 300 percent or more of total capital and institutions whose commercial real estate loan portfolio has increased by 50 percent, or more during the prior 36 months may be identified for further

supervisory analysis. At December 31, 2007, the Bank's total commercial real estate loans that met the criteria of the CRE Concentration Risk Guidance equaled \$52.6 million, or 176.1 percent of total capital.

Although management believes the Company's real estate concentration to have no more than the normal risk of collectability, a substantial further decline in the economy in general, or an additional decline in real estate values in the Bank's primary market areas in particular, could have an adverse impact on the collectability of these loans and require an increase in the provision for loan losses. An increase in the Bank's provision for loan losses could adversely affect the Bank's future prospects, results of operations, profitability and stock price. Management believes that its lending policies and underwriting standards will tend to minimize losses in an economic downturn; however, there is no assurance that losses will not occur under such circumstances. Management believes that it maintains its allowance for loan loss at levels adequate to reflect the loss risk inherent in its total loan portfolio.

The Bank's loan policies and underwriting standards include, but are not limited to, the following: (1) maintaining a thorough understanding of the Bank's service area and originating a significant majority of its loans within that area, (2) maintaining a thorough understanding of borrowers' knowledge, capacity, and market position in their field of expertise, (3) basing real estate loan approvals not only on market demand, but also on the borrowers' capacity to support the project financially in the event it does not perform to expectations (whether sale or income performance), and (4) maintaining conforming and prudent loan to value and loan to cost ratios based on independent outside appraisals and ongoing inspection and analysis by the Bank's lending officers or contracted third-party professionals.

Investment Portfolio

Investments at December 31, 2007 totaling \$31.5 million are comprised of \$9.0 million of available-for-sale and \$22.5 million of held-to-maturity investments. Investments at December 31, 2006 totaling \$14.4 million are comprised of \$8.6 million of available-for-sale and \$5.8 million of held-to-maturity investments. This represents an increase of \$392,000 or 4.6 percent in available-for sale investments and an increase of \$16.7 million or 286.3 percent in held-to-maturity investments in 2007 over the same period in 2006. Investments at December 31, 2005 totaling \$27.2 million are comprised of \$14.2 million of available-for-sale and \$13.0 million of held-to maturity investments. This represents a decrease of \$5.6 million or (39.5) percent in available-for sale investments and a decrease of \$7.2 or (55.2) percent in held-to-maturity investments in 2006 over the same period in 2005. Available funds are first used for loans, then investments, and the remainder sold as Federal funds. The primary source of funds is the deposit base, and, if needed, investment maturities, calls and sales. The Bank's investment portfolio is concentrated in U.S. Government Agency securities. Table 7 provides a detailed analysis of the investment portfolio.

Table 7
Investment Securities

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2007:				
<u>Available-for-Sale:</u>				
U.S. Gov & Agency Securities	\$ 502,731	\$ -	\$ -	\$ 502,731
Mortgage-backed Securities	647,610	-	(14,934)	632,676
AMF-ARM Mutual Fund	8,000,000	-	(130,478)	7,869,522
Total Available-for-Sale	<u>\$ 9,150,341</u>	<u>\$ -</u>	<u>\$ (145,412)</u>	<u>\$ 9,004,929</u>
<u>Held-to-Maturity</u>				
U.S. Gov & Agency Securities	\$ 18,042,039	\$ 6,486	\$ -	\$ 18,048,525
Mortgage-backed Securities	4,468,851	-	(40,339)	4,428,512
Total Held-to-Maturity	<u>\$ 22,510,890</u>	<u>\$ 6,486</u>	<u>\$ (40,339)</u>	<u>\$ 22,477,037</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2006:				
<u>Available-for-Sale:</u>				
Mortgage-backed Securities	\$ 751,712	\$ -	\$ (24,992)	\$ 726,720
AMF-ARM Mutual Fund	8,000,000	-	(114,169)	7,885,831
Total Available-for-Sale	<u>\$ 8,751,712</u>	<u>\$ -</u>	<u>\$ (139,161)</u>	<u>\$ 8,612,551</u>
<u>Held-to-Maturity</u>				
U.S. Gov & Agency Securities	\$ 499,822	\$ -	\$ (447)	\$ 499,375
Mortgage-backed Securities	5,327,158	-	(93,365)	5,233,793
Total Held-to-Maturity	<u>\$ 5,826,980</u>	<u>\$ -</u>	<u>\$ (93,812)</u>	<u>\$ 5,733,168</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2005:				
<u>Available-for-Sale:</u>				
U.S. Gov & Agency Securities	\$ 6,409,507	\$ -	\$ (75,192)	\$ 6,334,315
AMF-ARM Mutual Fund	8,000,000	-	(97,859)	7,902,141
Total Available-for-Sale	<u>\$ 14,409,507</u>	<u>\$ -</u>	<u>\$ (173,051)</u>	<u>\$ 14,236,456</u>
<u>Held-to-Maturity</u>				
U.S. Gov & Agency Securities	\$ 13,000,760	\$ -	\$ (147,271)	\$ 12,853,489
Total Held-to-Maturity	<u>\$ 13,000,760</u>	<u>\$ -</u>	<u>\$ (147,271)</u>	<u>\$ 12,853,489</u>

The following Table 8 presents information regarding the amortized cost, fair value, average yield and maturity of the investment portfolio.

**Table 8: Investment Portfolio Maturities
December 31, 2007**

	Due in One Year or Less	Due in One Year	Due Over Five Years	Total	Fair Market Value
U.S. Government Agencies	\$18,042,039	\$ 502,731	\$ -	\$ 18,544,770	\$ 18,551,255
Mortgage Backed Securities	-	4,644,995	471,466	5,116,461	5,061,189
Other Securities	8,000,000	-	-	8,000,000	7,869,522
Total	\$26,042,039	\$ 5,147,726	\$ 471,466	\$ 31,661,231	\$ 31,481,966
Weighted Average Yield					
U.S. Government Agencies	4.14%	4.68%	-	4.15%	
Mortgage Backed Securities	-	4.30%	4.22%	4.30%	
Other Securities	5.06%	-	-	5.06%	
Total	4.40%	4.34%	4.22%	4.38%	

Deposits

The increase in earning assets in 2007 was funded primarily by increases in the Bank's deposit base. In 2007, average deposits increased by \$40.4 million or 34.5 percent over 2006. In 2006, average deposits increased by \$41.2 million or 54.6 percent over 2005. Non-interest bearing demand deposits increased \$13.6 million or 52.6 percent over 2006; and increased \$5.4 million or 26.3 percent in 2006 from 2005.

The Bank's average cost of interest-bearing deposits decreased 13 basis points to 3.15 percent in 2007 from 3.28 percent in 2006, primarily due to a lower market interest rate environment. The Bank's average cost of interest-bearing deposits increased 137 basis points to 3.28 percent in 2006 from 1.91 percent in 2005, primarily due to a rising market interest rate environment. The Bank's average cost of total deposits declined 19 basis points in 2007, but increased 144 basis points in 2006 over 2005.

Table 9
Average Deposits and Average Rates Paid
For the Years Ending December 31,

	2007			2006			2005		
	Average Balance	Average Rate	% of Total Deposits	Average Balance	Average Rate	% of Total Deposits	Average Balance	Average Rate	% of Total Deposits
(in thousands)									
Deposits:									
Interest Bearing Demand									
Money Market and Savings	\$ 110,412	3.09%	70.1%	\$ 83,625	3.23%	71.4%	\$ 50,436	1.79%	67.1%
Time Deposits \$100,000 or more	6,851	4.03%	4.4%	7,073	3.75%	6.0%	4,052	3.21%	5.4%
Time Deposits Under \$100,000	697	3.87%	0.4%	490	3.88%	0.4%	185	2.16%	0.2%
Total Interest Bearing Deposits	117,960	3.15%	74.9%	91,188	3.28%	77.9%	54,673	1.91%	72.7%
Demand Deposits	39,518	0.00%	25.1%	25,902	0.00%	22.1%	20,508	0.00%	27.3%
Total Deposits	\$ 157,478	2.36%	100.0%	\$ 117,090	2.55%	100.0%	\$ 75,181	1.11%	100.0%

Large Time Deposits Maturities
Analysis of Time Deposits of \$100,000 or More

	Total Deposits	Three Months Or Less	Over Three to Twelve Months	Over Twelve Months
As of December 31, 2007	\$ 22,399	\$ 21,879	\$ 520	\$ -
As of December 31, 2006	\$ 8,021	\$ 2,590	\$ 5,431	\$ -
As of December 31, 2005	\$ 7,521	\$ 200	\$ 7,321	\$ -

Capital Resources

At December 31, 2007 shareholders' equity was \$28.3 million, an increase of \$1.7 or 6.4 percent over 2006. Shareholders' equity was \$26.6 million at year-end 2006, an increase of \$1.9 million, or 7.7 percent over the \$24.7 million in shareholders' equity at December 31, 2005. The increases in shareholders' equity were primarily attributable to the retention of net income and the impact of exercised stock options and stock-based compensation.

In 1989, the Federal Deposit Insurance Corporation (FDIC) established risk-based capital guidelines requiring banks to maintain certain ratios of "Qualifying capital" to "risk-weighted assets." Under the guidelines, qualifying capital is classified into two tiers, referred to as Tier 1 (core) and Tier 2 (supplementary) capital. See "Supervision and Regulation - Capital Standards under FDICIA" on page 15. Currently, the Bank's Tier 1 capital consists of common shareholders' equity, though other instruments, such as certain types of preferred stock can also be included in Tier 1 capital. Tier 2 capital consists of eligible reserves for possible loan losses and qualifying subordinated notes and debentures. Total capital is the sum of Tier 1 plus Tier 2 capital. Risk-weighted assets are calculated by applying risk percentages specified by the FDIC to categories of both balance sheet assets and off-balance sheet obligations.

At year-end 1990, the FDIC also adopted a leverage ratio requirement. This ratio supplements the risk-based capital ratios and is defined as Tier 1 capital divided by quarterly average assets during the reporting period. The requirement established a minimum leverage ratio of 3.0 percent for the highest rated bank and ratios 100 to 200 basis points higher for most banks. Furthermore, as mandated by the FDIC Improvement Act of 1991, in 1993 the FDIC began assessing risk-based deposit insurance assessments based upon financial institutions' capital resources and "management strength". To qualify for the lowest insurance premiums as indicated in the following table, "well-capitalized" financial institutions must maintain risk-based Tier 1 and total capital ratios of at least 6.0 percent and 10.0 percent respectively. "Well-capitalized" financial institutions must also maintain a leverage ratio equal to or exceeding 5.0 percent.

The following table shows the Bank's risk-based capital ratios and leverage ratios at December 31, 2007, 2006 and 2005.

Capital Ratios	Minimum Requirements	"Well Capitalized" Requirements	2007	2006	2005
Tier 1 Capital to Average Assets	4.00%	5.00%	13.26%	16.46%	21.46%
Tier 1 Capital to Risk-Weighted Assets	4.00%	6.00%	19.89%	22.70%	31.41%
Total Capital to Risk-Weighted Assets	8.00%	10.00%	21.00%	23.82%	32.49%

Market Risk Management

Overview

Market risk is the risk of loss from adverse changes in market prices and rates. The Bank's market risk arises primarily from interest rate risk inherent in its loan and deposit functions. The goal for managing the assets and liabilities of the Bank is to maximize shareholder value and earnings while maintaining a high quality balance sheet without exposing the Bank to undue interest rate risk. The Board of Directors has overall responsibility for the interest rate risk management policies. The Bank has an ALCO Committee that establishes and monitors guidelines to control the sensitivity of earnings and equity to changes in interest rates.

Asset/Liability Management.

Activities involved in asset/liability management include, but are not limited to, lending, investing in securities, accepting and placing deposits, and borrowings. Interest rate risk is the primary market risk associated with asset/liability management. Sensitivity of earnings to market interest rate changes arises when yields on assets change in a different time period, in a different direction, or in a different magnitude from that of interest costs on liabilities. To mitigate interest rate risk, the structure of the balance sheet is managed with the goal that movements of interest rates on assets and liabilities are correlated and contribute to earnings even in periods of volatile interest rates. The asset/liability management policy sets limits on the acceptable amount of variance in net interest margin and market value of equity under changing interest environments. The Bank uses simulation models to forecast earnings, net interest margin and market value of equity.

Simulation of earnings is the primary tool used to measure the sensitivity of earnings to interest rate changes. Using computer-modeling techniques, the Bank is able to estimate the potential impact of changing interest rates on earnings. At the beginning of each quarter, detailed information regarding the Bank's balance sheet is input into the interest rate risk model, including the types of loans, securities, deposits and borrowings, the repricing timing and characteristics of all interest earning assets and interest bearing liabilities, and the contractual provisions of the Bank's financial instruments, including borrower prepayment options. The model holds the Bank's balance sheet size constant, though cash flows generated by various assets and liabilities are "reinvested" into similar instruments at prevailing market rates for simulation purposes.

The financial performance of the balance sheet is modeled using a variety of market interest rate scenarios in order to evaluate the relative sensitivity of the Bank to various changes in market interest rate conditions. The scenarios include a 200 basis point rising rate forecast, an unchanged interest rate forecast, and a 200 basis point falling rate forecast. The assumed change in the rate environment is immediate and held constant for period of analysis.

The following table summarizes the effect on net interest income (NII) and economic value of equity (EVE) of a ± 100 , 200 and 300 basis points change in interest rates as measured against a constant rate (no change) scenario.

**Interest Rate Risk Simulation of
Net Interest Income and Economic Value of Equity
as of December 31, 2007
(dollars in thousands)**

Variation from a constant rate scenario	<u>\$ Change in NII from Current 12 Month Horizon</u>	<u>\$ Change in EVE from Current 12 Month Horizon</u>
+300bp	\$ 957	\$ 1,358
+200bp	646	579
+100bp	329	335
0 bp	-	-
-100bp	(381)	(729)
-200bp	(817)	(2,014)
-300bp	(1,574)	(4,054)

The simulations of earnings do not incorporate any growth in the Bank, any management actions, which might moderate the negative consequences of interest rate deviations, and use highly unlikely market conditions. The purpose is to evaluate the relative sensitivity of the financial performance of the Bank to changes in market interest rates, rather than to project likely actual results.

Interest Rate Sensitivity Analysis

Interest rate sensitivity is a function of the repricing characteristics of the portfolio of assets and liabilities. These repricing characteristics are the time frames within which the interest-bearing assets and liabilities are subject to change in interest rates either at replacement, repricing or maturity. Interest rate sensitivity management focuses on the maturity of assets and liabilities and their repricing during periods of changes in market interest rates. Interest rate sensitivity is measured as the difference between the volumes of assets and liabilities in the current portfolio that are subject to repricing at various time horizons. The differences are known as interest sensitivity gaps. A positive cumulative gap may be equated to an asset sensitive position. An asset sensitive position in a rising interest rate environment will cause a bank's interest rate margin to expand. This results as floating or variable rate loans reprice more rapidly than fixed rate certificates of deposit that reprice as they mature over time. Conversely, a declining interest rate environment will cause the opposite effect. A negative cumulative gap may be equated to a liability sensitive position. A liability sensitive position in a rising interest rate environment will cause a bank's interest rate margin to contract, while a declining interest rate environment will have the opposite effect.

Inflation

The impact of inflation on a financial institution differs significantly from that exerted on manufacturing, or other commercial concerns, primarily because its assets and liabilities are largely monetary. In general, inflation primarily affects the Bank through its effect on market rates of interest, which affects the Bank's ability to attract loan and deposit customers. Inflation affects the growth of total assets by impacting the level of loan demand, and potentially adversely affects capital adequacy because loan growth in inflationary periods can increase at rates higher than the rate that capital grows through retention of earnings that may be generated in the future. In addition to its effects on interest rates,

inflation increases overall operating expenses. Inflation has not had a material effect upon the results of operations of the Bank during the years ended December 31, 2007, 2006 and 2005.

Liquidity

Liquidity is a measure of the Bank's ability to convert assets into cash with minimum loss. Liquidity consists of cash and accounts and time deposits due from other banks, Federal Funds sold, Available for Sale securities, and Held to Maturity Securities within three months of maturity or the most likely call date. Securities that are pledged as collateral for outstanding borrowings are excluded from the Bank's liquidity. Liquidity at December 31, 2007, totaled \$59.3 million, or 33.5 percent of total deposits. Liquidity at December 31, 2006, totaled \$61.5 million, or 43.4 percent of total deposits. The Bank's policy is to maintain an overall liquidity ratio (primary, secondary and other liquidity reserves, including borrowing facilities with third parties) of 20 percent, or greater of total deposits and other short term liabilities. As of December 31, 2007, the Bank's overall liquidity ratio was 61.0 percent as compared to 66.0 percent at December 31, 2006. The objective of liquidity management is to ensure that the Bank has available funds to meet all present and future financial obligations and to take advantage of business opportunities as they arise. Financial obligations arise from withdrawals of deposits, repayment on maturity of purchased funds, extension of loans or other forms of credit, payment of operating expenses and payment of dividends.

Core deposits, which consist of all deposits other than time deposits, have provided the Bank with a sizable source of relatively stable and low-cost funds. The Bank's average core deposits funded 80.8 percent of average total assets of \$185.5 million for the year ended 2007 and 76.8 percent of average total assets of \$142.6 million for the year ended 2006. Shareholders' equity and time deposit accounts provided most of the remaining funding.

Liquidity is also supported by the Bank's borrowings. The Bank may borrow up to \$20 million overnight on an unsecured basis from three of its primary correspondent banks. As of December 31, 2007, there were no amounts outstanding under these arrangements. The Bank also has a borrowing facility with the Federal Home Loan Bank ("FHLB") collateralized by certain of its investments and loans. As of December 31, 2007, the Bank's maximum financing availability assuming adequate qualifying collateral was pledged to the FHLB totaled \$53.9 million, or 25 percent of total assets as of the most recent reporting period. At December 31, 2007 the Bank had \$64.4 million in loans and \$8.5 million in investment securities pledged to the FHLB. Based upon that collateral, the Bank's actual borrowing capacity at the FHLB equaled \$39.3 million at year-end 2007.

The maturity distribution of certificates of deposit is set forth in Table 10 below for the periods presented. These deposits are generally more rate sensitive than other deposits and, therefore, are more likely to be withdrawn to obtain higher yields elsewhere, if available.

Table 10: Certificates of Deposit Maturities
December 31, 2007
(dollars in thousands)

	<u>Less than \$100,000</u>	<u>Over \$100,000</u>	<u>Total</u>
Three months or less	\$ 313	\$ 21,879	\$22,192
Over three months through six months	435	100	535
Over six months through twelve months	54	420	474
Over twelve months	-	-	-
Total	<u>\$ 802</u>	<u>\$ 22,399</u>	<u>\$23,201</u>

Asset and Liability Management

The largest component of the Bank's earnings is net interest income, which can fluctuate widely when significant interest rate movements occur. The Bank's management is responsible for minimizing the Bank's exposure to interest rate risk and assuring an adequate level of liquidity. This is accomplished by developing objectives, goals and strategies designed to enhance profitability and performance.

Ongoing management of the Bank's interest rate sensitivity limits interest rate risk by controlling the mix, repricing characteristics and maturity of assets and liabilities. Management regularly reviews the Bank's position and evaluates alternative sources and uses of funds, as well as changes in external factors. Various methods are used to achieve and maintain the desired rate sensitivity position including the sale or purchase of assets and product pricing.

In order to ensure that sufficient funds are available for loan growth and deposit withdrawals, as well as to provide for general needs, the Bank must maintain an adequate level of liquidity. Both assets and liabilities provide sources of liquidity. Asset liquidity comes from the Bank's ability to convert short-term investments into cash and from the maturity and repayment of loans and investment securities. Liability liquidity is provided by the Bank's ability to attract deposits and borrowing funds when necessary and advantageous. The primary source of liability liquidity is the Bank's customer base, which provides core deposit growth. The overall liquidity position of the Bank is closely monitored and evaluated regularly. Management believes the Bank's liquidity sources at December 31, 2007 were adequate to meet its operating needs going forward into the foreseeable future.

Table 11
Rate Sensitivity Assets/Liabilities
as of December 31, 2007
(Dollar Amounts in Thousands)

	Three Months or Less	Over Three to Twelve Months	Over One Year Through Five Years	Over Five Years	Total
Assets					
Fed Funds Sold & Other Investments	\$ 43,023	\$ -	\$ -	\$ -	\$ 43,023
Interest-Bearing Deposits	-	3,463	496	-	3,959
Federal Reserve Bank and Other Stocks	1,328	-	-	-	1,328
Securities	8,008	18,545	4,909	54	31,516
Loans	39,610	11,842	52,628	16,101	120,181
Total Rate Sensitive Assets	91,969	33,850	58,033	16,155	200,007
Liabilities					
Savings and Money Market	10,050	30,153	68,695	2,527	111,425
Time Deposits	22,192	1,009	-	-	23,201
Other Borrowed Money	-	-	-	-	-
Total Rate Sensitive Liabilities	32,242	31,162	68,695	2,527	134,626
Interest Rate Sensitivity GAP	\$ 59,727	\$ 2,688	\$ (10,662)	\$ 13,628	\$ 65,381
Interest Rate Sensitivity GAP Ratio	29.0%	1.3%	-5.2%	6.6%	31.8%
Cumulative Interest Rate Sensitivity GAP	\$ 59,727	\$ 62,415	\$ 51,753	\$ 65,381	\$ 130,762
Cumulative Interest Rate Sensitivity GAP	29.0%	30.3%	25.1%	31.8%	-

Effect of Changing Prices

The results of operations and financial conditions presented in this report are based on historical cost information and are unadjusted for the effects of inflation.

Since the assets and liabilities of banks are primarily monetary in nature (payable determinable amounts), the performance of the Bank is affected more by changes in interest rates than by inflation. Interest rates generally increase as the rate of inflation increases, but the magnitude of the change in interest rates and inflation rates may not be the same.

The effect of inflation on banks is normally not as significant as its influence on those businesses that have large investments in plants and inventories. During periods of high inflation, there are normally corresponding increases in the money supply, and banks will normally experience above average growth in assets, loans and deposits. Also, increases in the price of goods and services will result in increased operating expenses.

Table 12
Return on Equity and Assets
Key Financial Ratios
Year Ended December 31,

(ratios are computed on average balances)

	2007	2006	2005
Return on Average Assets	0.57%	0.48%	-0.84%
Return on Average Equity	3.83%	2.73%	-5.01%
Dividend Payout Ratio	NA	NA	NA
Average Equity to Assets Ratio	14.78%	17.56%	16.76%

	2007	2006	2005
Return on Average Assets	0.57%	0.48%	-0.84%
Return on Average Equity	3.83%	2.73%	-5.01%
Dividend Payout Ratio	NA	NA	NA
Average Equity to Assets Ratio	14.78%	17.56%	16.76%

Contractual Obligations

The known contractual obligations of the Bank at December 31, 2007 are as follows (000's):

	<u>Within One Year</u>	<u>One to Three Years</u>	<u>Three to Five Years</u>	<u>After Five Years</u>	<u>Total</u>
Operating lease obligations	\$ 521	\$ 1,086	\$ 788	\$ 1,650	\$ 4,045
Total	<u>\$ 521</u>	<u>\$ 1,086</u>	<u>\$ 788</u>	<u>\$ 1,650</u>	<u>\$ 4,045</u>

Debt obligations and operating lease obligations are discussed in Notes J and P of the Notes to Financial Statements contained in "Item 8. Financial Statements and Supplementary Data."

We believe that we will be able to meet our contractual obligations as they come due through the maintenance of adequate cash levels. We expect to maintain adequate cash levels through liquidity management, profitability, loan and securities repayment and maturity activity, and continued deposit gathering activities. We have in place various borrowing mechanisms for both short-term and long-term liquidity needs.

Off-Balance Sheet Arrangements

Our obligations also include off-balance sheet arrangements consisting of loan-related commitments, of which only a portion are expected to be funded. At December 31, 2007, our loan-related commitments, including standby letters of credit and financial guarantees, totaled \$25.0 million. The commitments which result in a funded loan increase our profitability through net interest income. Therefore, during the year, we manage our overall liquidity taking into consideration funded and unfunded commitments as a percentage of our liquidity sources. Our liquidity sources, as described in "Liquidity," have been and are expected to be sufficient to meet the cash requirements of our lending activities. For further information on loan commitments see Note P of the Notes to Financial Statements contained in "Item 8 Financial Statements and Supplementary Data."

Risk Management

The Bank's management has adopted, as part of its ALCO Policy, a Risk Management Plan to ensure the proper control and management of all risk factors inherent in the operations of the Bank. Specifically, the credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, reputation risk, price risk and foreign exchange risk, can all affect the market risk exposure of the Bank. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by the Bank may expose the Bank to one or more of these risks.

Credit Risk

Credit risk is defined as the risk to earnings or capital from an obligor's failure to meet the terms of any contract or to otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counter party, issuer or borrower performance. Credit risk arises through the extension of loans, certain securities, and letters of credit.

Credit risk in the investment portfolio and correspondent bank accounts is addressed through defined limits in the Bank's ALCO Policy. In addition, certain securities carry insurance to enhance credit quality of the bond. Limitations on industry concentration, geographic boundaries, and contract

maturities are designed to reduce credit risk. The ALCO Committee and the Board of Directors are provided with information to appropriately identify, measure, control and monitor the credit risk of the Bank.

Credit risk in the loan portfolio is also addressed through defined limits in the Bank's Loan Policy. Limitations on industry concentration, geographic boundaries, aggregate customer borrowings and standards on loan quality also are designed to reduce loan credit risk. The Loan Committee and the Board of Directors are provided with information to appropriately identify, measure, control and monitor the credit risks within the loan portfolio.

Implicit in lending activities is the risk that losses will occur and that the amount of such losses will vary over time. Consequently, the Bank maintains an allowance for loan losses by charging a provision for loan losses to earnings. When a loan is determined to be a loss, the balance is charged against the allowance for loan losses. The Bank's allowance for loan losses is maintained at a level considered by the Bank's management to be adequate to provide for estimated probable losses inherent in the existing portfolio, as well as unused commitments to provide financing, including commitments under commercial and standby letters of credit.

The process by which the Bank determines the appropriate allowance for loan losses requires the exercise of considerable judgment. The amount of losses that actually occur can vary significantly from these estimated amounts. The Bank employs a systemic methodology that is intended to reduce the differences between estimated and actual losses.

Central to the Bank's credit risk management is its loan risk rating system. Each credit is assigned an initial credit rating, which is reviewed periodically by the Bank's Chief Credit Officer, independent credit reviewers and regulatory examiners. Risk ratings are adjusted as necessary.

Based on the risk rating system, specific allowances are established in cases where management has identified significant conditions or circumstances related to that credit that heighten the need for closer monitoring or increase the likelihood that the full and timely repayment of both the loan's principal and interest may be at doubt.

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 upon the expected future cash flows of an impaired loan which are 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-to-loan basis except that collateral-dependent loans, for which foreclosure is probable, are measured at the fair value of the collateral.

Included in the Bank's methodology for assessing the appropriateness of the allowance is management's consideration of all known relevant internal and external factors that may affect the loan's collectibility. This includes management's estimates of the amount necessary for concentrations, economic uncertainties, the volatility of the market value of the collateral, and other relevant factors. The conditions evaluated in connection with the periodic analysis of allowance include, but are not limited to, the following conditions that existed as of the balance sheet date:

- Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
- Changes in national and local economic and business conditions and developments, including the condition of various market segments.
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability, and depth of lending management and staff.
- Changes in the trend of the volume and severity of past due and classified loans; and trends in the

- volume of non-accrual loans, troubled debt restructurings and other loan modifications.
- Changes in the quality of the institution's loan review system and the degree of oversight by the institution's board of directors.
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
- The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses on the loan portfolio.

Also considered as factors in determining the adequacy of the reserve are: 1) the historical loss experience on a loan category by category basis; and 2) a comparative analysis between the Bank's internal loan loss reserve methodology and the "Reasonableness Test" as detailed in the Interagency Policy Statement of the Allowance for Loan Losses, as published by the regulators. The quarterly analysis of the general reserve is accompanied by sufficient narrative detail to support Bank management's conclusions.

Interest Rate Risk

During periods of changing interest rates, the ability to reprice interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently the Bank's ability to produce net earnings and to maintain adequate capital levels. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in the Bank's service area.

Interest rate risk is discussed above, under "Market Risk Management," beginning on page 42.

Liquidity Risk

Liquidity risk is the risk to earnings or capital resulting from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. The ALCO Committee is responsible for structuring the balance sheet to meet these needs. On a daily basis liquidity is managed by maintaining acceptable levels of Federal funds in conjunction with cash flow from interest and principal payments from time deposits from other financial institutions, investment securities and loans. To meet unexpected demands, lines of credit are maintained with correspondent banks. The early withdrawal of funds held in time deposits with other financial institutions serves as a contingent source of funds. Access to FHLB advances are available to meet liquidity needs. Increases in deposit rates can serve as a contingent means of raising funds to increase liquidity.

For the Bank, sources of funds normally include payments of loans, interest payments on investments and growth in deposits. Uses of funds include withdrawal of deposits, interest paid on deposits, increases in loan balances, purchases of investments, the placement of funds in time deposits with other financial institutions and other operating expenses.

By reference to the Statement of Cash Flows on page 64 of this report, comparisons can be made to the changes in the Bank's liquidity position. Net cash provided by (used in) operating activities totaled \$2,128,000 for 2007 compared with net cash provided by operating activities of \$1,046,000 for 2006 and (\$490,000) for 2005. The generation of a positive cash flow reflects the ability of the Bank's current asset base to provide liquidity from its ongoing operations.

Since the primary sources and uses of funds for the Bank are loans and deposits, the relationship between net loans and total deposits provides a useful measure of the Bank's liquidity. However, the FHLB provides alternative sources of funds for the Bank's and enables the Bank to efficiently manage the balance sheet duration. Typically, the closer the ratio of loans-to-deposits is to 100 percent, the more reliant the Bank is on its loan portfolio to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the ratio of loans-to-deposit, the less liquid are the Bank's assets. For 2007, the Bank's average loan-to-deposits ratio was 71.9 percent, while for 2006 the comparable ratio was 74.5 percent.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 7A of Form 10-K is contained in the "Market Risk Management" section of Item 7-"Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 42.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders of
Commerce National Bank

We have audited the accompanying statements of financial condition of Commerce National Bank as of December 31, 2007 and 2006 and the related statements of operations, changes in shareholders' equity, and cash flows for the years ended December 31, 2007, 2006, and 2005. 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 Commerce National Bank as of December 31, 2007 and 2006 and the results of its operations and its cash flows for the years ended December 31, 2007, 2006 and 2005, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
February 27, 2008

COMMERCE NATIONAL BANK
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2007 AND 2006

ASSETS

	2007	2006
Cash and Due from Banks	\$ 3,302,110	\$ 4,369,917
Federal Funds Sold and Other Investments	43,023,128	46,506,000
Total Cash and Cash Equivalents	46,325,238	50,875,917
Interest-bearing Deposits in Other Banks	3,959,000	1,973,000
Investment Securities Available for Sale	9,004,929	8,612,551
Investment Securities Held to Maturity	22,510,890	5,826,980
Total Investment Securities	31,515,819	14,439,531
Commercial	28,981,732	22,648,053
Consumer	22,757,816	23,552,945
Construction and Land Development	20,838,843	19,958,785
Real Estate - Other	47,602,664	32,294,540
Total Loans	120,181,055	98,454,323
Deferred Loan Premiums, Costs and Fees, Net	417,547	387,949
Allowance for Loan Losses	(1,488,042)	(1,225,000)
Net Loans	119,110,560	97,617,272
Premises and Equipment, Net	1,276,976	634,453
Federal Reserve Bank and Other Stock - at Cost	1,328,450	1,201,950
Accrued Interest and Other Assets	2,276,117	1,911,107
TOTAL ASSETS	\$ 205,792,160	\$ 168,653,230

The accompanying notes are an integral part of these statements.

COMMERCE NATIONAL BANK
STATEMENTS OF FINANCIAL CONDITION
DECEMBER 31, 2007 AND 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

	2007	2006
Noninterest-bearing Demand Deposits	\$ 42,216,468	\$ 30,550,548
Savings Accounts	297,278	517,202
NOW and Money Market Accounts	111,127,866	102,220,682
Time Deposits Under \$100,000	802,368	347,715
Time Deposits \$100,000 and Over	22,398,838	8,021,320
Total Deposits	176,842,818	141,657,467
Accrued Interest and Other Liabilities	678,001	436,663
TOTAL LIABILITIES	177,520,819	142,094,130
 Commitments and Contingencies - Note P		
 Shareholders' Equity:		
Common Stock - 10,000,000 Shares Authorized, \$5.00 Par Value; 2,660,593 and 2,654,058 Shares Issued and Outstanding at December 31, 2007 and 2006, respectively	13,302,965	13,270,290
Surplus	18,161,346	17,524,165
Accumulated Deficit	(3,047,558)	(4,096,194)
Accumulated Other Comprehensive Income- Unrecognized Loss on Available-for-Sale Securities	(145,412)	(139,161)
TOTAL SHAREHOLDERS' EQUITY	28,271,341	26,559,100
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 205,792,160	\$ 168,653,230

The accompanying notes are an integral part of these statements.

COMMERCE NATIONAL BANK
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
INTEREST INCOME			
Interest and Fees on Loans	\$ 8,751,199	\$ 6,760,784	\$ 3,078,187
Interest on Investment Securities	695,432	867,140	743,554
Other Interest Income	2,605,507	1,551,849	767,850
Total Interest Income	<u>12,052,138</u>	<u>9,179,773</u>	<u>4,589,591</u>
INTEREST EXPENSE			
Interest on Savings, NOW and Money Market Deposits	3,411,818	2,702,326	903,619
Interest on Time Deposits	302,673	284,685	134,263
Interest on Borrowings	399	-	12,017
Total Interest Expense	<u>3,714,890</u>	<u>2,987,011</u>	<u>1,049,899</u>
NET INTEREST INCOME	8,337,248	6,192,762	3,539,692
Provision for Loan Losses	304,500	439,000	475,850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	8,032,748	5,753,762	3,063,842
NONINTEREST INCOME			
Service Charges, Fees and Other Income	184,694	113,560	62,375
Gain on Sale of Loans and Referral Fees	529,737	458,286	41,211
Total Noninterest Income	<u>714,431</u>	<u>571,846</u>	<u>103,586</u>
NONINTEREST EXPENSE			
Salaries and Employee Benefits	4,441,417	3,603,173	2,256,756
Occupancy and Equipment Expenses	965,204	597,755	541,483
Other Expenses	2,771,313	1,919,539	1,131,490
Total Noninterest Expense	<u>8,177,934</u>	<u>6,120,467</u>	<u>3,929,729</u>
INCOME (LOSS) BEFORE INCOME TAXES	569,245	205,141	(762,301)
Income Taxes (Benefit)	(479,391)	(479,200)	800
NET INCOME (LOSS)	<u>\$ 1,048,636</u>	<u>\$ 684,341</u>	<u>\$(763,101)</u>
NET INCOME (LOSS) PER SHARE - BASIC	<u>\$ 0.39</u>	<u>\$ 0.26</u>	<u>\$(0.42)</u>
NET INCOME (LOSS) PER SHARE - DILUTED	<u>\$ 0.39</u>	<u>\$ 0.25</u>	<u>\$(0.42)</u>

The accompanying notes are an integral part of these statements.

COMMERCE NATIONAL BANK
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	Common Stock		Surplus	Comprehensive Income	Accumulated Deficit	Accumulated Other Comprehensive Income		Total
	Number of Shares	Amount				Income	Total	
Balance at January 1, 2005	1,209,305	\$ 6,046,525	\$ 5,989,416		\$(4,017,434)	\$(12,852)	\$ 8,005,655	
Stock Options Exercised	13,750	68,750	68,750				137,500	
Common Stock Offering, net of offering costs of \$552,798	1,384,616	6,923,080	10,524,130		(763,101)	(763,101)	17,447,210	
Net Loss				\$(763,101)			(763,101)	
Unrealized Loss on Available-for-Sale Securities				(160,199)		(160,199)	(160,199)	
Total Comprehensive Income				<u>(923,300)</u>				
Balance at December 31, 2005	2,607,671	13,038,355	16,582,296		(4,780,535)	(173,051)	24,667,065	
Stock Options Exercised	46,387	231,935	263,339				495,274	
Stock-based Compensation			678,530				678,530	
Net Income				684,341			684,341	
Unrealized Gain on Available-for-Sale Securities				33,890		33,890	33,890	
Total Comprehensive Income				<u>718,231</u>				
Balance at December 31, 2006	2,654,058	13,270,290	17,524,165		(4,096,194)	(139,161)	26,559,100	
Stock Options Exercised	6,535	32,675	33,695				66,370	
Stock-based Compensation			603,486				603,486	
Net Income				1,048,636			1,048,636	
Unrealized Loss on Available-for-Sale Securities				(6,251)		(6,251)	(6,251)	
Total Comprehensive Income				<u>\$ 1,042,385</u>				
Balance at December 31, 2007	2,660,593	\$13,302,965	\$ 18,161,346		<u>\$(3,047,558)</u>	<u>\$ (145,412)</u>	<u>\$ 28,271,341</u>	

The accompanying notes are an integral part of these statements.

COMMERCE NATIONAL BANK
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007, 2006 and 2005

	<u>2007</u>	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES			
Net Income (Loss)	\$ 1,048,636	\$ 684,341	\$(763,101)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation and Amortization	325,117	268,684	242,931
Deferred Tax Benefit	(488,000)	(484,000)	-
Provision for Loan Losses	304,500	439,000	475,850
Stock-based Compensation	603,486	678,530	-
Other Items, Net	334,730	(540,406)	(445,300)
Net Cash Provided by (Used in) Operating Activities	<u>2,128,469</u>	<u>1,046,149</u>	<u>(489,620)</u>
INVESTING ACTIVITIES			
Decrease (Increase) in Interest-bearing Deposits in Other Banks	(1,986,000)	3,999,000	328,662
Net Increase in Loans	(21,768,190)	(33,027,702)	(41,017,223)
Increase in Federal Reserve Bank and Other Bank Stock	(126,500)	(227,400)	(558,900)
Purchases of Available-for-Sale Securities	(496,487)	(2,000,000)	(3,905,116)
Proceeds From Maturities of Available-for-Sale Securities	97,857	7,631,500	1,000,000
Purchases of Held-to-Maturity Securities	(18,037,558)	-	(10,273,591)
Proceeds From Maturities of Held-to-Maturity Securities	1,353,649	7,173,779	4,800,000
Proceeds from Sales of Premises and Equipment	-	70,391	-
Purchases of Equipment and Leasehold Improvements	(967,640)	(10,475)	(131,288)
Net Cash Used in Investing Activities	<u>(41,930,869)</u>	<u>(16,390,907)</u>	<u>(49,757,456)</u>
FINANCING ACTIVITIES			
Net Increase in Non-interest Bearing Demand Deposits	11,665,920	7,720,778	11,239,131
Net Increase (Decrease) in Savings	(219,924)	28,528	335,270
Net Increase in NOW and Money Market Accounts	8,907,184	44,398,676	15,993,684
Net Increase in Time Deposits	14,832,171	642,070	7,387,620
Proceeds from Secondary Common Stock Offering	-	-	17,447,210
Proceeds from Stock Options Exercised	66,370	495,274	137,500
Net Cash Provided by Financing Activities	<u>35,251,721</u>	<u>53,285,326</u>	<u>52,540,415</u>
CHANGE IN CASH AND CASH EQUIVALENTS	<u>(4,550,679)</u>	<u>37,940,568</u>	<u>2,293,339</u>
Cash and Cash Equivalents at Beginning of Year	<u>50,875,917</u>	<u>12,935,349</u>	<u>10,642,010</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 46,325,238</u></u>	<u><u>\$ 50,875,917</u></u>	<u><u>\$ 12,935,349</u></u>
Supplemental Disclosures of Cash Flow Information:			
Interest Paid	<u>\$ 3,982,426</u>	<u>\$ 2,938,202</u>	<u>\$ 994,167</u>
Taxes Paid	<u>\$ 5,809</u>	<u>\$ 800</u>	<u>\$ 800</u>

The accompanying notes are an integral part of these statements.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Commerce National Bank (the "Bank") is a commercial bank incorporated in 2003 in the State of California and headquartered in Newport Beach, California. The Bank is chartered by the Office of the Comptroller of the Currency (the "OCC") and its deposit accounts are insured by the Federal Deposit Insurance Corporation up to the maximum amount under the terms allowed by the federal regulations. The Bank has been organized as a single operating entity and operates full service branch offices in Fullerton and Newport Beach, California. The Bank provides a wide range of banking products and services to predominately small and middle-market businesses and individuals.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, and temporary investments that include federal funds sold and interest-bearing balances due from other banks. Cash and cash equivalents generally have a maturity of 90 days or less at the time of purchase.

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 deposit accounts at several correspondent banks with balances that may exceed federal deposit insurance limits. The Bank has not experienced any losses in such accounts.

Interest-bearing Deposits in Other Banks

Time deposits with other financial institutions typically have an original maturity of three months to two years and are carried at cost.

Investment Securities

The Bank classifies as held-to-maturity those debt securities that the Bank has the positive intent and ability to hold to maturity. Securities held-to-maturity are accounted for at cost and adjusted for amortization of premiums and accretion of discounts. Purchase premiums and discounts are recognized in interest income using the interest method over the period to maturity. For mortgage-backed securities ("MBS") the amortization or accretion is based on estimated average lives of the securities. The lives of these securities can fluctuate based on the amount of prepayments received on the underlying collateral of securities.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Investment Securities - Continued

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 receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal, reduced by an allowance for loan losses, 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 loan origination costs are deferred and amortized as an adjustment to interest income over the life of the loan.

The Bank determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment that is past due 30 days or more. The accrual of interest on loans is discontinued at the time the loan is 90 days or more delinquent or when, in the opinion of management, there is reasonable doubt as to collectability. 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 future payments are reasonably assured.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

The allowance for loan losses is based on estimates and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in results of operations in the periods in which they become known. The allowance is increased by provisions for loan losses charged to expense. The balance of a loan deemed uncollectible is charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

Management makes periodic credit reviews of the loan portfolio and considers current economic conditions, historical credit loss experience and other factors in determining the adequacy of the allowance. This evaluation does not include the effect of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. Although management uses the best information available to make these estimates, future adjustments to the allowance may be necessary due to economic, operating, regulatory and other conditions that may be beyond the Bank's control.

The allowance for loan loss consists of specific, general and unallocated components. The specific component relates to classified and criticized loans. The general component covers non-classified and non-criticized loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable 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 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.

Also included in the allowance for loan losses are provisions for loans that have declined in value and which management has determined to be impaired. Management deems a loan to be impaired when it is probable that the Bank will be unable to collect all 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.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 range from three to five years for furniture and equipment. Leasehold improvements are amortized using the straight-line method over the remaining lease term and the subsequent option period that is likely to be exercised. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred. Equipment and leasehold improvements are reviewed for impairment periodically and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable.

Federal Reserve Bank and Other Stock – at Cost

The Bank, as a member of the Federal Reserve Bank (“FRB”) and the Federal Home Loan Bank (“FHLB”) systems, is required to maintain investments in the capital stock of the FHLB and FRB. No ready market exists for these stocks and they have no quoted market value.

Advertising Costs

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

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a deferred tax 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. Annual deferred tax expense (benefit) is equal to the change in the deferred tax liability (asset) account from the beginning to the end of the year. A current tax asset or liability is recognized for the estimated taxes refundable or payable for the current year. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax asset will not be realized.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes — an Interpretation of FASB Statement No. 109,” (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires the impact of a tax position to be recognized in the financial statements if that position is more-likely-than-not of being sustained upon examination, based on the technical merits of the position. A tax position meeting the more-likely-than-not threshold is then to be measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

The Bank adopted the provisions of FIN 48 effective January 1, 2007, resulting in no cumulative effect adjustment to retained earnings as of the date of adoption and determined that the adoption did not have a material impact on its results of operations, financial position, and liquidity. In accordance with FIN 48, the Bank records interest and penalties related to uncertain tax positions 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 loss on available-for-sale securities are the only component of accumulated other comprehensive income for the Bank.

Earnings Per Share (EPS)

The Bank accounts for EPS in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is computed by dividing income or loss available to common shareholders 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. The diluted EPS computation does not include the anti-dilutive effect of approximately 301,000 options for the year ended December 31, 2007.

Use of Estimates

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.

Stock-based Compensation

The Bank has a stock option plan that provides for the granting of stock options to eligible employees and directors. Effective January 1, 2006, the Bank adopted the provisions of SFAS No. 123(R), "Share Based Payments," a revision to the previously issued guidance on accounting for stock options and other forms of equity-based compensation. SFAS No. 123(R) requires companies 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.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-based Compensation - Continued

Prior to January 1, 2006, the Bank accounted for share-based compensation to employees under the intrinsic value method prescribed in Accounting Principles Board (“APB”) Opinion No. 25, “Accounting for Stock Issued to Employees.” Under the intrinsic value method, compensation expense is recognized only to the extent an option’s exercise price is less than the market value of the underlying stock on the date of grant. The Bank also followed the disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” The Bank adopted SFAS No. 123 (R) under the modified prospective method. Under that transition method, compensation cost is recognized for all new awards and for the unvested portion of the options granted prior to January 1, 2006.

Disclosure of Fair Value of Financial Instruments

SFAS No. 107, “Disclosures about Fair Value of Financial Instruments,” specifies 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.

Fair value estimates are made at a specific point in time based upon relevant market and other information about the financial instrument. The estimates do not necessarily reflect the price the Bank might receive if it were to sell at one time its entire holding of a particular financial instrument. Because no active market exists for a significant portion of the Bank’s financial instruments, fair value estimates are based upon the following methods and assumptions, some of which are subjective in nature. Changes in assumptions could significantly affect the estimates.

New 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.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements - Continued

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 conditions or results of operations.

Reclassifications

Certain reclassifications were made to prior years' presentations to conform to the current year. These reclassifications are of a normal recurring nature.

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of financial 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
December 31, 2007:				
<u>Available-for-Sale:</u>				
U.S. Gov & Agency Securities	\$ 502,731	\$ -	\$ -	\$ 502,731
Mortgage-backed Securities	647,610	-	(14,934)	632,676
AMF-ARM Mutual Fund	8,000,000	-	(130,478)	7,869,522
Total Available-for-Sale	<u>\$ 9,150,341</u>	<u>\$ -</u>	<u>\$ (145,412)</u>	<u>\$ 9,004,929</u>
<u>Held-to-Maturity</u>				
U.S. Gov & Agency Securities	\$ 18,042,039	\$ 6,486	\$ -	\$ 18,048,525
Mortgage-backed Securities	4,468,851	-	(40,339)	4,428,512
Total Held-to-Maturity	<u>\$ 22,510,890</u>	<u>\$ 6,486</u>	<u>\$ (40,339)</u>	<u>\$ 22,477,037</u>

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE B - INVESTMENT SECURITIES - Continued

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2006:				
<u>Available-for-Sale:</u>				
Mortgage-backed Securities	\$ 751,712	\$ -	\$ (24,992)	\$ 726,720
AMF-ARM Mutual Fund	8,000,000	-	(114,169)	7,885,831
Total Available-for-Sale	<u>\$ 8,751,712</u>	<u>\$ -</u>	<u>\$ (139,161)</u>	<u>\$ 8,612,551</u>
<u>Held-to-Maturity</u>				
U.S. Gov & Agency Securities	\$ 499,822	\$ -	\$ (447)	\$ 499,375
Mortgage-backed Securities	5,327,158	-	(93,365)	5,233,793
Total Held-to-Maturity	<u>\$ 5,826,980</u>	<u>\$ -</u>	<u>\$ (93,812)</u>	<u>\$ 5,733,168</u>

As of December 31, 2007, the Bank had 10 investment securities where estimated fair value had declined 1.42% from the Bank'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 Bank has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2007, no declines in value are deemed to be other-than-temporary.

The following table shows the investment securities that have unrealized loss for less than twelve months and twelve months or more:

	Less Than 12 Months		12 Months or more		Total	
	Unrealized (Loss)	Estimated Fair Value	Unrealized (Loss)	Estimated Fair Value	Unrealized (Loss)	Estimated Fair Value
December 31, 2007:						
<u>Available-for-Sale:</u>						
Mortgage-backed Securities	\$ -	\$ -	\$ (14,934)	\$ 632,676	\$(14,934)	\$ 632,676
AMF-ARM Mutual Fund	-	-	(130,478)	7,869,522	(130,478)	7,869,522
Total Available-for-Sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (145,412)</u>	<u>\$ 8,502,198</u>	<u>\$ (145,412)</u>	<u>\$ 8,502,198</u>
<u>Held-to-Maturity</u>						
Mortgage-backed Securities	\$ -	\$ -	\$(40,339)	\$ 4,428,512	\$(40,339)	\$ 4,428,512
Total Held-to-Maturity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (40,339)</u>	<u>\$ 4,428,512</u>	<u>\$ (40,339)</u>	<u>\$ 4,428,512</u>

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE B - INVESTMENT SECURITIES - Continued

	Unrealized (Loss)	Estimated Fair Value	Unrealized (Loss)	Estimated Fair Value	Unrealized (Loss)	Estimated Fair Value
December 31, 2006:						
<u>Available-for-Sale:</u>						
Mortgage-backed Securities	\$ -	\$ -	\$ (24,992)	\$ 726,720	\$ (24,992)	\$ 726,720
AMF-ARM Mutual Fund	-	-	(114,169)	7,885,831	(114,169)	7,885,831
Total Available-for-Sale	<u>\$ -</u>	<u>\$ -</u>	<u>\$(139,161)</u>	<u>\$ 8,612,551</u>	<u>\$(139,161)</u>	<u>\$ 8,612,551</u>
<u>Held-to-Maturity</u>						
U.S. Gov & Agency Securities	\$ (447)	\$ 499,375	-	-	\$ (447)	\$ 499,375
Mortgage-backed Securities	\$ -	\$ -	\$ (93,365)	\$ 5,233,793	(93,365)	5,233,793
Total Held-to-Maturity	<u>\$ (447)</u>	<u>\$ 499,375</u>	<u>\$ (93,365)</u>	<u>\$ 5,233,793</u>	<u>\$ (93,812)</u>	<u>\$ 5,733,168</u>

The amortized cost and estimated fair value of investment securities at December 31, 2007, by contractual maturities are shown in the following table. Expected maturities will differ from contractual maturities, particularly with respect to mortgage-backed securities, because borrowers may have the right to prepay obligations with or without prepayment penalties.

	Amortized Cost	Fair Value
<u>Available-for-Sale:</u>		
Due in One Year or Less	\$502,731	\$502,731
Due from One Year to Five Years	8,647,610	8,502,198
Total Available-for-Sale	<u>\$9,150,341</u>	<u>\$9,004,929</u>
<u>Held-to-Maturity</u>		
Due in One Year or Less	\$18,042,039	\$18,048,525
Due from One Year to Five Years	4,468,851	4,428,512
Total Held-to-Maturity	<u>\$ 22,510,890</u>	<u>\$ 22,477,037</u>

See Note J – Borrowing Arrangements for further discussion of the portion of the Bank's investment securities portfolio pledged to third parties.

NOTE C - BALANCES AT THE FEDERAL RESERVE BANK

The Federal Reserve Board regulations, as presently in effect, require depository institutions to maintain non-interest earning reserves against their transaction accounts (primarily NOW and regular checking accounts) and non-personal time deposits. The reserve balance required to be maintained at the Federal Reserve Bank was \$774,000 and \$400,000 at December 31, 2007 and 2006, respectively.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE D - LOANS

The Bank offers loan products and banking services primarily to small to mid-sized business in Orange County, California. Loan products offered by the Bank include a wide range of commercial business loans, commercial real estate loans, loans under various Small Business Administration programs, consumer loans, and construction and land development loans. 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. As a result, the Bank's loan and collateral portfolios are, to some degree, concentrated in those industries.

The Bank did not have any non-performing or impaired loans as of December 31, 2007, 2006 and 2005. An analysis of the activity in the allowance for loan losses as of December 31 follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Balance at Beginning of Year	\$ 1,225,000	\$ 786,000	\$ 310,150
Additions to the Allowance Charged to Expense	304,500	439,000	475,850
Recoveries on Loans Charged Off	-	-	-
	<u>1,529,500</u>	<u>1,225,000</u>	<u>786,000</u>
Less: Loans Charged Off	(41,458)	-	-
Balance at End of Year	<u>\$ 1,488,042</u>	<u>\$ 1,225,000</u>	<u>\$ 786,000</u>

Gain on sale of loans amounting to \$16,000, \$47,000 and \$-0- for 2007, 2006 and 2005, respectively, is included in Gain on Sale of Loans and Referral Fees in the accompanying Statements of Operations.

See Note J - Borrowing Arrangements for further discussion related to pledged loans.

NOTE E - PREMISES AND EQUIPMENT

The amount of depreciation and amortization included in operating expenses was approximately \$325,000, \$269,000 and \$243,000, for 2007, 2006 and 2005, respectively. A summary of premises and equipment as of December 31 follows:

	<u>2007</u>	<u>2006</u>
Furniture, Fixtures, and Equipment	\$ 793,717	\$ 384,632
Computer Equipment	344,548	324,687
Software	253,483	207,889
Leasehold Improvements	825,519	332,419
Vehicle	35,051	35,051
	<u>2,252,318</u>	<u>1,284,678</u>
Less: Accumulated Depreciation and Amortization	(975,342)	(650,225)
	<u>\$ 1,276,976</u>	<u>\$ 634,453</u>

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE F - DEPOSITS

Remaining maturities of time certificates of deposit as of December 31, 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
3 months or less	\$ 22,191,941	\$ 2,804,000
4-12 months	1,009,265	5,565,035
Greater than 12 months	-	-
Total time certificates of deposit	<u>\$ 23,201,206</u>	<u>\$ 8,369,035</u>

The Bank has three deposit relationships that represent 40.5% of total deposits.

NOTE G - INCOME TAXES

The expense (benefit) for income taxes consisted of the following:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current:			
Federal	\$ (191)	\$ -	\$ -
State	8,800	4,800	800
Total	<u>8,609</u>	<u>4,800</u>	<u>800</u>
Deferred:			
Federal	(377,000)	(363,000)	0
State	(111,000)	(121,000)	0
Total	<u>(488,000)</u>	<u>(484,000)</u>	<u>0</u>
Current Expense (Benefit):	<u>\$ (479,391)</u>	<u>\$ (479,200)</u>	<u>\$ 800</u>

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

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	Amount	Rate	Amount	Rate	Amount	Rate
Statutory Federal Tax	\$ 194,000	34.0%	\$ 70,000	34.00%	\$(259,000)	(34.00)%
State Franchise Tax, Net of						
Federal Benefit	70,000	12.3%	15,000	7.10%	(54,000)	(7.10)%
Change in Valuation Allowance	(871,000)	(153.0)%	(735,000)	(358.3)%	309,000	40.50 %
Stock-based Compensation ¹	130,000	22.8%	169,000	82.40%	-	-
Other items, Net	(2,391)	(0.4)%	1,800	1.20%	4,800	0.70 %
Actual Tax Expense	<u>\$(479,391)</u>	<u>(84.3)%</u>	<u>\$(479,200)</u>	<u>(233.6)%</u>	<u>\$ 800</u>	<u>0.10 %</u>

¹ Stock-based compensation related to nondeductible incentive stock options

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE G - INCOME TAXES - Continued

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:		
Organizational Expenses	\$ 91,000	\$ 189,000
Operating Loss Carryforwards	891,000	1,301,000
Allowance for Loan Losses Due to Tax Limitations	565,000	450,000
Other Items	224,000	129,000
Total Deferred Tax Assets	1,771,000	2,069,000
Deferred Tax Liabilities:		
Depreciation Differences	(28,000)	(51,000)
Accrual to Cash	(276,000)	(276,000)
Other Items	(117,000)	(9,000)
Total Deferred Tax Liabilities	(421,000)	(336,000)
Net Deferred Tax Assets	1,350,000	1,733,000
Valuation Allowance	(382,000)	(1,253,000)
Net deferred tax asset included in other assets	\$ 968,000	\$ 480,000

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the complete recognition of the deferred tax assets. As noted above, the Bank did recognize a partial benefit in 2007 and 2006 resulting in net deferred tax assets of \$968,000 and \$480,000 as of December 31, 2007 and 2006, respectively.

The Bank has net operating loss carry forwards of approximately \$2,201,000 for federal income tax and \$2,000,000 for California franchise tax purposes. Federal net operating loss carry forwards, to the extent not used, will expire in 2025. California net operating loss carry forwards, to the extent not used, will expire in 2015.

The Bank is subject to federal income tax and franchise tax of the state of California. The Bank's federal income tax returns for the years ended December 31, 2006, 2005 and 2004 are open to audit by the federal authorities and the California state tax returns for the years ended December 31, 2006, 2005, 2004 and 2003, are open to audit by state authorities.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE G - INCOME TAXES - Continued

In accordance with FIN 48, the Bank records interest and penalties related to uncertain tax positions as part of income tax expense. There was no penalty or interest expense recorded as of December 31, 2007. The Bank does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE H - OTHER EXPENSES

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Director Stock-Based Compensation	\$ 204,109	\$ 254,290	\$ -
Professional Fees	626,688	422,429	281,466
Data Processing	457,206	347,282	286,844
Marketing and Promotional	176,582	214,751	89,172
Customer Service	658,924	154,889	65,465
Office Expenses	107,107	101,828	61,862
Other Expenses	540,697	424,070	346,681
	<u>\$ 2,771,313</u>	<u>\$ 1,919,539</u>	<u>\$ 1,131,490</u>

Customer Service expenses include Third Party Payments of \$570,000, \$23,000 and \$-0-, for the years 2007, 2006 and 2005, respectively. Third Party Payments are expenses related to business customer deposit relationships.

NOTE I - EARNINGS PER SHARE

Basic and diluted earnings per share for the years ended December 31 are computed as follows:

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>	<u>Income</u>	<u>Shares</u>
Net Income (Loss) as Reported	\$ 1,048,636		\$ 684,341		\$(763,101)	
Shares Outstanding Beg. of Year		2,654,058		2,607,671		1,209,305
Impact of Weighting Shares						
Issued During Year		5,751		12,110		622,662
Used in Basic EPS	1,048,636	2,659,809	684,341	2,619,781	(763,101)	1,831,967
Dilutive Effect of Outstanding						
Stock Option		32,635		77,777		N/A
Used in Dilutive EPS	<u>\$ 1,048,636</u>	<u>2,692,444</u>	<u>\$ 684,341</u>	<u>2,697,558</u>	<u>\$(763,101)</u>	<u>1,831,967</u>
Basic EPS	\$ 0.39		\$ 0.26		\$ (0.42)	
Dilutive EPS	\$ 0.39		\$ 0.25		\$ (0.42)	

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE J - BORROWING ARRANGEMENTS

The Bank may borrow up to \$20,000,000 overnight on an unsecured basis from three of its primary correspondent banks. As of December 31, 2007, there were no amounts outstanding under these arrangements.

The Bank also has a borrowing facility with the Federal Home Loan Bank (FHLB) collateralized by certain of its investments and loans. As of December 31, 2007, the Bank's maximum financing availability assuming adequate qualifying collateral was pledged to the FHLB totaled \$53,873,000, or 25 percent of total assets at the prior quarter end. At December 31, 2007 the Bank had \$64,390,000 in loans and \$8,500,000 in investment securities pledged to the FHLB. Based upon that collateral, the Bank's actual borrowing capacity at the FHLB equaled \$39,300,000 at year end 2007.

The following table presents investment securities which were pledged to secure borrowings or public deposits as of December 31, 2007, as permitted or required by law.

	<u>Amortized Cost</u>	<u>Fair Value</u>
To Federal Home Loan Bank to secure borrowings	\$ 8,502,198	\$ 8,502,198
To state and local governments to secure public borrowings	22,767,167	22,733,448
To U.S. Treasury and Federal Reserve to secure customer tax payments	246,454	246,320
Other pledged securities	-	-
Total pledged securities	<u>\$ 31,515,819</u>	<u>\$ 31,481,966</u>

NOTE K - STOCK COMPENSATION PLAN

Under the terms of the 2003 Stock Option Plan, as amended, officers and key employees may be granted both nonqualified and incentive stock options. 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 651,917 shares of common stock. The option price is determined on the date the option is granted. If the Bank's common stock is traded on the NASDAQ National Market System, then the option price equals the common stock share closing price on the date of grant. If the Bank's common stock is traded in the over-the-counter market, then the option price equals the average of the reported bid price and ask prices over the 30 days proceeding the date the options are granted. The Bank's common stock trades in the over-the-counter market.

Under the terms of the Plan, the vesting period is 3 years. The Plan provides for accelerated vesting if there is a change of control as defined in the Plan. Stock options expire no later than ten years from the date of the grant (five years with respect to options granted to employees holding 10% or more of the voting stock of the Bank).

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE K - STOCK COMPENSATION PLAN - Continued

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The Bank utilizes assumptions on expected life, the risk-free rate, expected volatility, and dividend yield to determine option values. The estimated average life is derived from the average remaining term of the options and a study of comparable institutions in the Bank's market area. The risk-free rate is based on treasury instruments in effect at the time of grant whose terms are consistent with the expected life of the options. Expected volatility is based on historical average volatility of the Bank's peer group. The dividend yield is based on historical experience and expected future changes. The Bank has not historically paid dividends on its common stock.

The following table summarizes the weighted average assumptions used for stock options granted for the years presented:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Risk Free Interest Rate	4.71%	4.82%	4.00%
Estimated Average Life	6 years	6.5 years	6.5 years
Expected Dividend Rates	0.00%	0.00%	0.00%
Expected Stock Volatility	22.00%	22.00%	27.00%
Weighted-Average Option Value	<u>\$ 4.79</u>	<u>\$ 6.46</u>	<u>\$ 7.05</u>

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

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at Beginning of Year	384,391	\$ 12.87		
Granted	113,000	\$ 14.50		
Exercised	(6,535)	\$ 10.16		
Forfeited	(10,834)	\$ 17.17		
Outstanding at End of Year	<u>480,022</u>	<u>\$ 13.41</u>	<u>7.6</u>	<u>\$ 285,034</u>
Options Exercisable	<u>295,346</u>	<u>\$ 12.30</u>	<u>6.8</u>	<u>\$ 502,380</u>

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 were approximately \$35,000 and \$280,000, respectively. As of December 31, 2007, there was \$669,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a period of 1.4 years.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE K - STOCK COMPENSATION PLAN - Continued

The following illustrates the effect on net income and earnings per share had the Bank accounted for stock-based compensation on accordance with SFAS 123-R. For purposes of this proforma disclosure, the value of the options is estimated using the Black-Scholes option pricing formula and amortized to expense over the options' vesting periods.

	2005
Net loss, as reported	\$ (763,101)
Less - Total stock-based compensation expense determined under fair value method for all qualifying awards	(236,546)
Pro forma net loss	\$ (999,647)
Loss per share:	
Basic:	
As reported	\$ (0.42)
Pro forma	\$ (0.55)
Diluted:	
As reported	\$ (0.42)
Pro forma	\$ (0.55)

NOTE L - EMPLOYEE BENEFIT PLAN

The Bank Sponsors a 401(k) plan for the benefit of its employees. Contributions to these plans are determined by the Board of Directors. The Bank contributed approximately \$114,000, \$94,000 and \$65,000 in 2007, 2006 and 2005.

NOTE M - 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.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE M - REGULATORY MATTERS - Continued

As of December 31, 2007, the most recent notification from the OCC 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):

	Amount of Capital Required					
	Actual		For Capital Adequacy Purposes		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)	\$29,874	21.0%	\$11,378	8.0%	\$14,223	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$28,286	19.9%	\$5,689	4.0%	\$8,534	6.0%
Tier 1 Capital (to Average Assets)	\$28,286	13.3%	\$8,534	4.0%	\$10,668	5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	\$27,898	23.8%	\$9,370	8.0%	\$11,713	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$26,584	22.7%	\$4,685	4.0%	\$7,028	6.0%
Tier 1 Capital (to Average Assets)	\$26,584	16.5%	\$6,459	4.0%	\$8,073	5.0%

The Bank is restricted as to the amount of dividends, which can be paid. Dividends declared by national banks that exceed net income (as defined by OCC regulations) for the current year plus retained net income for the preceding two years must be approved by the OCC. Also, the Bank may not pay dividends that would result in capital levels being reduced below the minimum requirements shown above.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value estimates are made at a specific point in time based upon relevant market and other information about the financial instrument. The estimates do not necessarily reflect the price the Bank might receive if it were to sell at one time its entire holding of a particular financial instrument. Because no active market exists for a significant portion of the Bank's financial instruments, fair value estimates are based upon the following methods and assumptions, some of which are subjective in nature. Changes in assumptions could significantly affect the estimates.

Cash and Due from Banks, Federal Funds Sold and Interest Bearing Deposits in Other Banks

Fair value approximates the carrying amounts reported in the balance sheet for these items.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Investment Securities

Fair value is based upon bid prices published in financial newspapers, or bid quotations received from securities dealers or readily available market quote systems.

Loans

Fair values are based on discounting estimated future contractual cash flows using current offering rates offered for such loans with similar remaining maturities and credit risk.

Federal Home Loan Bank and Other Bank Stock

Fair value approximates the carrying amounts.

Accrued Interest and Other Receivables

Fair value approximates the carrying amounts.

Deposits

The fair value of deposits with no stated maturity such as regular passbook accounts, money market accounts and checking accounts, is the carrying amount reported in the balance sheet. The fair value of deposits with a stated maturity such as certificates of deposit is based on discounting future contractual cash flows by discount rates offered for such deposits with similar remaining maturities.

FHLB Advances

For short-term borrowings, fair value approximates carrying amounts. The fair value of long-term borrowings is based on their interest rate characteristics. For variable rate borrowings, fair values approximate carrying amounts. For fixed rate borrowings, fair value is based on discounting future contractual cash flows by discount rates paid on such borrowings with similar remaining maturities.

Accrued Interest and Other Liabilities

Fair value approximates the carrying amounts.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2007 and 2006. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and therefore, current estimates of fair value may differ significantly from the amounts presented below.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS – Continued

	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and Due from Banks	\$ 3,302,110	\$ 3,302,110	\$ 4,369,917	\$ 4,369,917
Federal Funds Sold and Other Investments	43,023,128	43,023,128	46,506,000	46,506,000
Interest-bearing Deposits in Other Banks	3,959,000	3,959,000	1,973,000	1,973,000
Investment Securities	31,515,819	31,481,966	14,439,531	14,345,719
Loans, Net	119,110,560	121,348,000	97,617,272	97,514,606
Federal Reserve Bank and Other Stock	1,328,450	1,328,450	1,201,950	1,201,950
Accrued Interest and Other Receivables	856,269	856,269	821,028	821,028
FINANCIAL LIABILITIES				
Deposits	\$ 176,842,818	\$ 176,832,612	\$ 141,657,467	\$ 141,657,467
Accrued Interest and Other Liabilities	678,001	678,001	436,663	436,663

NOTE O - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank would consider granting loans to certain officers and directors and the companies with which they are associated. In the Bank's opinion, all loans and loan commitments to such parties would be made on substantially the same terms including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons. As of December 31, 2007 and 2006, there were no such loans outstanding.

Also in the ordinary course of business, certain officers and directors and the companies with which they are associated have deposits with the Bank. In the Bank'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 \$741,000 and \$1,284,000, respectively.

NOTE P - COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Lease Commitments

The Bank entered into noncancelable operating leases relating to its corporate headquarters and Main Office in Newport Beach through 2017, its Fullerton branch office through 2011 and its former branch office in Irvine through 2008. The Irvine facility was closed and the headquarters moved to the Newport Beach facility on January 12, 2007.

COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006

**NOTE P - COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS
WITH OFF-BALANCE SHEET RISK – Continued**

Lease Commitments - Continued

The Irvine space was subsequently sublet on January 17, 2007, for the same amount of rent that the Bank is obligated to pay through the remaining lease term. Sublease rental income from the Irvine sub-tenant was approximately \$78,000 for 2007. There was no rental income in 2006. This sub-lease income has been netted against the lease commitments in the table below. At December 31, 2007, rent payable under non-cancelable operating lease commitments for the Bank's headquarters and branch offices was as follows:

2008	\$ 521,200
2009	539,950
2010	545,707
2011	400,995
2012	386,953
Thereafter	1,649,925
	<u>\$ 4,044,730</u>

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rent expense was approximately \$564,000, \$215,000 and \$204,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Substantially all of the leases provide the Bank with the option to extend the lease term one or more times upon expiration of the existing term.

Rental expense for the Newport Beach office is recorded on a straight-line basis with a monthly expense of approximately \$31,000.

Legal Contingencies

The Bank is subject to various claims and lawsuits which arise in the ordinary course of business. As of December 31, 2007, the Bank does not have any claims or lawsuits and is not aware of any potential losses.

Financial Instruments with Off-Balance Sheet Risk

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. Loss reserves on unfunded commitments at December 31, 2007 were \$100,000.

**COMMERCE NATIONAL BANK
NOTES TO FINANCIAL STATEMENTS
December 31, 2007 and 2006**

**NOTE P - COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS
WITH OFF-BALANCE SHEET RISK – Continued**

Financial Instruments with Off-Balance Sheet Risk - Continued

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

	<u>2007</u>	<u>2006</u>
Commitments to Extend Credit	\$ 24,323,206	\$ 28,659,688
Letters of Credit	655,000	293,265
	<u>\$ 24,978,206</u>	<u>\$ 28,952,953</u>

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 type and amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer, the type of loan and the source of repayment.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS
ON ACCOUNTING AND FINANCIAL DISCLOSURES**

None

ITEM 9A. CONTROLS AND PROCEDURES

Management's Report on Internal Control Over Financial Reporting

To our Shareholders:

Management is responsible for the preparation and fair presentation of the financial statements included in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. The Bank's internal control over financial reporting includes those policies and procedures that pertain to the Bank's ability to record, process, summarize and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that the Bank's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2007. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management has concluded that the internal control over financial reporting was effective as of December 31, 2007.

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of the Bank's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of the independent auditor and approves decisions regarding the appointment or removal of the Bank's Internal Auditor. It meets periodically with management, the independent auditors and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of the Bank in addition to reviewing the Bank's financial reports. The independent auditors and the internal auditor have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matter which they believe should be brought to the attention of the Audit Committee.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 of Form 10-K is incorporated by reference from information contained in the Bank's Proxy Statement for the 2008 Annual Meeting of Shareholders which will be filed with the OCC on or before April 29, 2008.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 of Form 10-K is incorporated by reference from information contained in the Bank's Proxy Statement for the 2008 Annual Meeting of Shareholders which will be filed with the OCC on or before April 29, 2008.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 of Form 10-K is incorporated by reference from information contained in the Bank's Proxy Statement for the 2008 Annual Meeting of Shareholders which will be filed with the OCC on or before April 29, 2008.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 of Form 10-K is incorporated by reference from information contained in the Bank's Proxy Statement for the 2008 Annual Meeting of Shareholders which will be filed with the OCC on or before April 29, 2008.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 of Form 10-K is incorporated by reference from information contained in the Bank's Proxy Statement for the 2008 Annual Meeting of Shareholders which will be filed with the OCC on or before April 29, 2008.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements.

The following Financial Statements are included as part of this report on pages 52 through 78, in Part II, Item 8:

Statements of Financial Condition at December 31, 2007 and 2006
Statements of Operations for the Years Ended December 31, 2007 and 2006
Statement of Changes in Shareholders' Equity for the Years Ended
December 31, 2007 and 2006
Statements of Cash Flows for the Years Ended December 31, 2007 and 2006
Notes to Financial Statements

(a)(2) Financial Statement Schedules. Not applicable.

(a)(3) Exhibits.

<u>Exhibit Number</u>	<u>Document Description</u>
3.1	Bylaws. Incorporated by reference to Exhibit 3.2 filed by the Bank on its Form SB-2 on May 7, 2003.
3.2	Articles of Association. Incorporated by reference to Exhibit 3.1 filed by the Bank on its Form SB-2/A on June 5, 2003.
3.3	Organization Certificate. Incorporated by reference to Exhibit 3.3 filed by the Bank on its Form SB-2/A on June 5, 2003.
4.1	Specimen Certificate of Common Stock. Incorporated by reference to Exhibit 4.1 filed by the Bank on its Form SB-2 on May 7, 2003.
10.1	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.4 filed by the Bank on its Form SB-2 on May 7, 2003.
10.2	Form of Nonqualified Stock Option Agreement. Incorporated by reference to Exhibit 10.5 filed by the Bank on its Form SB-2 on May 7, 2003.
10.3	Agreement with Carpenter & Company for Initial Offering. Incorporated by reference to Exhibit 10.6 filed by the Bank on its Form SB-2 on May 7, 2003.

- 10.4 2003 Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.3 filed by the Bank on its Form SB-2/A on June 5, 2003.
- 10.5 Consulting Agreements. Incorporated by reference to Exhibit 10.7 filed by the Bank on its Form SB-2/A on June 5, 2003.
- 10.6 Lease (Fullerton Office). Incorporated by reference to Exhibit 10.1 filed by the Bank on its Form 10-QSB on November 12, 2003.
- 10.7 Sublease (former Irvine Loan Production Office). Incorporated by reference to Exhibit 10.2 filed by the Bank on its Form 10-QSB on November 12, 2003.
- 10.8 Code of Ethics for the Senior Financial Officers. Incorporated by reference to Exhibit 10.3 filed by the Bank on its Form 10-KSB on March 29, 2004.
- 10.9 Lease (former Irvine Branch Office). Incorporated by reference to Exhibit 10.4 filed by the Bank on its Form 10-QSB on November 8, 2004.
- 10.10 Employment Agreements of the Chief Executive Officer, Chief Credit Officer and former Chief Financial Officer. Incorporated by reference to Exhibit 10.10 filed by the Bank on its Form 10-KSB on March 30, 2005.
- 10.11 Lease (Newport Beach headquarters office). Incorporated by reference to Exhibit 10.1 filed by the Bank on its Form 10-QSB on August 4, 2006.
- 10.12 Sublease (Irvine Branch Office).
- 10.13 Employment Agreements of Mark E. Simmons, President and Chief Executive Officer, and Steven L. Hollstein, Executive Vice President and Chief Credit Officer, dated April 1, 2007. Incorporated by reference to Form 8-K dated April 1, 2007.
- 10.14 Employment Agreement of Larry v. Sorensen, Executive Vice President and Chief Financial Officer, dated October 22, 2007. Incorporated by reference to Form 8-K dated October 22, 2007.
- 10.15 Equity-Based Deferred Compensation Plan for Directors, effective September 1, 2007.
- 23.1 Consent of Vavrinek, Trine, Day & Co., LLP

- 31.1 Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)
- 32 Certification of the Principal Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

An Annual Report for the fiscal year ended December 31, 2007 and Notice of Annual Meeting and Proxy Statement for the Bank's 2008 Annual Meeting will be mailed to security holders subsequent to the date of filing this report. Copies of said materials will be furnished to the OCC.

SIGNATURES

Pursuant to the requirement of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMERCE NATIONALBANK

By:

Date: March 28, 2008

/s/ Mark E. Simmons
Mark E. Simmons
President and
Chief Executive Officer
(Principal Executive Officer)

Date: March 28, 2008

/s/ Larry V. Sorensen
Larry V. Sorensen
Executive Vice President and
Chief Financial Officer
(Principal Financial and
Accounting Officer)

Pursuant to the requirement of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Bank and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Bernard E. Schneider</u> Bernard E. Schneider	Chairman of the Board	March 28, 2008
<u>/s/ Allen L. Basso</u> Allen L. Basso	Director	March 28, 2008
<u>/s/ Carolyn D. Beaver</u> Carolyn D. Beaver	Director	March 28, 2008
<u>/s/ Burnie H. Dunlap</u> Burnie H. Dunlap	Director	March 28, 2008
<u>/s/ Steven L. Hollstein</u> Steven L. Hollstein	Director	March 28, 2008
<u>/s/ William H. McAulay</u> William H. McAulay	Director	March 28, 2008
<u>/s/ Robert H. Smith</u> Robert H. Smith	Director	March 28, 2008
<u>/s/ Donald P. Tormey</u> Donald P. Tormey	Director	March 28, 2008

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Document Description</u>	<u>Page Number</u>
3.1	Bylaws. Incorporated by reference to Exhibit 3.2 filed by the Bank on its Form SB-2 on May 7, 2003.	*
3.2	Articles of Association. Incorporated by reference to Exhibit 3.1 filed by the Bank on its Form SB-2/A on June 5, 2003.	*
3.3	Organization Certificate. Incorporated by reference to Exhibit 3.3 filed by the Bank on its Form SB-2/A on June 5, 2003.	*
4.1	Specimen Certificate of Common Stock. Incorporated by reference to Exhibit 4.1 filed by the Bank on its Form SB-2 on May 7, 2003.	*
10.1	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.4 filed by the Bank on its Form SB-2 on May 7, 2003.	*
10.2	Form of Nonqualified Stock Option Agreement. Incorporated by reference to Exhibit 10.5 filed by the Bank on its Form SB-2 on May 7, 2003.	*
10.3	Agreement with Carpenter & Company for Initial Offering. Incorporated by reference to Exhibit 10.6 filed by the Bank on its Form SB-2 on May 7, 2003.	*
10.4	2003 Stock Option Plan, as amended. Incorporated by reference to Exhibit 10.3 filed by the Bank on its Form SB-2/A on June 5, 2003.	*
10.5	Consulting Agreements. Incorporated by reference to Exhibit 10.7 filed by the Bank on its Form SB-2/A on June 5, 2003.	*
10.6	Lease (Fullerton Office). Incorporated by reference to Exhibit 10.1 filed by the Bank on its Form 10-QSB on November 12, 2003.	*
10.7	Sublease (former Irvine Loan Production Office). Incorporated by reference to Exhibit 10.2 filed by the Bank on its Form 10-QSB on November 12, 2003.	*
10.8	Code of Ethics for the Senior Financial Officers.	*

Incorporated by reference to Exhibit 10.3 filed by the Bank on its Form 10-KSB on March 29, 2004.

10.9	Lease (former Irvine Branch Office). Incorporated by reference to Exhibit 10.4 filed by the Bank on its Form 10-QSB on November 8, 2004.	*
10.10	Employment Agreements of the Chief Executive Officer, Chief Credit Officer and former Chief Financial Officer. Incorporated by reference to Exhibit 10.10 filed by the Bank on its Form 10-KSB on March 30, 2005.	*
10.11	Lease (Newport Beach headquarters office). Incorporated by reference to Exhibit 10.1 filed by the Bank on its Form 10-QSB on August 4, 2006.	*
10.12	Sublease (Irvine Branch Office).	
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*Previously filed

Commerce National Bank
Equity-Based Director Deferred Compensation Plan

Executive Summary

Participation

All Board members may elect to defer their compensation for future periods.

Tax Status of the Plan

The plan is a nonqualified deferred compensation plan. Participants who make proper deferral elections are not taxed on the deferred amounts (and earnings on deferrals) until they are paid out at termination of service. The plan is structured to comply with the requirements of Section 409A of the tax code, which imposes significant limitations on deferred compensation arrangements. In addition, to ensure favorable tax treatment, the plan is structured as an unfunded arrangement, i.e., the Bank has entered into an agreement to make a future payment to the participant. Even if the Bank sets aside shares as deferrals are made to meet its future obligations, these shares do not become the property of the participant until they receive a distribution. Prior to payment, the participant remains an unsecured creditor of the Bank.

Timing of Elections

Initial year covering compensation to be earned through December 31, 2007 -- within 30 days of Plan effective date.

2008 and subsequent years -- no later than December 31st of the preceding year.

Amount of Deferral

Up to 100% of director compensation.

Status of Elections

Elections are irrevocable once made for the year to which the election relates. The election will be treated as a continuing election unless a new election may be made for subsequent plan year.

Deferral Accounts

A bookkeeping account will be established for each participating director. Account statements will be provided after the close of each plan year.

All deferrals will be credited in the form of Commerce National Bank common stock based on the value of the stock on the crediting date. These credits are referred to as "phantom shares" in the plan. If the Bank pays a dividend, the phantom shares will also be credited with the dividend. All distributions will be made solely in the form of shares of common stock.

Distributions

Timing

Distributions are generally made when a director leaves the Board, i.e., on account of a voluntary resignation, retirement, death, disability or failure to be renominated. These events are referred to as "separation of service" events.

There are several additional "time of distribution" elections that are not tied to a separation of service. These include a (i) distribution on account of death, disability or a change in control and (ii) a distribution on a specified future date that is at least two years after the end of the year in which the deferrals were made.

Form

A director may elect to receive distributions in the form of (i) a lump sum or (ii) up to 10 annual installments. Interest is credited to the unpaid account balance if an installment election is made. The distribution election *must* be made at the time the deferral election is made. Separate elections may be made for distributions relating to events that do not constitute a separation of service.

A prior distribution election may be changed subject to the following conditions, which are generally adverse to the participant:

- (i) the new election cannot take effect for one year, and

- (ii) the new distribution date must be at least five years later than the original distribution date.

By way of illustration, assume that a director makes an initial election on September 1, 2007 to receive a distribution in installment payments over 10 years at termination of service. On December 1, 2009, the director decides to change his or her election to receive a lump sum distribution at termination. The new election would not be in effect until December 2, 2010 and the new distribution date would have to be no earlier than five years after the director's termination date.

Beneficiary Designations

Each director may provide the Bank with a beneficiary designation for their account. If no designation is made, the director's spouse is presumed to be the beneficiary or, if the director does not have a spouse, the director's estate is treated as the beneficiary.

Submission of Forms

Directors will be provided with appropriate forms to make deferral and distribution elections as well as a beneficiary designation.

COMMERCE NATIONAL BANK
EQUITY-BASED DEFERRED COMPENSATION PLAN FOR DIRECTORS

ARTICLE I
PURPOSE

The purposes of this Equity-Based Deferred Compensation Plan for Directors (the "Plan") are to (i) provide current tax planning opportunities as well as supplemental funds for retirement or death for eligible Directors of the Bank, and (ii) permit Directors to acquire an equity interest in the Bank through a plan of nonqualified deferred compensation. The Plan shall be effective September 1, 2007. The Plan is not intended to be a tax-qualified retirement plan under Code Section 401(a). The Plan is intended to comply with Code Section 409A and any regulatory or other guidance issued under such Section. Any terms of the Plan that conflict with Code Section 409A shall be null and void as of the effective date of the Plan.

ARTICLE II
DEFINITIONS

For the purposes of the Plan, the following terms may have the meanings indicated, unless the context clearly indicates otherwise:

Account means the Account as maintained by the Bank in accordance with Article IV with respect to any deferral of Compensation pursuant to the Plan. A Director's Account shall be utilized solely as a device for the determination and measurement of the amounts to be paid to the Director pursuant to the Plan. A Director's Account shall not constitute or be treated as a trust fund of any kind.

Beneficiary means the person or persons (and their heirs) designated as Beneficiary by the Director (Exhibit A hereto) to whom the deceased Director's benefits are payable. If no Beneficiary is so designated, then the Director's spouse, if living, will be deemed the Beneficiary. If the Director's spouse is not living, then the children of the Director will be deemed the Beneficiaries and will take on a *per stirpes* basis. If there are no living children, then the estate of the Director will be deemed the Beneficiary.

Board means the Board of Directors of the Bank.

Change in Control shall mean (i) a change in the ownership of the Bank, (ii) a change in the effective control of the Bank, or (iii) a change in the ownership of a substantial portion of the assets of the Bank, subject to the specific requirements of Section 409A and any regulatory or other guidance issued under such Section.

Code means the Internal Revenue Code of 1986, as amended.

Committee means the Committee appointed to administer the Plan pursuant to Article VI.

Bank means Commerce National Bank, or any successor to the business thereof, and any affiliated or subsidiary corporations designated by the Board.

Compensation means all cash compensation to which the Director becomes entitled as a member of the Board during the Deferral Period.

Deferral Agreement means the agreement filed by a Director which acknowledges assent to

the terms of the Plan and in which the Director elects to defer the receipt of Compensation during a Deferral Period. The Deferral Agreement must be filed with the Committee prior to the beginning of the Deferral Period. A new Deferral Agreement or Notice of Adjustment of Deferral may be submitted by the Director for each Deferral Commitment. If the Director fails to submit a new Deferral Agreement or Notice of Adjustment of Deferral prior to the beginning of a Deferral Period, deferrals for such period shall be made in accordance with the last submitted Deferral Agreement.

Deferral Commitment means an election to defer Compensation made by a Director pursuant to Article III and for which a separate Deferral Agreement has been submitted by the Director to the Committee. Each Deferral Commitment during the Deferral Period shall be for a 12-month period commencing January 1 and ending December 31, provided, however that the first Deferral Commitment will be for the number of full months remaining in the Plan Year after the Deferral Commitment is initially signed (unless the Deferral Commitment is signed in December of the year before initial participation) and the final Deferral Commitment will be for the lesser of (i) 12 months or (ii) the number of full months that the Director is in the service of the Bank in the year of such Director's termination of service. Notwithstanding anything herein to the contrary, no Deferral Commitments will continue following termination of service.

Deferral Period means the period of months over which a Director has elected to defer a portion of his Compensation.

Director means a director who has been approved by the Bank to participate in the Plan and who has elected to become a party to the Plan by execution of a Deferral Agreement in a form provided by the Bank.

Disability

A Director shall be considered "disabled" if the Director:

(a) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death, or last for a continuous period of not less than 12 months;

(b) by reason of any medically determinable physical or mental impairment which can be expected to result in death, or last for a continuous period of not less than 12 months, is receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Director's Bank; or

(c) is determined to be totally disabled by the Social Security Administration.

Notice of Adjustment of Deferral means the notice which the Director may submit for Deferral Periods following the initial Deferral Period. The Notice of Adjustment of Deferral, attached as Exhibit C hereto, shall set forth the Director's elections with respect to deferrals for subsequent Deferral Periods.

Payout Period means the period over which certain benefits payable hereunder shall be distributed as designated in the Director's Deferral Agreement.

Phantom Shares means the measurement of a Director's Account hereunder denominated in hypothetical shares of Bank common stock. On any Valuation Date, the Phantom Shares will have a value equal to the fair market value of Bank common stock on such date.

Plan Year means the period from January 1 to December 31.

Separation from Service means the Director's death, retirement or other termination of employment or service with the Bank. No Separation from Service shall be deemed to occur due to military leave, sick leave or other bona fide leave of absence if the period of such leave does not exceed six months or, if longer, so long as the Director's right to reemployment is provided by law or contract. If the leave exceeds six months and the Director's right to continued service is not provided by law or by contract, then the Director shall have a Separation from Service on the first date immediately following such six-month period. For all purposes hereunder, Separation from Service shall have the meaning required by Code Section 409A.

Trustee means the Trustee, if any, of any grantor trust established by the Bank to accumulate assets for the purpose of funding the benefits promised under the Plan.

Unforeseeable Emergency means a severe financial hardship to the Director resulting from (i) an illness or accident of the Director, the Director's spouse, or the Director's dependent (as defined in Code Section 152(a)); (ii) loss of the Director's property due to casualty; or (iii) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Director's control. The term "Unforeseeable Emergency" shall be construed consistent with Code Section 409A and Proposed or Final Treasury Regulations and other guidance issued thereunder.

Valuation Date means the last day of each Plan Year and such other dates as determined from time to time by the Committee.

ARTICLE III PARTICIPATION AND DEFERRAL COMMITMENTS

3.1 Eligibility and Participation.

(a) Eligibility. Eligibility to participate in the Plan shall be limited to Directors.

(b) Participation. A Director may elect to participate in the Plan with respect to any Deferral Period by submitting, as to the initial Deferral Period, a Deferral Agreement or, as to subsequent Deferral Periods, a Notice of Adjustment of Deferral. Said Deferral Agreement or Notice of Adjustment of Deferral shall be submitted to the Committee by December 15 of the calendar year immediately preceding the Deferral Period. If a previously eligible Director fails to submit a Notice of Adjustment of Deferral for a Deferral Period, the Committee shall treat the previously submitted Deferral Agreement or Notice of Adjustment of Deferral as still in effect. The initial Deferral Agreement must be submitted to the Committee no later than thirty (30) days after the Director first becomes eligible to participate, and such Deferral Agreement shall be effective only with regard to Compensation earned or payable following the submission of the Deferral Agreement to the Committee.

3.2 Form of Deferral. Except as provided in Section 3.1(b) above, a Director may elect in the Deferral Agreement to defer up to 100% of his Compensation for the Deferral Period following the submission of the Director's Deferral Agreement or Notice of Adjustment of Deferral.

3.3 Irrevocability of Deferral Commitment. A Deferral Commitment made with respect to a Deferral Period shall be irrevocable for the entire Plan Year, except in the event of a distribution due to an Unforeseeable Emergency occurring during the Deferral Period.

ARTICLE IV
DEFERRED COMPENSATION ACCOUNTS; INVESTMENT IN BANK STOCK

4.1 **Accounts.** For recordkeeping purposes only, an Account shall be maintained for each Director. Separate subaccounts shall be maintained to the extent necessary to properly reflect the Director's separate year Deferral Commitments.

4.2 **Elective Deferred Compensation: Investment in Bank Stock.** The amount of Compensation that a Director elects to defer shall be withheld from each payment of Compensation as the non-deferred portion of the Compensation becomes or would have become payable. Compensation deferred by Directors will immediately be credited towards the acquisition of Phantom Shares for the Director's Account. Phantom Shares will be deemed to be acquired at the prevailing market rate of the Bank common stock in the open market. Each period during which Phantom Shares are credited to the Directors Accounts, Phantom Shares will be credited to each Director's Account in the form of a bookkeeping entry based on the Director's proportionate share of the total amount of deferred Compensation applied towards the acquisition of such Phantom Shares. A Director's Account will be maintained in Phantom Shares for the duration of such Director's participation in the Plan. To the extent that dividends are issued on the Bank common stock, dividends will be credited to the Phantom shares in the same proportion as the actual dividends are credited on the Bank common stock. Cash dividends credited on the Phantom Shares, will be deemed to be applied immediately to the purchase of additional Phantom Shares at the prevailing market rates, which Phantom Shares will be credited to Directors' Accounts proportionately based on cash dividends applied from such Director's Account.

4.3 **Determination of Accounts.** During a Director's period of service, each Director's Account as of each Valuation Date will consist of the balance of Phantom Shares held in the Director's Account as of the immediately preceding Valuation Date, increased by Compensation deferred pursuant to a Deferral Commitment and dividends, if any, each of which have been denominated in Phantom Shares and credited to the Director's Account, and decreased by distributions made since the prior Valuation Date.

4.4 **Vesting of Accounts.** A Director shall be one hundred percent (100%) vested at all times in the Compensation deferred under the Plan and earnings thereon.

4.5 **Statement of Accounts.** The Committee shall provide to each Director, within sixty (60) days following the end of the Plan Year, a statement setting forth the balance to the credit of the Account maintained for the Director as of the immediately preceding Valuation Date.

ARTICLE V
PLAN BENEFITS

5.1 **Benefit Upon Separation from Service.** Upon a Director's Separation from Service for reasons other than death or Disability, the Director shall be entitled to a distribution of his Account payable in the manner set forth in the Director's Deferral Agreement. Notwithstanding the foregoing, in the event a Director is a Specified Employee and the following is required by Code Section 409A, no distribution shall be made to such Director prior to the first day of the seventh month following such Separation from Service.

5.2 **Benefit Payment Prior to Separation from Service.** A Director may elect in his Deferral Agreement to have payments from his Account commence prior to Separation from Service at a

specified date set forth in the Deferral Agreement. If the Director elects to have benefits paid at a specified date or dates, such benefits shall be paid in a lump sum or over a period of years not to exceed ten (10) years, as designated in the Director's Deferral Agreement.

5.3 Death Benefit. Upon the death of a Director, the Bank shall pay to the Director's Beneficiary an amount determined as follows:

(a) If the Director dies after termination of service with the Bank, and after commencement of distributions, the remaining unpaid balance of the Director's Account shall be paid in the same form that payments were being made prior to the Director's death. If the Director dies after termination of service but before any distributions begin, his Beneficiary shall receive a lump sum payment of the Director's vested Account balance measured as of the most recent Valuation Date. Such payment to the Beneficiary shall completely discharge the Bank's obligations under the Plan.

(b) If the Director dies prior to termination of service with the Bank, his Account shall be paid over the Payout Period in the manner selected by the Director in his Deferral Agreement. Notwithstanding the foregoing, a Director may elect an alternative distribution form in the event of such Director's death while in the service of the Bank. Such election may be made in the Director's timely filed Deferral Agreement or in a properly completed modification of Deferral Agreement that complies with the requirements of Section 5.9 hereof.

5.4 Disability Benefit. (a) In the event of the Director's Disability prior to Separation from Service, his Account shall be paid in accordance with the Director's Deferral Agreement regarding distributions on account of Separation from Service or pursuant to the fixed distribution schedule previously elected. Notwithstanding the foregoing, a Director may elect an alternative distribution form in the event of such Director's Disability while in the service of the Bank. Such election may be made in the Director's timely filed Deferral Agreement or in a properly completed modification of Deferral Agreement that complies with the requirements of Section 5.9 hereof.

5.5 Distribution upon a Change in Control. In the event of a Change in Control of the Bank, a Director's Account may be paid to the Director, irrespective of whether the Director incurs a Separation from Service, if the Director has elected a distribution upon a Change in Control in the Director's Deferral Agreement.

5.6 Distribution in Bank Common Stock. Notwithstanding any provision in this Plan to the contrary, for purposes of making any distributions under this Article V, including distributions under Section 5.7 hereof, a Director's Account will be settled only by delivery of shares of Bank common stock to the Director on the distribution date. No cash or other assets will be distributed to a Director or his Beneficiary under the Plan.

5.7 Hardship Distributions. Upon a finding that a Director has suffered an Unforeseeable Emergency, the Committee may make distributions from the Director's Account prior to the time specified for payment of benefits under the Plan. The amount of such distribution shall be limited to the amount necessary to satisfy the emergency, plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution. The amounts necessary to satisfy the emergency will be determined after taking into account the extent to which the hardship is, or can be, relieved through reimbursement or compensation by insurance or otherwise, or by liquidation of the Director's assets, to the extent that the asset liquidation would not itself cause a severe financial hardship. In the event of a hardship distribution, a Director's Deferral Commitment for the Plan Year shall cease and no further deferrals shall be permitted or required of the Director for such Plan Year.

5.8 Commencement of Payments; Automatic Distributions. Except as otherwise may be required pursuant to Code Section 409A, payments under the Plan shall commence within thirty (30) days of the event which triggers distribution (or if later, within thirty (30) days of when the Bank becomes aware or should reasonably have become aware of the event that triggers distribution). Notwithstanding anything herein to the contrary, if the Director's Account (when added together with all of his benefits under all nonqualified deferred compensation plans maintained by the Bank) is \$10,000 or less at the time of the distribution event, payment shall be made in a single distribution of Bank common stock attributable to such Director's Account, even if the Director's Deferral Agreement specifies a different form of payment, and such payment shall be made before the later of (i) December 31 of the year in which the Director terminates service with the Bank or (ii) the 15th day of the third month following the Director's termination of service with the Bank.

5.9 Modification of Deferral Election. In the event a Director desires to modify the time or form (e.g., from installments to lump sum or vice versa) of distribution of his Account (or any sub-account), the Director may do so by filing a subsequent Deferral Agreement, provided that:

(a) the subsequent election shall not be effective for at least 12 months after the date on which the subsequent election is made;

(b) except for payments upon the Director's death, Disability or upon an Unforeseeable Emergency, the first of a stream of payments for which the subsequent election is made shall be deferred for a period of not less than five (5) years from the date on which such payment would otherwise have been made;

(c) for payments scheduled to be made on a specified date or to commence under a fixed schedule, the subsequent election must be made at least 12 months before the date of the first scheduled payment.

ARTICLE VI ADMINISTRATION

6.1 Committee: Duties. The Plan shall be administered by the Committee, which shall be appointed by the Board. The Committee shall have the authority to make, amend, interpret, and enforce all appropriate rules and regulations for the administration of the Plan and decide or resolve any and all questions, including interpretations of the Plan, as may arise in connection with the Plan. A majority vote of the Committee members shall control any decision.

6.2 Agents. The Committee may, from time to time, employ other agents and delegate to them such administrative duties as it sees fit, and may from time to time consult with counsel who may be counsel to the Bank.

6.3 Binding Effect of Decisions. The decision or action of the Committee in respect to any question arising out of or in connection with the administration, interpretation and application of the Plan and the rules of regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Plan.

6.4 Indemnity of Committee. The Bank shall indemnify and hold harmless the members of the Committee against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to the Plan, except in the case of gross negligence or willful misconduct.

ARTICLE VII CLAIMS PROCEDURE

7.1 **Claim.** Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee, which shall respond in writing within thirty (30) days.

7.2 **Denial of Claim.** If the claim or request is denied, the written notice of denial shall state:

(a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.

(b) A description of any additional material or information required and an explanation of why it is necessary.

(c) An explanation of the Plan's claim review procedure.

7.3 **Review of Claim.** Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the Committee. The claim or request shall be reviewed by the Committee who may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing.

7.4 **Final Decision.** The decision on review shall normally be made within sixty (60) days. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions.

7.5 **Arbitration.** If a claimant continues to dispute the benefit denial based upon completed performance of the Plan and the Deferral Agreement or the meaning and effect of the terms and conditions thereof, then the claimant may submit the dispute to mediation, administered by the American Arbitration Association ("AAA") (or a mediator selected by the parties) in accordance with the AAA's Commercial Mediation Rules. If mediation is not successful in resolving the dispute, it shall be settled by arbitration administered by the AAA under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

ARTICLE VIII AMENDMENT AND TERMINATION OF PLAN

8.1 **Amendment.** The Board may at any time amend the Plan in whole or in part, provided, however, that no amendment shall be effective to decrease or restrict the amount accrued to the date of amendment in any Account maintained under the Plan.

8.2 **Bank's Right to Terminate.** The Board may at any time partially or completely terminate the Plan if, in its judgment, the tax, accounting, or other effects of the continuance of the Plan, or potential payments thereunder, would not be in the best interests of the Bank.

(a) **Partial Termination.** The Board may partially terminate the Plan by instructing the Committee not to accept any additional Deferral Commitments. In the event of such a partial termination, the Plan shall continue to operate and be effective with regard to Deferral Commitments entered into prior

to the effective date of such partial termination.

(b) Complete Termination. The Board may completely terminate the Plan by instructing the Committee not to accept any additional Deferral Commitment, and by terminating all ongoing Deferral Commitments. Subject to the requirements of Code Section 409A, in the event of complete termination, the Plan shall cease to operate and the Bank shall pay out to each Director his Account as if that Director had terminated service as of the effective date of the complete termination. Such complete termination of the Plan shall occur only under the following circumstances and conditions.

(1) The Board may terminate the Plan within 12 months of a corporate dissolution taxed under Code section 331, or with approval of a bankruptcy court pursuant to 11 U.S.C. §503(b)(1)(A), provided that the amounts deferred under the Plan are included in each Director's gross income in the latest of (i) the calendar year in which the Plan terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the payment is administratively practicable.

(2) The Board may terminate the Plan within the 30 days preceding a Change in Control (but not following a Change in Control), provided that the Plan shall only be treated as terminated if all substantially similar arrangements sponsored by the Bank are terminated so that the Directors and all participants under substantially similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within 12 months of the date of the termination of the arrangements.

(3) The Board may terminate the Plan provided that (i) all arrangements sponsored by the Bank that would be aggregated with this Plan under Proposed Treasury Regulations section 1.409A-1(c) if any Director covered by this Plan was also covered by any of those other arrangements are also terminated; (ii) no payments other than payments that would be payable under the terms of the arrangement if the termination had not occurred are made within 12 months of the termination of the arrangement; (iii) all payments are made within 24 months of the termination of the arrangements; and (iv) the Bank does not adopt a new arrangement that would be aggregated with any terminated arrangement under Proposed Treasury Regulations section 1.409A-1(c) if the same Director participated in both arrangements, at any time within five years following the date of termination of the arrangement.

(4) The Board may terminate the Plan pursuant to such other terms and conditions as the Internal Revenue Service may permit from time to time.

ARTICLE IX MISCELLANEOUS

9.1 Unfunded Plan. The Plan is intended to be an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of management or highly compensated employees. The Plan is not intended to create an investment contract, but to provide tax planning opportunities and retirement benefits to eligible individuals who have elected to participate in the Plan. Eligible individuals are select members of the Board who, by virtue of their position with the Bank, are uniquely informed as to the Bank's operations and have the ability to materially affect the Bank's profitability and operations.

9.2 Unsecured General Creditor. Directors and their Beneficiaries, heirs, successors and assigns shall have no legal or equitable rights, interest or claims in any property or assets of the Bank, nor shall they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity

contracts or the proceeds therefrom owned or which may be acquired by the Bank. Such policies or other assets of the Bank shall not be held under any trust for the benefit of Directors, their Beneficiaries, heirs, successors or assigns, or held in any way as collateral security for the fulfilling of the obligations of the Bank under the Plan. Any and all of the Bank's assets and policies shall be, and remain, the general, unpledged, unrestricted assets of the Bank. The Bank's obligation under the Plan shall be that of an unfunded and unsecured promise of the Bank to pay money in the future.

9.3 Trust Fund. The Bank shall be responsible for the payment of all benefits provided under the Plan. Notwithstanding the above, the Bank may establish one or more rabbi trusts, with such trustees as the Board may approve, for the purpose of providing for the payment of such benefits. Any rabbi trust that may be established hereunder will conform to the requirements of Revenue Procedure 92-64 and EITF 97-14, "Plan A" (*i.e.* the plan does not permit diversification and must be settled by the delivery of a fixed number of shares of employer stock). Such trust or trusts may be irrevocable, but the assets thereof shall be subject to the claims of the Bank's creditors. To the extent any benefits provided under the Plan are actually paid from any such trust, the Bank shall have no further obligation with respect thereto, but to the extent not so paid, such benefits shall remain the obligation of, and shall be paid by, the Bank. For the duration of a Director's participation in the Plan, any rabbi trust will hold only shares of Bank common stock that are purchased in connection with a Director's Deferral Commitment or that are acquired by reinvesting dividends paid on Bank common stock. Except for dividends issued on shares of Bank common stock prior to their reinvestment, no cash or other assets will be permitted to be held in the rabbi trust.

9.4 Payment to Director, Legal Representative or Beneficiary. Any payment to any Director or the legal representative, Beneficiary, or to any guardian or committee appointed for such Director or Beneficiary in accordance with the provisions hereof, shall, to the extent thereof, be in full satisfaction of all claims hereunder against the Bank, which may require the Director, legal representative, Beneficiary, guardian or committee, as a condition precedent to such payment, to execute a receipt and release thereof in such form as shall be determined by the Bank.

9.5 Nonassignability. Neither a Director nor any other person shall have any right to commute, sell, assign, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be unassignable and nontransferable. No part of the amounts payable shall, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Director or any other person, nor be transferable by operation of law in the event of a Director's or any other person's bankruptcy or insolvency.

9.6 Terms. Whenever any words are used herein in the masculine, they shall be construed as though they were used in the feminine in all cases where they would so apply; and whenever any words are used herein in the singular or in the plural, they shall be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

9.7 Captions. The captions of the articles, sections and paragraphs of the Plan are for convenience only and shall not control or affect the meaning or construction of any of its provisions.

9.8 Governing Law. The provisions of the Plan shall be construed and interpreted according to the laws of the State of California.

9.9 Validity. In case any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provision had never been inserted herein.

9.10 Notice. Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to any member of the Committee, the Plan Administrator, or the Secretary of the Bank. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

9.11 Successors. The provisions of the Plan shall bind and inure to the benefit of the Bank and its successors and assigns. The term "successors" as used herein shall include any corporate or other business entity which shall, whether by merger, consolidation, purchase or otherwise acquire all or substantially all of the business and assets of the Bank, and successors of any such corporation or other business entity.

9.12 Compliance with Section 409A of the Code. The Plan is intended to be a non-qualified deferred compensation plan described in Section 409A of the Code. The Plan shall be operated, administered and construed to give effect to such intent. To the extent that a provision of the Plan fails to comply with Code Section 409A and a construction consistent with Code Section 409A is not possible, such provision shall be void ab initio. In addition, the Plan shall be subject to amendment, with or without advance notice to interested parties, and on a prospective or retroactive basis, including but not limited to amendment in a manner that adversely affects the rights of Directors and other interested parties, to the extent necessary to effect such compliance.

IN WITNESS WHEREOF, and pursuant to resolution of the Board of Directors of the Bank, such corporation has caused this instrument to be executed by its duly authorized officers effective as of the day and year first above written.

ATTEST:

Commerce National Bank

By: 

By: 

**Amendment No. 1 to
COMMERCE NATIONAL BANK
Equity-Based Director Deferred Compensation Plan**

This Amendment No. 1 to COMMERCE NATIONAL BANK Equity-Based Director Compensation Plan (this "Amendment") is made as of March 28, 2008, by the Board of Directors of Commerce National Bank (the "Bank").

WHEREAS, the Equity-Based Director Compensation Plan (the "Plan") currently states on page 2, in the last sentence under "*Deferral Accounts*," that "All distributions will be made solely in the form of shares of common stock," and Section 5.6 of the Plan currently states that "... a Director's Account will be settled only by delivery of shares of Bank common stock to the Director on the distribution date," and that "No cash or other assets will be distributed to a Director or his Beneficiary under the Plan"; and

WHEREAS, these provisions do not reflect the intention of the Board of Directors in adopting the Plan, since it was the intention of the Board that all distributions under the Plan were to be made in cash, and not in the form of shares of common stock; and

WHEREAS, the Board of Directors of the Bank desires to correct the Plan with this Amendment, effective as of this date and made applicable to all participants immediately.

NOW, THEREFORE, the Board of Directors hereby amends the Plan as follows:

1. Deferral Accounts

The last sentence of the section captioned "Deferral Accounts" on page 2 of the Plan is hereby amended to read as follows: "All distributions will be made solely in cash."

2. Section 5.6 of the Plan

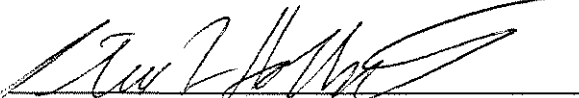
Section 5.6 of the Plan is hereby amended to read as follows:

"5.6 Distributions Shall be Paid in Cash Only. Notwithstanding any provision in this Plan to the contrary, for purposes of making any distributions under this Article V, including distributions under Section 5.7 hereof, a Director's account will be settled only by payment of cash to the Director on the distribution date. No common stock or other assets will be distributed to a Director or his Beneficiary under the Plan."

3. Ratification

In all other respects, the Board of Directors ratifies and confirms the Plan.

By Action of the Board of Directors:



Steven L. Hollstein
Corporate Secretary



Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We hereby consent to the inclusion of our Report of Independent Registered Public Accounting Firm dated February 27, 2008 regarding the statements of financial condition of Commerce National Bank as of December 31, 2007 and 2006, and the related statements of operations, changes in shareholders' equity, and cash flows for the three years ended December 31, 2007, 2006, and 2005, in the Annual Report on Form 10-K filed with the Office of the Comptroller of the Currency.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 28, 2008

CERTIFICATION
(Section 302 of Sarbanes-Oxley)

I, Mark E. Simmons, President and Chief Executive Officer of Commerce National Bank, certify that:

1. I have reviewed this annual report on Form 10-K of Commerce National Bank;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision; to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
6. This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules

of the Securities and Exchange Commission that permit the Bank to provide only Management's report in this Annual Report.

Date: March 28, 2008

/s/ Mark E. Simmons

Mark E. Simmons

President and Chief Executive Officer

Exhibit 31.2
CERTIFICATION
(Section 302 of Sarbanes-Oxley)

I, Larry V. Sorensen, Executive Vice President and Chief Financial Officer of Commerce National Bank, certify that:

1. I have reviewed this annual report on Form 10-K of Commerce National Bank;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision; to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in the report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this annual report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
6. This annual report does not include an attestation report of the Bank's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Bank's registered public accounting firm pursuant to temporary rules

of the Securities and Exchange Commission that permit the Bank to provide only Management's report in this Annual Report.

Date: March 28, 2008

/s/ Larry V. Sorensen

Larry V. Sorensen

Executive Vice President and Chief Executive Officer

EXHIBIT 32.1

SECTION 906 CEO AND CFO CERTIFICATION

The undersigned, as the chief executive officer and chief financial officer of Commerce National Bank, certify that to the best of our knowledge and belief the Form 10-K for the year ended December 31, 2007, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Commerce National Bank at the dates and for the periods indicated. The foregoing certification is made solely for purposes of 18 USC, Section 1350 of the United States Code and is subject to the knowledge and willfulness qualifications contained in Title 18, Chapter 63, Section 1350(c).

Date: March 28, 2008

/s/ Mark E. Simmons

Mark E. Simmons
President and Chief Executive Officer

Date: March 28, 2008

/s/ Larry V. Sorensen

Larry V. Sorensen
Executive Vice President
Chief Financial Officer