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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Seacoast Commerce Bank

We have audited the accompanying statements of financial condition of Seacoast Commerce Bank as of December 31, 2006 and 2005 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 financial statements referred to above present fairly, in all material respects, the financial position of Seacoast Commerce Bank as of December 31, 2006 and 2005 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 5, 2007

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SEACOAST COMMERCE BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2006 and 2005

ASSETS

	2006	2005
Cash and Due from Banks	$ 2,136,719	$ 1,897,092
Federal Funds Sold	8,275,000	4,050,000
TOTAL CASH AND CASH EQUIVALENTS	10,411,719	5,947,092
Investment Securities Available for Sale	2,774,970	3,826,360
Loans:		
Real Estate - Construction	16,750,705	13,318,731
Real Estate - Other	19,620,792	23,405,393
Commercial	9,148,118	4,010,409
Consumer	1,501,984	1,115,374
TOTAL LOANS	47,021,599	41,849,907
Deferred Loan Fees, Net of Costs	7,174	(136,326)
Allowance for Loan Losses	(570,034)	(504,622)
NET LOANS	46,458,739	41,208,959
Premises and Equipment	175,026	245,181
Federal Home Loan Bank Stock - at Cost	186,300	115,200
Accrued Interest and Other Assets	708,029	1,070,233
	$ 60,714,783	$ 52,413,025

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

SEACOAST COMMERCE BANK

STATEMENTS OF FINANCIAL CONDITION
December 31, 2006 and 2005

LIABILITIES AND SHAREHOLDERS' EQUITY

	2006	2005
Deposits:		
Noninterest-Bearing Demand	$ 8,477,936	$ 8,128,363
Savings, NOW and Money Market Accounts	6,884,068	6,708,255
Time Deposits Under $100,000	18,663,732	17,881,313
Time Deposits $100,000 and Over	13,907,912	12,866,151
TOTAL DEPOSITS	47,933,648	45,584,082
Accrued Interest and Other Liabilities	314,220	346,549
TOTAL LIABILITIES	48,247,868	45,930,631
Commitments and Contingencies - Notes D and J	-	-
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 2006 and 935,000 in 2005	15,127,087	9,350,000
Additional Paid-in Capital	90,358	-
Accumulated Deficit	(2,663,452)	(2,775,984)
Accumulated Other Comprehensive Income - Unrecognized Loss on Available-for-Sale Securities	(87,078)	(91,622)
TOTAL SHAREHOLDERS' EQUITY	12,466,915	6,482,394
	$ 60,714,783	$ 52,413,025

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

SEACOAST COMMERCE BANK

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2006 and 2005

	2006	2005
INTEREST INCOME		
Interest and Fees on Loans	$ 4,410,904	$ 2,659,288
Interest on Investment Securities	117,570	149,004
Other Interest Income	294,792	220,925
TOTAL INTEREST INCOME	4,823,266	3,029,217
INTEREST EXPENSE		
Interest on Savings Deposits, NOW and Money Market Accounts	179,229	111,500
Interest on Time Deposits	1,629,697	740,852
Other Interest Expense	81	70
TOTAL INTEREST EXPENSE	1,809,007	852,422
NET INTEREST INCOME	3,014,259	2,176,795
Provision for Loan Losses	361,908	237,242
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,652,351	1,939,553
NONINTEREST INCOME		
Service Charges and Fees	124,551	118,885
Gain on Sale of Loans	135,144	66,953
Servicing Income on Loans Sold	18,012	3,158
	277,707	188,996
NONINTEREST EXPENSE		
Salaries and Employee Benefits	1,724,611	1,498,840
Occupancy and Equipment Expenses	385,321	334,650
Other Expenses	706,794	590,314
	2,816,726	2,423,804
INCOME (LOSS) BEFORE INCOME TAXES	113,332	(295,255)
Income Taxes	800	800
NET INCOME (LOSS)	$ 112,532	$(296,055)
NET INCOME (LOSS) PER SHARE - BASIC	$ 0.11	$(0.32)
NET INCOME (LOSS) PER SHARE - DILUTED	$ 0.11	$(0.32)

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

SEACOAST COMMERCE BANK

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2006 and 2005

	Comprehensive Income	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2005		935,000	$ 9,350,000	$ -	$(2,479,929)	$(38,035)	$ 6,832,036
Comprehensive Income:							
Net Loss	$(296,055)				(296,055)		(296,055)
Unrealized Loss on Securities Available for Sale	(53,587)					(53,587)	(53,587)
Total Comprehensive Income	$(349,642)						
Balance at December 31, 2005		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

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

SEACOAST COMMERCE BANK

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2006 and 2005

	2006	2005
OPERATING ACTIVITIES		
Net Income (Loss)	$ 112,532	$(296,055)
Adjustments to Reconcile Net Income (Loss) to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation and Amortization	156,830	125,314
Stock-based Compensation	90,358	-
Gain on Sale of Loans	(135,144)	(66,953)
Provision for Loan Losses	361,908	237,242
Other Items	322,575	(702,321)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	909,059	(702,773)
INVESTING ACTIVITIES		
Purchase of FHLB Stock	(63,800)	(58,300)
Purchase of Available-for-Sale Securities	(278,465)	-
Proceeds from Maturities of Available-for-Sale Securities	1,000,000	1,000,000
Principal Paydowns of Available-for-Sale Securities	330,883	468,562
Net Increase in Loans	(7,541,589)	(21,831,120)
Proceeds from Loans Sold	2,065,045	782,033
Purchases of Premises and Equipment	(83,159)	(68,434)
NET CASH USED BY INVESTING ACTIVITIES	(4,571,085)	(19,707,259)
FINANCING ACTIVITIES		
Net Increase in Demand Deposits and Savings Accounts	525,386	2,677,804
Net Increase in Time Deposits	1,824,180	17,928,705
Proceeds from Sale of Common Stock, Net	5,777,087	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	8,126,653	20,606,509
INCREASE IN CASH AND CASH EQUIVALENTS	4,464,627	196,477
Cash and Cash Equivalents at Beginning of Period	5,947,092	5,750,615
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 10,411,719	$ 5,947,092
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,794,525	$ 811,283
Taxes Paid	$ 800	$ 800

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Bank has been organized as a single operating segment and operates one full-service office in Chula Vista, California. 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.

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, 2006.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Due from Banks - Continued

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.

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

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, the interest-only strip 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. 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 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.

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.

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 J. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

Reclassifications

Certain reclassifications have been made in the 2005 financial statements to conform to the presentation used in 2006. These reclassifications had no impact of the Bank's previously reported financial statements.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Change in Accounting Principle

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 2006 the Bank recognized pre-tax stock-based compensation expense of $90,358, as a result of adopting SFAS 123 (R), which resulted in a reduction in net income of $90,358 and reduced basic and diluted earnings per share by $0.09. See Note K for additional information on the Bank's stock option plan.

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 the exercise prices equal to the Bank's current market price per share; accordingly, no compensation expense was reported using the intrinsic value method of APB Opinion No. 25.

Had compensation cost for the Bank's stock option plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of SFAS No. 123(R), the Bank's net loss and loss per share for 2005 would have changed to the pro forma amounts indicated below:

	2005
Net Loss:	
As Reported	$(296,055)
Stock-Based Compensation using Intrinsic Value Method	-
Stock-Based Compensation that would have been reported using the Fair Value Method of SFAS 123(R)	(83,822)
Pro Forma	$(379,877)
Basic Loss Per Share:	
As Reported	$(0.32)
Pro Forma	$(0.41)

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, 2006:				
U.S. Government and Agency Securities	$ 2,862,048	$ 1,478	$(88,556)	$ 2,774,970
December 31, 2005:				
U.S. Government and Agency Securities	$ 3,917,982	$ -	$(91,622)	$ 3,826,360

The amortized cost and estimated fair value of all investment securities as of December 31, 2006 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	$ 500,444	$ 496,429
Due from One Year to Five Years	2,130,629	2,046,088
Due from Five Years to Ten Years	-	-
Due after Ten Years	230,975	232,453
	$ 2,862,048	$ 2,774,970

The Bank did not sell any of its available-for-sale securities in 2006 and 2005.

NOTE B - INVESTMENT SECURITIES - Continued

The unrealized losses in available-for-sale securities as of December 31, 2006 and 2005 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, 2006						
U.S. Government Agency Securities	$ -	$ -	$(88,556)	$2,542,517	$(88,556)	$2,542,517
December 31, 2005						
U.S. Government Agency Securities	$ -	$ -	$(91,622)	$3,826,360	$(91,622)	$3,826,360

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. 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, 2006, no declines are deemed to be other than temporary.

As of December 31, 2005, the Bank had eight investment securities where estimated fair value had declined 2.3% from the Bank's amortized cost. Two of these investment securities matured in 2006, with no loss of principal or contractual interest.

The Bank had no pledged investment securities as of December 31, 2006 and 2005.

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:

	2006	2005
Balance at Beginning of Year	$ 504,622	$ 267,380
Additions to the Allowance Charged to Expense	361,908	237,242
Recoveries on Loans Charged Off	-	-
	866,530	504,622
Less Loans Charged Off	(296,496)	-
	$ 570,034	$ 504,622

Effective December 31, 2006, the Bank charged-off $294,400 of a construction loan and placed the balance of $1,050,000 on nonaccrual status due to costs overruns on the project and declining estimated market value for the completed project. The Bank had no other significant non-performing or impaired loans during the years ended December 31, 2006 and 2005.

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 $135,000 and $67,000 in 2006 and 2005, respectively. At December 31, 2006 and 2005, the Bank was servicing approximately $2,442,000 and $715,000 in loans previously sold.

NOTE D - PREMISES AND EQUIPMENT

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

	2006	2005
Furniture, Fixtures, and Equipment	$ 252,911	$ 247,967
Computer Equipment	235,015	156,801
Leasehold Improvements	128,206	128,205
	616,132	532,973
Less Accumulated Depreciation and Amortization	(441,106)	(287,792)
	$ 175,026	$ 245,181

NOTE D - PREMISES AND EQUIPMENT - Continued

The Bank's current lease expires on October 31, 2007. The Bank has entered into a new lease for its bank premises 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 it's pro rata share of common area expenses including maintenance, taxes and insurance.

At December 31, 2006, the future lease rental payable under noncancellable operating lease commitments for the Bank's main office was as follows:

2007	$ 338,252
2008	261,551
2009	272,013
2010	282,894
2011	294,209
Thereafter	1,687,199
	$ 3,136,118

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 $149,000 and $141,000 for the periods ended December 31, 2006 and 2005, respectively.

NOTE E - DEPOSITS

At December 31, 2006, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	$ 27,569,865
Due from One to Three Years	1,753,316
Over Three Years	3,248,463
	$ 32,571,644

NOTE F - INCOME TAXES

Income taxes payable for the years ended December 31, 2006 and 2005 was the minimum franchise tax for the State of California due to operating losses and operating loss carryovers. A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follow:

	2006		2005	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 38,300	34.0%	$(100,400)	(34.0%)
State Franchise Tax, Net of Federal Benefit	8,000	7.1%	(21,000)	(7.1%)
Change in Valuation Allowance	(12,000)	(10.7%)	151,700	51.4%
Tax Free Income for State Purposes	(57,900)	(51.5%)	(30,300)	(10.3%)
Stock-based Compensation	21,600	19.2%	-	-
Other Items, Net	2,800	2.6%	800	0.3%
Actual Tax Expense	$ 800	0.7%	$ 800	0.3%

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:

	2006	2005
Deferred Tax Assets:		
Pre-Opening Expenses	$ 93,000	$ 159,000
Operating Loss Carryforwards	909,000	863,000
Allowance for Loan Losses Due to Tax Limitations	157,000	147,000
Other Items	56,000	28,000
	1,215,000	1,197,000
Valuation Allowance	(1,169,000)	(1,181,000)
Deferred Tax Liabilities:		
Other Items	(46,000)	(16,000)
	(46,000)	(16,000)
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 $2.0 millon for federal income and $3.3 million California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used will expire in 2025. California net operating loss carryforwards, to the extent not used will expire in 2016.

NOTE G - 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, 2006 and 2005, no amounts were outstanding under these arrangements.

NOTE H - OTHER EXPENSES

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

	2006	2005
Marketing and Business Promotion	$ 59,400	$ 70,293
Professional Fees	96,347	103,985
Data Processing	192,739	175,184
Directors Expenses and Stock-based Compensation	80,738	8,768
Office Expenses	62,757	57,161
Correspondent Bank Charges	21,881	21,526
Regulatory Assessments	24,682	20,394
Corporate Insurances	33,067	33,239
Other Expenses	135,183	99,764
	$ 706,794	$ 590,314

NOTE I - 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, 2006 and 2005 was approximately $252,000 and $466,000, respectively.

Deposits from certain directors and their related interests with which they are associated held by the Bank at December 31, 2006 and 2005 amounted to approximately $1,743,000 and $1,284,000, respectively.

NOTE J - COMMITMENTS

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

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

As of December 31, 2006 and 2005, the Bank had the following outstanding financial commitments whose contractual amount represents credit risk:

	2006	2005
Commitments to Extend Credit	$ 13,631,000	$ 17,241,000
Letters of Credit	18,000	18,000
	$ 13,649,000	$ 17,259,000

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 K - 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 and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 280,500 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 over four years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. The Bank recognized stock-based compensation cost of $90,358 in 2006.

NOTE K - STOCK OPTION PLAN - Continued

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:

	2006	2005
Expected Volatility	16.90%	14.00%
Expected Term	6.25 Years	6.25 Years
Expected Dividends	None	None
Risk Free Rate	4.10%	4.15%
Weighted-Average Grant Date Fair Value	$ 2.81	$ 2.87

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

A summary of the status of the Bank's stock option plan as of December 31, 2006 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	174,285	$ 10.21		
Granted	74,750	$ 9.84		
Exercised	-			
Forfeited or Expired	(27,500)	$ 10.42		
Outstanding at End of Year	221,535	$ 10.06	7.4 Years	$ 817,624
Options Exercisable	137,608	$ 10.12	6.5 Years	$ 499,571

NOTE K - STOCK OPTION PLAN - Continued

No options were exercised in 2006 and 2005. As of December 31, 2006, there was $176,378 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.1 years.

NOTE L - 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:

	2006		2005	
	Income	Shares	Income	Shares
Net Income as Reported	$ 112,532		$(296,055)	
Shares Outstanding at Year End		1,496,912		935,000
Impact of Weighting Shares Purchased During the Year		(497,254)		-
Used in Basic EPS	112,532	999,658	(296,055)	935,000
Dilutive Effect of Outstanding Stock Options and Warrants		6,631		-
Used in Diluted EPS	$ 112,532	1,006,289	$(296,055)	935,000

During 2005, common stock equivalents were not included in the computation of diluted earnings per share as their effect would have been antidilutive.

NOTE M - 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 by 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, 2006 there were 140,478 warrants outstanding.

NOTE N - 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, 2006, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required: For Capital Adequacy Purposes		Amount of Capital Required: To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 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%
As of December 31, 2005:						
Total Capital (to Risk-Weighted Assets)	$ 7,079	16.3%	$ 3,489	8.0%	$ 4,362	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 6,574	15.1%	$ 1,745	4.0%	$ 2,617	6.0%
Tier 1 Capital (to Average Assets)	$ 6,574	13.5%	$ 1,952	4.0%	$ 2,440	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.

SEACOAST COMMERCE BANK

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DECEMBER 31, 2006 AND 2005