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Seacoast Commerce Bank®

ANNUAL REPORT

Seacoast Commerce Bank

Directors and Bank Executives

Board of Directors:

Bruce A. Nunes	*Chairman of the Board*
Richard M. Sanborn	*President and CEO*
Allan W. Arendsee	
Ronald A. Bedell	
Robert DePhilippis	
Mark I. Greene	
Richard S. Levenson	
William S. Schairer	

Executive Management:

Richard M. Sanborn	*President and Chief Executive Officer*
Mark A. Nugent	*Executive Vice President & Chief Credit Officer*
Ronnie R. Zivanic	*Executive Vice President & Chief Financial Officer*
Nicholas W. Zillges	*Senior Vice President & Director of Operations*

Seacoast Commerce Bank®

To our valued Shareholders:

2007 marked a year of significant change and challenge for our Bank. We were affected by tremendous turmoil in the financial and real estate markets, and we had to make some very difficult decisions as it related to loans, operating structure and strategic direction. Those decisions were made with an eye on improving the Bank's performance going forward. While it is never easy to make those difficult decisions, it was imperative to do what was necessary to set the Bank back on the path to solid performance.

A new President & Chief Executive Officer was appointed in October of 2007, as well as the appointment of three new Directors to the Board. In addition, we retained a new Chief Financial Officer and a new Director of Operations in the fourth quarter, and have subsequently added to our lending, business development, compliance, and risk management areas with highly qualified and skilled employees.

At the end of the day, we too, are major shareholders, and what's important to you is important to us; straight talk, and obtaining superior returns on your investment. We will be prudent stewards over your investment in the Bank, and we promise to share the news, good or bad.

The strategic focus of our bank is now centered on four core principles; operational stability; risk management; consistent earnings improvement; and reasonable growth. Nothing fancy, nothing exotic, just common sense.

We have made, and will continue to make investments in our products and services in order to compete in our targeted marketplace. We have changed our lending focus away from "transactional" real estate lending into more diverse commercial and industrial lending sectors. We are focused on building "banking relationships" as we believe if we're good enough to borrow from, we're good enough to bank with. We have implemented an expense reduction initiative.

There is much more to share about what's going on with our Bank, and we hope you can attend the Annual Shareholder's meeting where we will be discussing our plans in more detail. In the event you cannot attend, please feel free to contact us so we can answer your questions.

As always, we thank you for your continued trust and investment in Seacoast Commerce Bank.

Bruce A. Nunes	Richard M. Sanborn
Chairman of the Board	President & Chief Executive Officer

Certain statements in this letter, including statements regarding the anticipated development and expansion of the Bank's business, and the intent, belief or current expectations of the Bank, its Directors or Officers are "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Because such statements are subject to risk and uncertainties, actual results may differ materially from those expressed or implied by such forward looking statements. These risks and uncertainties include, but are not limited to, risks related to the local and national economy, the Bank's performance and implementation of its business plan, loan performance, interest rates and regulatory matter.

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SEACOAST COMMERCE BANK

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2007 AND 2006

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Seacoast Commerce Bank

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

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

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

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
March 31, 2008

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SEACOAST COMMERCE BANK

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

ASSETS

	2007	2006
Cash and Due from Banks	$ 1,507,156	$ 2,136,719
Federal Funds Sold	735,000	8,275,000
TOTAL CASH AND CASH EQUIVALENTS	2,242,156	10,411,719
Investment Securities Available for Sale	5,780,242	2,774,970
Loans:		
Real Estate - Construction	14,683,786	16,750,705
Real Estate - Other	36,108,170	19,620,792
Commercial	6,568,679	9,148,118
Consumer	696,940	1,501,984
TOTAL LOANS	58,057,575	47,021,599
Net Deferred Loan (Fees) Costs	(99,613)	7,174
Allowance for Loan Losses	(1,282,373)	(570,034)
NET LOANS	56,675,589	46,458,739
Premises and Equipment	565,470	175,026
Federal Home Loan Bank ("FHLB") Stock - at Cost	237,500	186,300
Other Real Estate Owned	829,156	-
Accrued Interest and Other Assets	811,404	708,029
	$ 67,141,517	$ 60,714,783

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

SEACOAST COMMERCE BANK

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

LIABILITIES AND SHAREHOLDERS' EQUITY

	2007	2006
Deposits:		
Noninterest-Bearing Demand	$ 8,108,213	$ 8,477,936
Savings, NOW and Money Market Accounts	8,270,039	6,884,068
Time Deposits Under $100,000	18,336,476	18,663,732
Time Deposits $100,000 and Over	17,716,999	13,907,912
TOTAL DEPOSITS	52,431,727	47,933,648
Other Borrowings	5,000,000	-
Accrued Interest and Other Liabilities	557,347	314,220
TOTAL LIABILITIES	57,989,074	48,247,868
Commitments and Contingencies - Notes D and K	-	-
Shareholders' Equity:		
Preferred Stock - 10,000,000 Shares Authorized, No Par Value - None Outstanding	-	-
Common Stock - 10,000,000 Shares Authorized, No Par Value - Shares Issued and Outstanding, 1,496,912 in 2007 and 2006	15,127,087	15,127,087
Additional Paid-in Capital	252,003	90,358
Accumulated Deficit	(6,211,590)	(2,663,452)
Accumulated Other Comprehensive Income - Unrecognized Loss on Available-for-Sale Securities	(15,057)	(87,078)
TOTAL SHAREHOLDERS' EQUITY	9,152,443	12,466,915
	$ 67,141,517	$ 60,714,783

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

SEACOAST COMMERCE BANK

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

	2007	2006
INTEREST INCOME		
Interest and Fees on Loans	$ 4,399,119	$ 4,410,904
Interest on Investment Securities	236,258	117,570
Other Interest Income	363,856	294,792
TOTAL INTEREST INCOME	4,999,233	4,823,266
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	245,156	179,229
Interest on Time Deposits	1,812,378	1,629,697
Interest on Borrowings	50,365	81
TOTAL INTEREST EXPENSE	2,107,899	1,809,007
NET INTEREST INCOME	2,891,334	3,014,259
Provision for Loan Losses	2,498,645	361,908
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	392,689	2,652,351
NONINTEREST INCOME		
Service Charges and Fees	146,862	124,551
Gain on Sale of Loans	214,336	135,144
Servicing Income on Loans Sold	18,532	18,012
	379,730	277,707
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,271,926	1,724,611
Occupancy and Equipment Expenses	773,281	385,321
Other Expenses	1,274,550	706,794
	4,319,757	2,816,726
INCOME (LOSS) BEFORE INCOME TAXES	(3,547,338)	113,332
Income Taxes	800	800
NET INCOME (LOSS)	$(3,548,138)	$ 112,532
NET INCOME (LOSS) PER SHARE - BASIC	$(2.37)	$ 0.11
NET INCOME (LOSS) PER SHARE - DILUTED	$(2.37)	$ 0.11

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

SEACOAST COMMERCE BANK

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

		Common Stock				Accumulated Other	
	Comprehensive Income	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Comprehensive Income (Loss)	Total
Balance at January 1, 2006		935,000	$ 9,350,000	$ -	$(2,775,984)	$(91,622)	$ 6,482,394
Proceeds from Sale of Stock, net of Costs of $403,091		561,912	5,777,087				5,777,087
Stock-based Compensation				90,358			90,358
Comprehensive Income:							
Net Income	$ 112,532				112,532		112,532
Unrealized Gain on Securities Available for Sale	4,544					4,544	4,544
Total Comprehensive Income	$ 117,076						
Balance at December 31, 2006		1,496,912	15,127,087	90,358	(2,663,452)	(87,078)	12,466,915
Stock-based Compensation				161,645			161,645
Comprehensive Income:							
Net Loss	$(3,548,138)				(3,548,138)		(3,548,138)
Unrealized Gain on Securities Available for Sale	72,021					72,021	72,021
Total Comprehensive Income	$(3,476,117)						
Balance at December 31, 2007		1,496,912	$ 15,127,087	$ 252,003	$ (6,211,590)	$ (15,057)	$ 9,152,443

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

SEACOAST COMMERCE BANK

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

	2007	2006
OPERATING ACTIVITIES		
Net Income (Loss)	$(3,548,138)	$ 112,532
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	176,588	156,830
Stock-based Compensation	161,645	90,358
Gain on Sale of Loans	(214,336)	(135,144)
Provision for Loan Losses	2,498,645	361,908
Other Items	72,040	322,575
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(853,556)	909,059
INVESTING ACTIVITIES		
Purchase of FHLB Stock	(41,400)	(63,800)
Purchase of Available-for-Sale Securities	(4,195,542)	(278,465)
Proceeds from Maturities of Available-for-Sale Securities	500,000	1,000,000
Principal Paydowns of Available-for-Sale Securities	770,621	330,883
Net Increase in Loans	(17,200,564)	(7,541,589)
Proceeds from Loans Sold	3,869,848	2,065,045
Purchases of Premises and Equipment	(517,049)	(83,159)
NET CASH USED BY INVESTING ACTIVITIES	(16,814,086)	(4,571,085)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	1,006,248	525,386
Net Increase in Time Deposits	3,491,831	1,824,180
Net Change in Other Borrowings	5,000,000	-
Proceeds from Sale of Common Stock, Net	-	5,777,087
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,498,079	8,126,653
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,169,563)	4,464,627
Cash and Cash Equivalents at Beginning of Period	10,411,719	5,947,092
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,242,156	$ 10,411,719
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 2,093,313	$ 1,794,525
Taxes Paid	$ 800	$ 800
Transfer of Loans to Other Real Estate Owned	$ 829,156	$ -

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been organized as a single operating segment and operates one full-service office in Chula Vista, California. During 2007, the Bank formed SCB Properties LLC, a Delaware limited liability company, to take ownership in and manage other real estate owned on behalf of the Bank. The operations of SCB Properties LLC have been consolidated with the operations of the Bank and material intercompany transactions have been eliminated.

The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals. The Bank operates under a state charter and provides full banking services. As a state bank, the Bank is subject to regulation by the California Department of Financial Institutions (“DFI”) and the Federal Deposit Insurance Corporation (“FDIC”). The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. The following are descriptions of the more significant of those policies.

Use of Estimates in the Preparation of Financial Statements

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

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral. The Bank’s loans are generally secured by specific items of collateral including real property, consumer assets and business assets.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the changes that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 all reserve requirements as of December 31, 2007.

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

Investment Securities

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

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

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 reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

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

To calculate the gain (loss) on sale of loans, the Bank's investment in the loan is allocated among the retained portion of the loan, the servicing retained, and the sold portion of the loan, based on the relative fair market value of each portion. The gain (loss) on the sold portion of the loan is recognized at the time of sale based on the difference between the sale proceeds and the allocated investment in the sold loan. As a result of the relative fair value allocation, the carrying value of the retained portion is discounted, with the discount accreted to interest income over the life of the loan. That portion of the excess servicing fees that represent contractually specified servicing fees (contractual servicing) are reflected as a servicing asset which is recorded at its estimated fair market value and amortized over an estimated life using a method approximating the level yield method. In the event future prepayments exceed Management's estimates and future expected cash flows are inadequate to cover the unamortized servicing asset, additional amortization would be recognized. The portion of excess servicing fees in excess of the contractual servicing fees is reflected as interest-only (I/O) strips receivable, which are classified as interest-only strips receivable available for sale and are carried at fair value.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses

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

Premises and Equipment

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

Other Real Estate Owned

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

Advertising Costs

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

Income Taxes

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes - Continued

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

Federal Home Loan Bank ("FHLB") Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Financial Instruments

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

Disclosure about Fair Value of Financial Instruments

Other than the Bank's investment securities, no active market exists for the Bank's financial instruments. The fair market value of investment securities are discussed in Note B. Management believes the fair market value of its other financial instruments, primarily loans and deposits, approximates the amounts reported in the financial statements and notes.

Comprehensive Income

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if options or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. In 2007, the Bank incurred a net loss and common stock equivalents were antidilutive.

Stock-Based Compensation

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

Adoption of New Accounting Pronouncements

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("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 inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Bank is currently assessing the impact of this guidance on its financial statements.

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

Reclassifications

Certain reclassifications have been made in the 2006 financial statements to conform to the presentation used in 2007. These reclassifications had no impact of the Bank's previously reported financial statements.

SEACOAST COMMERCE BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of available-for-sale 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.S. Government and Agency Securities	$ 5,795,299	$ 27,603	$(42,660)	$ 5,780,242
December 31, 2006:				
U.S. Government and Agency Securities	$ 2,862,048	$ 1,478	$(88,556)	$ 2,774,970

Investment securities carried at $5,777,546 at December 31, 2007, were pledged to secure the borrowing arrangement with the Federal Home Loan Bank described in Note H.

The amortized cost and estimated fair value of all investment securities as of December 31, 2007, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay the obligations with or without call or prepayment penalties.

	Available-for-Sale Securities	
	Amortized Cost	Fair Value
Due in One Year or Less	$ 2,015,184	$ 2,006,229
Due from One Year to Five Years	1,833,115	1,799,519
Due from Five Years to Ten Years	-	-
Due after Ten Years	1,947,000	1,974,494
	$ 5,795,299	$ 5,780,242

The Bank did not sell any of its available-for-sale securities in 2007 and 2006.

NOTE B - INVESTMENT SECURITIES - Continued

The unrealized losses in available-for-sale securities as of December 31, 2007 and 2006 with continuous losses present for less than twelve months and twelve months or more and their fair value is summarized below:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
December 31, 2007						
U.S. Government Agency Securities	$(9,065)	$1,954,708	$(33,595)	$1,799,519	$(42,660)	$3,754,227
December 31, 2006						
U.S. Government Agency Securities	$ -	$ -	$(88,556)	$2,542,517	$(88,556)	$2,542,517

As of December 31, 2007, the Bank had fifteen investment securities where estimated fair value had declined 1.1% 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 are deemed to be other than temporary.

As of December 31, 2006, the Bank had six investment securities where estimated fair value had declined 3.4% from the Bank's amortized cost. One of these investment securities matured in 2007, with no loss of principal or contractual interest.

NOTE C - LOANS

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

NOTE C - LOANS - Continued

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

	2007	2006
Balance at Beginning of Year	$ 570,034	$ 504,622
Additions to the Allowance Charged to Expense	2,498,645	361,908
Recoveries on Loans Charged Off	29,930	-
	3,098,609	866,530
Less Loans Charged Off	(1,816,236)	(296,496)
	$ 1,282,373	$ 570,034

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

	2007	2006
Recorded Investment in Impaired Loans	$ 601,000	$ 1,050,000
Related Allowance for Loan Losses	$ 90,000	$ 17,000
Average Recorded Investment in Impaired Loans	$ 1,845,000	$ 262,500
Interest Income Recognized for Cash Payments	$ -	$ -
Total Nonaccrual Loans	$ 601,000	$ 1,050,000
Total Loans Past-Due Ninety Days or More and Still Accruing	$ -	$ -

The Bank also originates loans that may be sold to institutional investors. Serviced loans are not carried on the Bank’s statement of financial condition. Gain on sale of loans amounted to approximately $215,000 and $135,000 in 2007 and 2006, respectively. At December 31, 2007 and 2006, the Bank was servicing approximately $5,006,000 and $2,442,000 in loans previously sold.

NOTE D - PREMISES AND EQUIPMENT

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

	2007	2006
Furniture, Fixtures, and Equipment	$ 232,904	$ 252,911
Computer Equipment	265,968	235,015
Leasehold Improvements	594,019	128,206
	1,092,891	616,132
Less Accumulated Depreciation and Amortization	(527,421)	(441,106)
	$ 565,470	$ 175,026

In April 2007, the Bank occupied its new bank branch and headquarters in Chula Vista under a lease which expires on January 31, 2017, and provides for two five-year options to renew at the then current market rate. The lease includes a provision for periodic rent increases. The Bank is responsible for its pro rata share of common area expenses including maintenance, taxes and insurance. The prior Chula Vista branch and headquarters location lease expired on October 31, 2007. The Bank is no longer using those facilities. In mid 2007, the Bank also entered into a new lease for a second branch in Eastlake area of Chula Vista which expires on October 31, 2014 and provides for one five-year option to renew at the then current market rate. The lease includes a provision for periodic rent increases. The Bank is responsible for its pro rata common area expenses including maintenance, taxes and insurance. The Bank has decided not to utilize the Eastlake area location as a second branch and has currently listed the location for sublease.

At December 31, 2007, the future lease rental payable under noncancellable operating lease commitments for the Bank's main office and branch office was as follows:

2008	$ 339,833
2009	364,243
2010	384,018
2011	398,859
2012	414,210
Thereafter	1,589,535
	$ 3,490,698

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rental expense was approximately $418,000 and $149,000 for the periods ended December 31, 2007 and 2006, respectively.

SEACOAST COMMERCE BANK

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE E - OTHER REAL ESTATE OWNED

Other real estate owned was comprised of the following as of December 31:

	2007
Real Estate Acquired through Settlement of Loans	$ 829,156
Less Allowance for Possible Losses	-
	$ 829,156

NOTE F - DEPOSITS

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

Due in One Year or Less	$ 31,035,068
Due from One to Three Years	2,094,088
Over Three Years	2,924,319
	$ 36,053,475

NOTE G - INCOME TAXES

Income taxes payable for the years ended December 31, 2007 and 2006 were the minimum franchise tax for the State of California due to operating losses and operating loss carryovers. The tax benefit related to the operating losses incurred in 2007 were not recognized, as realization of the benefit is dependent upon future income.

SEACOAST COMMERCE BANK

NOTES TO CONSOLIDATED 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:		
Pre-Opening Expenses	$ 28,000	$ 93,000
Operating Loss Carryforwards	2,253,000	909,000
Allowance for Loan Losses Due to Tax Limitations	282,000	157,000
Other Items	140,000	56,000
	2,703,000	1,215,000
Valuation Allowance	(2,652,000)	(1,169,000)
Deferred Tax Liabilities:		
Other Items	(51,000)	(46,000)
	(51,000)	(46,000)
Net Deferred Tax Assets	$ -	$ -

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the recognition of the deferred tax assets. The Bank has net operating loss carryforwards of approximately $5.1 million for federal income and $7.1 million for California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used, will expire in 2027. California net operating loss carryforwards, to the extent not used will expire in 2017.

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

NOTE H - BORROWING ARRANGEMENTS

The Bank may borrow up to $3,250,000 overnight on an unsecured basis from two of its correspondent banks. As of December 31, 2007 and 2006, no amounts were outstanding under these arrangements.

NOTE H - BORROWING ARRANGEMENTS - Continued

The Bank also has a line of credit with the Federal Home Loan Bank secured by certain of its investments. As of December 31, 2007, this line had total financing availability of approximately $5.3 million and was collateralized by investment securities of approximately $5.8 million. As of December 31, 2007, the Bank had the following outstanding advances from the FHLB under this line:

Amount	Interest Rate	Maturity Date
$ 1,000,000	4.41%	5/15/2008
1,000,000	4.39%	5/13/2008
3,000,000	4.66%	9/29/2008
$ 5,000,000		

NOTE I - OTHER EXPENSES

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

	2007	2006
Marketing and Business Promotion	$ 110,279	$ 59,400
Professional Fees	186,937	96,347
Data Processing	305,112	192,739
Directors Expenses and Stock-based Compensation	128,142	80,738
Office Expenses	88,370	62,757
Correspondent Bank Charges	21,854	21,881
Regulatory Assessments	63,574	24,682
Corporate Insurances	76,654	33,067
Other Expenses	293,628	135,183
	$ 1,274,550	$ 706,794

NOTE J - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank may grant 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 will be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time of comparable transactions with other persons. The balance of these loans outstanding at December 31, 2007 and 2006 was approximately $148,000 and $252,000, respectively.

Deposits from certain directors and their related interests with which they are associated, held by the Bank at December 31, 2007 and 2006, amounted to approximately $1,216,000 and $1,743,000, respectively.

NOTE K - COMMITMENTS

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

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

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

	2007	2006
Commitments to Extend Credit	$ 11,439,000	$ 13,631,000
Letters of Credit	1,356,000	18,000
	$ 12,795,000	$ 13,649,000

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

NOTE L - WARRANTS

In connection with the Bank's 2006 stock offering, the Bank issued one warrant to purchase an additional one share of common stock for each four shares purchased. These warrants may be exercised at any time from the date of issuance through September 30, 2009, subject to the right of the Board of Directors of the Bank, in its sole discretion, to extend the exercise period of the warrants. The exercise price for these warrants is $12.65 per share. As of December 31, 2007 there were 140,478 warrants outstanding.

NOTE M - STOCK OPTION PLAN

The Bank's 2002 Stock Plan was approved by its shareholders on September 25, 2003. Under the terms of the 2002 Stock Plan, 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 449,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest between four and five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation costs of $161,645 and $90,358 in 2007 and 2006, respectively.

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

	2007	2006
Expected Volatility	23.00%	16.90%
Expected Term	6.39 Years	6.25 Years
Expected Dividends	None	None
Risk Free Rate	3.81%	4.10%
Weighted-Average Grant Date Fair Value	$ 3.50	$ 2.81

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

NOTE M - STOCK OPTION PLAN - Continued

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

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	221,535	$ 10.06		
Granted	158,814	$ 9.82		
Exercised	-	$ -		
Forfeited or Expired	(59,405)	$ 9.80		
Outstanding at End of Year	320,944	$ 9.99	7.9 Years	None
Options Exercisable	141,005	$ 10.18	5.6 Years	None

No options were exercised in 2007 and 2006. As of December 31, 2007, there were $592,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 2.8 years.

NOTE N - EARNINGS PER SHARE (EPS)

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

	2007		2006	
	Income	Shares	Income	Shares
Net Income as Reported	$(3,548,138)		$ 112,532	
Shares Outstanding at Year End		1,496,912		1,496,912
Impact of Weighting Shares Purchased During the Year		-		(497,254)
Used in Basic EPS	(3,548,138)	1,496,912	112,532	999,658
Dilutive Effect of Outstanding Stock Options and Warrants		N/A		6,631
Used in Diluted EPS	$(3,548,138)	1,496,912	$ 112,532	1,006,289

NOTE O - REGULATORY MATTERS

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

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

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

			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)	$ 9,863	17.9%	$ 4,402	8.0%	$ 5,502	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 9,168	16.7%	$ 2,201	4.0%	$ 3,301	6.0%
Tier 1 Capital (to Average Assets)	$ 9,168	13.3%	$ 2,756	4.0%	$ 3,444	5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	$13,124	27.2%	$ 3,446	8.0%	$ 4,307	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$12,554	26.0%	$ 1,723	4.0%	$ 2,584	6.0%
Tier 1 Capital (to Average Assets)	$12,554	20.9%	$ 2,409	4.0%	$ 3,011	5.0%

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

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May 21, 2008
San Diego Country Club
88 L Street
Chula Vista, CA 91911

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Richard M. Sanborn
President and Chief Executive Officer
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Listing of Common Stock and Warrants
Seacoast Commerce Bank stock is traded on the NASD Over-the-Counter market under the symbol SCCB.OB

Seacoast Commerce Bank Warrants are traded on the NASD Over-the-Counter market under the symbol SCCBW.OB

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