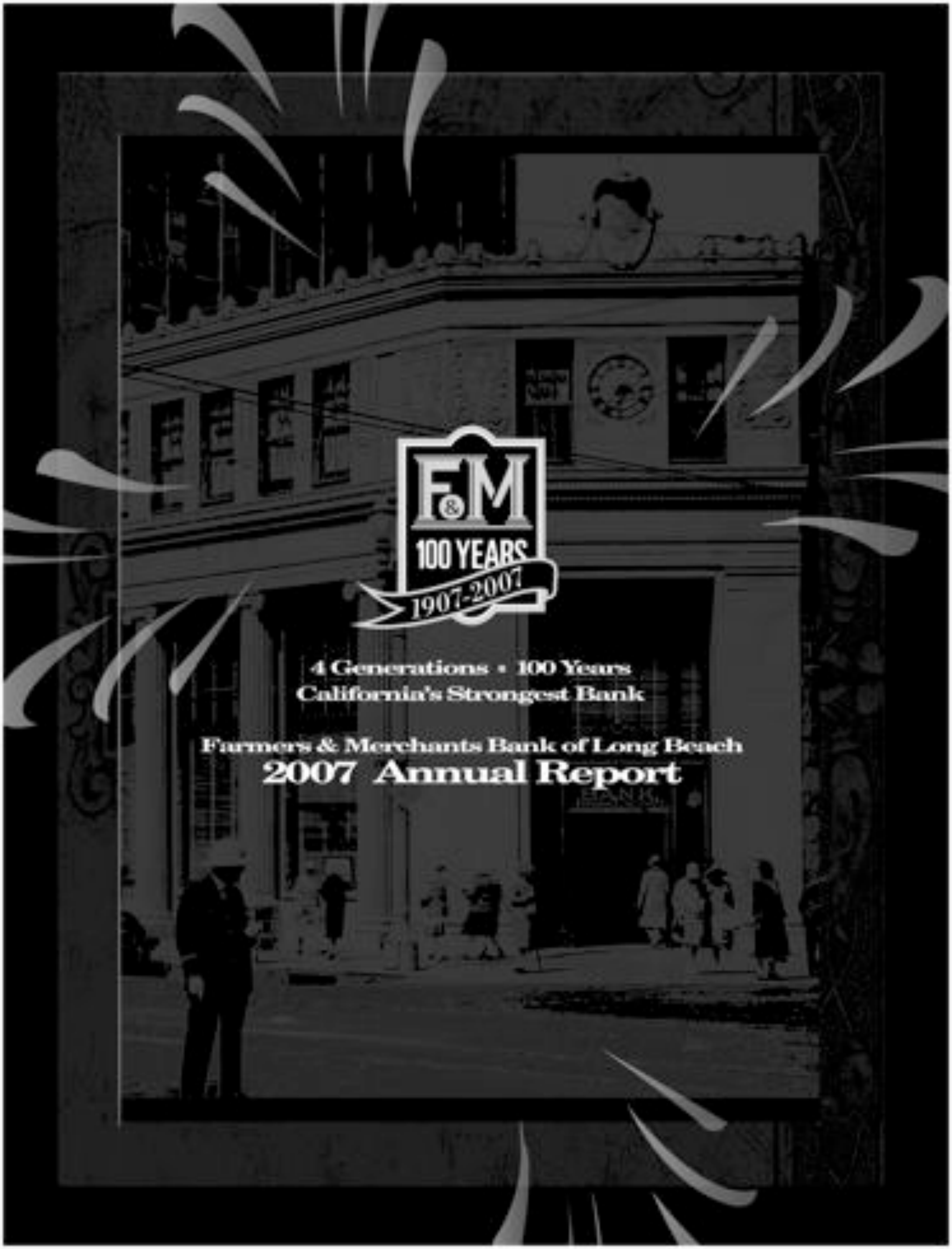

4 Generations • 100 Years
California's Strongest Bank

Farmers & Merchants Bank of Long Beach
2007 Annual Report

FARMERS & MERCHANTS BANK OF LONG BEACH
2007 ANNUAL REPORT

Contents

KPMG LLP
Suite 700
600 Anton Boulevard
Costa Mesa, CA 92626-7651

Independent Auditors' Report

The Board of Directors
Farmers & Merchants Bank of Long Beach:

We have audited the accompanying balance sheets of Farmers & Merchants Bank of Long Beach (the Bank) as of December 31, 2007 and 2006, and the related statements of income, comprehensive income, stockholders' 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 Farmers & Merchants Bank of Long Beach 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 U.S. generally accepted accounting principles.

KPMG LLP

Costa Mesa, California
March 3, 2008

FARMERS & MERCHANTS BANK OF LONG BEACH
BALANCE SHEETS

	December 31, 2007	December 31, 2006
Assets		
Cash and due from banks	$ 112,983,325	$ 119,811,199
Federal funds sold	18,000,000	71,000,000
Total cash and cash equivalents	130,983,325	190,811,199
Securities held-to-maturity (fair value of $1,024,055,217 and $1,009,847,335)	1,018,982,056	1,021,492,079
Securities available-for-sale (cost of $446,238,896 and $449,502,991)	453,899,382	448,689,692
Loans, net	1,529,898,523	1,352,360,204
Bank premises and equipment	34,945,602	24,142,064
Accrued interest receivable	16,994,591	17,022,332
Other assets	19,262,817	18,954,457
Total assets	**$ 3,204,966,296**	**$ 3,073,472,027**
Liabilities & Stockholders' Equity		
Liabilities:		
Deposits:		
Demand, non-interest bearing	$ 705,005,305	$ 770,317,100
Demand, interest bearing	211,061,618	210,553,570
Savings and money market savings	423,259,630	487,318,115
Time deposits	672,674,495	597,399,236
Total deposits	2,012,001,048	2,065,588,021
Securities sold under agreements to repurchase	495,545,303	350,806,040
Accrued interest payable and other liabilities	6,792,260	7,419,955
Total liabilities	2,514,338,611	2,423,814,016
Commitments and Contingencies		
Stockholders' equity:		
Common stock, par value $20; authorized 250,000 shares; issued and outstanding 151,475 and 151,090 shares	3,029,500	3,021,800
Surplus	12,043,783	11,269,983
Retained earnings	671,114,844	635,837,568
Accumulated other comprehensive income (loss)	4,439,558	(471,340)
Total stockholders' equity	690,627,685	649,658,011
Total liabilities and stockholders' equity	**$ 3,204,966,296**	**$ 3,073,472,027**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF INCOME

	Years Ended December 31,	
	2007	2006
Interest income:		
Securities held-to-maturity	$ 45,507,671	$ 50,473,936
Securities available-for-sale	24,500,454	18,730,844
Federal funds sold	4,366,744	3,893,338
Loans	108,938,112	95,296,205
Total interest income	183,312,981	168,394,323
Interest expense:		
Deposits	29,317,673	22,399,171
Securities sold under agreements to repurchase	18,471,470	12,764,216
Total interest expense	47,789,143	35,163,387
Net interest income	135,523,838	133,230,936
Provision for loan losses	6,364,997	901,694
Net interest income after provision for loan losses	129,158,841	132,329,242
Non-interest income:		
Service charges on deposit accounts	4,738,864	4,399,055
Merchant bankcard fees	1,790,768	1,217,891
Escrow fees	952,832	1,065,427
Other	4,820,702	4,285,566
Total non-interest income	12,303,166	10,967,939
Non-interest expense:		
Salaries and employee benefits	36,861,304	33,161,229
FDIC and other insurance expense	551,189	635,420
Occupancy expense	5,187,343	5,545,004
Equipment expense	3,776,278	3,518,146
Legal and professional fees	3,763,161	2,918,049
Marketing and promotional expense	2,395,599	2,404,377
Printing and supplies	1,244,949	1,302,885
Postage and delivery	1,224,690	1,076,528
Other	3,051,527	2,365,464
Total non-interest expense	58,056,040	52,927,102
Income before income tax expense	83,405,967	90,370,079
Income tax expense	32,223,816	35,154,469
Net income	**$ 51,182,151**	**$ 55,215,610**
Basic earnings per common share	$ 338.03	$ 363.64
Diluted earnings per common share	$ 337.97	$ 363.16

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2007	Years Ended December 31, 2006
Net income	$ 51,182,151	$ 55,215,610
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	4,910,898	1,404,863
Other comprehensive income	4,910,898	1,404,863
Comprehensive income	**$ 56,093,049**	**$ 56,620,473**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stock-holders' Equity
Balance, December 31, 2005	**$ 3,059,640**	**9,115,380**	**608,667,767**	**(1,876,203)**	**$ 618,966,584**
Issuance of common stock upon exercise of employee stock options	6,060	569,640	-	-	575,700
Repurchase and retirement of common stock	(43,900)	-	(12,882,930)	-	(12,926,830)
Tax benefit on stock options exercised	-	1,414,963	-	-	1,414,963
Stock option compensation expense	-	170,000	-	-	170,000
Net income	-	-	55,215,610	-	55,215,610
Cash dividends	-	-	(15,162,879)	-	(15,162,879)
Other comprehensive income, net of tax expense	-	-	-	1,404,863	1,404,863
Balance, December 31, 2006	**$ 3,021,800**	**11,269,983**	**635,837,568**	**(471,340)**	**$ 649,658,011**
Issuance of common stock upon exercise of employee stock options	7,700	723,800	-	-	731,500
Stock option compensation expense	-	50,000	-	-	50,000
Net income	-	-	51,182,151	-	51,182,151
Cash dividends	-	-	(15,904,875)	-	(15,904,875)
Other comprehensive income, net of tax expense	-	-	-	4,910,898	4,910,898
Balance, December 31, 2007	**$ 3,029,500**	**12,043,783**	**671,114,844**	**4,439,558**	**$ 690,627,685**

See accompanying notes to financial statements.

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2007	Years Ended December 31, 2006
Cash flows from operating activities:		
Net income	$ 51,182,151	$ 55,215,610
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,420,601	2,511,323
Net amortization on securities	3,731,672	6,062,780
Provision for loan losses	6,364,997	901,694
Provision for (reduction of) losses on unfunded commitments	124,559	(393,771)
Deferred income tax benefit	(1,497,758)	(747,955)
Stock compensation expense	50,000	170,000
Decrease (increase) in accrued interest receivable	27,741	(776,527)
Increase in other assets	(2,167,947)	(524,185)
Decrease in accrued interest payable and other liabilities	(902,254)	(286,629)
Total adjustments	8,151,611	6,916,730
Net cash provided by operating activities	59,333,762	62,132,340
Cash flows from investing activities:		
Proceeds from maturities of securities held-to-maturity	245,859,597	321,802,323
Purchases of securities held-to-maturity	(254,467,562)	(41,672,092)
Proceeds from maturities of securities available-for-sale	326,384,892	107,035,332
Purchases of securities available-for-sale	(315,734,479)	(117,554,788)
Net increase in loans	(183,958,860)	(239,158,425)
Purchases of bank premises and equipment	(13,224,139)	(2,665,707)
Net cash (used in) provided by investing activities	(195,140,551)	27,786,643

FARMERS & MERCHANTS BANK OF LONG BEACH
STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2007	Years Ended December 31, 2006
Cash flows from financing activities:		
Net decrease in deposits	$ (53,586,973)	$ (74,209,362)
Net increase in securities sold under agreements to repurchase	144,739,263	3,030,214
Issuance of common stock	731,500	575,700
Repurchase and retirement of common stock	-	(12,926,830)
Dividends paid	(15,904,875)	(15,162,879)
Tax benefit on stock options exercised	-	1,414,963
Net cash provided by (used in) financing activities	75,978,915	(97,278,194)
Net decrease in cash and cash equivalents	(59,827,874)	(7,359,211)
Cash and cash equivalents at beginning of year	190,811,199	198,170,410
Cash and cash equivalents at end of year	**$ 130,983,325**	**$ 190,811,199**
Supplemental disclosures of cash flow information:		
Interest paid (including interest credited during the year)	$ 47,721,104	$ 34,961,441
Cash paid during the year for income taxes	36,380,351	34,700,000

See accompanying notes to financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Farmers & Merchants Bank of Long Beach (the “Bank”) is an FDIC-insured community bank engaged primarily in commercial lending with a loan portfolio comprised primarily of commercial, real estate and construction loans, most of which are secured. The Bank operates primarily in California’s South Los Angeles County and Orange County.

The accounting and reporting policies of Farmers & Merchants Bank of Long Beach are in accordance with accounting principles generally accepted in the United States of America and conform to general practice within the banking industry. Certain reclassifications have been made to prior year amounts to conform to current year presentation.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and income statement for the year. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the valuation of real estate owned. Management believes that the allowances established on loans and real estate owned are adequate. While management uses available information to recognize losses on loans and real estate owned, future additions to the allowances may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank’s allowance for losses on loans and real estate owned. Such agencies may require the Bank to recognize changes to the allowances based on their judgments about information available to them at the time of their examination.

The Bank is required to carry its available-for-sale securities at fair value and real estate acquired in settlement of loans at the lower of cost or fair value, less estimated selling costs. Fair value estimates are made at a specific point in time based upon relevant market information and other information about the asset. Such estimates related to the investment securities portfolios include published bid prices or bid quotations received from securities dealers. Fair value estimates for real estate acquired in settlement of loans is determined by current appraisals and, where no active market exists for a particular property, discounting a forecast of expected cash flows at the rate commensurate with the risk involved.

Securities Held-to-maturity and Securities Available-for-sale

Securities at December 31, 2007 consist of U.S. Treasury securities, U.S. Government agency obligations, State and Municipal bonds, and mortgage-backed securities. In accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debts and Equity Securities* (SFAS No. 115), the Bank classifies its securities into one of two categories: held-to-maturity and available-for-sale. Securities held-to-maturity are those for which the Bank has the ability and positive intent to hold until maturity. All other securities are classified as available-for-sale.

Securities held-to-maturity are recorded at amortized cost, adjusted for the amortization of premiums and accretion of discounts. Securities available-for-sale are carried at fair value. Unrealized holding gains and losses, net of the related tax effect, on securities available-for-sale are excluded from income and reported as a separate component of stockholders’ equity identified as accumulated other comprehensive income until realized. Transfers of securities between categories, if any, are recorded at fair value at the date of the transfer. Unrealized holding gains or losses included in the separate component of equity for securities transferred from available-for-sale to held-to-maturity would be maintained and amortized into income over the remaining life of the security as an adjustment to the yield in a manner consistent with the amortization of premium or accretion of discount on the associated security.

NOTE 1 - Summary of Significant Accounting Policies, continued

Securities Held-to-maturity and Securities Available-for-sale, continued

A decline in market value of any held-to-maturity or available-for-sale security below cost that is deemed other than temporary is charged to income resulting in the establishment of a new cost basis for the security.

Premiums and discounts are amortized and accreted over the life of the related securities available-for-sale and securities held-to-maturity as an adjustment to yield using the interest method. Realized gains and losses on securities available-for-sale and securities held-to-maturity are included in income and are derived using the specific-identification method for determining the cost of securities sold.

Loans and Allowance for Loan Losses

Loans are reported at amounts advanced, net of unearned discounts and undisbursed loan funds, less principal payments collected. Unearned interest on discounted loans is accreted into interest income over the lives of the related loans in a manner approximating the interest method.

Interest on loans is accrued as earned. It is the Bank's general practice for interest accruals on loans to be discontinued whenever the payment of interest or principal is 90 days past due. Whenever the accrual of interest is discontinued, previously accrued but uncollected interest income is reversed. Accrual of interest is resumed only when principal and interest are brought fully current and when in management's judgment such loans are deemed fully collectible as to both principal and interest. The accrual of interest on loans that are more than 90 days past due may continue if the loans are well secured, in the process of collection, and management deems it appropriate.

The Bank considers a loan impaired when it is probable that the Bank will be unable to collect all amounts due according to its contractual terms. The amount of an impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or measured against the value of the loan's underlying collateral, if the loan is collateral dependent.. Impairment losses are included in the allowance for loan losses through the provision for loan losses. In determining impairment for a specific loan, management evaluates the impairment on an individual loan basis, including an analysis of the credit worthiness, cash flows and financial status of the borrower and the condition and the estimated value of the collateral. The Bank reviews consumer loans by analyzing their performance as a whole because of the relatively homogenous nature of the portfolio. The Bank also includes as impaired loans, all loans on which the accrual of interest has been discontinued and loans which have been restructured. Cash receipts on impaired loans receivable are applied to reduce the principal amount of such loans until the principal has been recovered and are recognized as income thereafter.

Loans are charged against the allowance for loan losses when management believes that the collectibility of the principal is unlikely, and recoveries are credited to the allowance. The provision for loan losses is established by a charge to expense and added to the allowance to maintain it at a level that management believes, based upon its evaluation of the collectibility and prior loss experience of the portfolio, is adequate to absorb losses inherent in existing loans and commitments to extend credit. That evaluation takes into consideration such factors as changes in the nature and volume of the portfolio, overall problem loans, commitments, and economic conditions that may affect the borrower's ability to pay. Subsequent changes in these factors and related assumptions may warrant adjustments in the level of the allowance for loan losses, based on conditions prevailing at the time.

NOTE 1 – Summary of Significant Accounting Policies, continued

Other Real Estate Owned

Real estate and other assets acquired in satisfaction of indebtedness are carried at fair value less estimated selling costs. Prior to foreclosure, related loan amounts are written down to the fair value of the assets to be acquired by a charge to the allowance for loan losses. Declines in value from the periodic valuation of foreclosed properties are charged against operating expenses and included in the allowance for other real estate owned in the period in which they are identified. Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other income or expense as appropriate.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Depreciation is charged to expense over the estimated useful lives of the assets on the straight line method. The useful lives for the principal classes of assets range from 3 years to 20 years. Leasehold improvements are capitalized and amortized on a straight-line basis over the term of the lease or the estimated useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to expense. Gains or losses on sale or retirement of assets are reported in other income or expense.

Income Taxes

The Bank is subject to Federal and California State income taxes. Income taxes are recorded using the asset and liability method. Under this method, the deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents consist of cash and due from banks and Federal funds sold.

Stock Option Plan

In December 2004, the FASB issued SFAS No. 123R (Revised 2004), Share-Based Payment: an amendment of FASB Statements No. 123 and 95 (SFAS 123R). SFAS 123R requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Compensation costs should be recognized over the requisite service period. The amount accrued each period until the vesting date is based on the estimated number of awards that are expected to vest, adjusted periodically to reflect the current estimate of forfeitures. SFAS 123R does not express a preference for a type of valuation model to be used in measuring the grant-date fair value that is accrued over the service period. The Bank adopted SFAS 123R on January 1, 2006 and employed the modified prospective method of transition upon implementation.

NOTE 1 – Summary of Significant Accounting Policies, continued

Comprehensive Income

SFAS No. 130, *Reporting Comprehensive Income* (SFAS No. 130) established standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and net unrealized gains (losses) on securities available-for-sale arising or reclassified during the period, and is presented in the statements of comprehensive income. SFAS No. 130 only requires additional disclosures in the financial statements; it does not affect the Bank's financial position or results of operations.

Earning Per Share (EPS) Data

The table below is a reconciliation of the numerators and denominators used in the calculation of basic and diluted EPS for the years ended December 31, 2007 and 2006. Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock that then would share the earnings of the Bank.

	2007	2006
Basic earnings per share:		
Net income available to common stockholders	$ 51,182,151	$ 55,215,610
Weighted average number of common shares outstanding	151,413	151,839
Weighted basic earnings per common share	$ 338.03	$ 363.64
Diluted earnings per share:		
Net income available to common stockholders	$ 51,182,151	$ 55,215,610
Weighted average number of common shares outstanding	151,413	151,839
Impact of stock options	27	202
Average diluted number of common shares outstanding	151,440	152,041
Diluted earnings per common share	$ 337.97	$ 363.16

Recent Accounting Pronouncements

Accounting for Servicing of Financial Assets

FASB Statement No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*, (SFAS No. 156) addresses the recognition and measurement of separately recognized servicing assets and liabilities and to simplify efforts to obtain hedge-like accounting. SFAS No. 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The implementation of this Statement did not have a material effect on the Bank's financial results.

NOTE 1 - Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

Accounting for Uncertainty in Income Taxes

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*, (FIN 48) clarifies the criteria for recognizing tax benefits under FASB Statement No. 109, *Accounting for Income Taxes*. It also requires additional financial statement disclosures about uncertain tax positions. For non-SEC registrants, FIN 48 is effective for fiscal years beginning after December 15, 2006. Implementation of this FASB Interpretation did not have a material effect on the Bank's financial results.

Fair Value Measurements

FASB Statement No. 157, *Fair Value Measurements*, defines fair value, establishes a framework for measuring fair value in GAAP, and requires enhanced disclosures about fair value measurements. This Statement applies when other accounting pronouncements require or permit fair value measurements; it does not require new fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. Implementation of this Statement is not expected to have a material impact on the Bank's financial results.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R),* (SFAS No. 158) requires an employer to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of plan assets and the benefit obligation. This Statement is effective for nonpublic entities for fiscal years ending after June 15, 2007. Implementation of this Statement did not have an impact on the Bank's financial results.

The Fair Value Option for Financial Assets and Financial Liabilities

FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment to FASB Statement No. 115*, (SFAS No. 159) was issued in February 2007. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Adoption of this Statement is required for the fiscal year that begins after November 15, 2007. Implementation of this Statement is not expected to have an impact on the Bank's financial results.

Business Combinations

FASB Statement No. 141R, which is a revision to SFAS No. 141, *Business Combinations*, (SFAS No. 141) was issued in December 2007. This Statement establish principles in which the acquirer in a business combination is required to recognize and measure in its financial statements all identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. As such, contingent consideration will need to be recognized based on estimated fair value at the date of acquisition. In addition, the costs related to the acquisition are to be recognized separately from the acquisition rather than allocated to the individual assets and liabilities. Also, if applicable, where the fair value of the assets acquired exceeded the acquisition cost, the excess asset value will be recognized as income. This statement makes significant amendments to other statements and other authoritative guidance. The provisions of this statement apply prospectively to business combinations with acquisition dates on or after January 1, 2009. We are currently evaluating the potential impact this statement will have on the Bank's financial results.

NOTE 1 - Summary of Significant Accounting Policies, continued

Recent Accounting Pronouncements, continued

Noncontrolling Interests in Consolidated Financial Statements

FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, (SFAS No. 160) was issued in December 2007. This Statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements* (ARB No. 51). This statement clarifies that a noncontrolling interest (minority interest) in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Sufficient disclosure should be provided to identify and distinguish between the interests of the parents and the interest on the noncontrolling owners. This statement also establishes that purchases or sales of equity securities that do not result in a change in control will be accounted for as equity transactions. Upon loss of control, the interest sold, as well any interest retained will be measured at fair value with any gain or loss recognized in earnings. This statement will be effective as of our fiscal year beginning January 1, 2009. We are currently evaluating the potential impact this statement will have on the Bank's financial results.

NOTE 2 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are defined under SFAS No. 107, *Disclosures About Fair Value of Financial Instruments* (SFAS No. 107), as cash, evidence of an ownership in an entity, or a contract that conveys or imposes on an entity the contractual right or obligation to either receive or deliver cash or another financial instrument. A significant portion of the Bank's assets and liabilities are financial instruments as defined under SFAS No. 107.

The following presents a description of the Bank's financial instruments and the methodologies and assumptions used to estimate their fair value. Much of the information used to determine fair value is highly subjective. When applicable, readily available market information has been utilized. However, for a significant portion of the Bank's financial instruments, active markets do not exist. Therefore, considerable judgments were required in estimating fair value of certain items. The subjective factors include, among other things, the estimated timing and amount of cash flows, risk characteristics, credit quality and interest rates, all of which are subject to change. Since the fair value is estimated as of December 31, 2007 and 2006, the amounts that will actually be realized could be significantly different.

Cash and Cash Equivalents

The carrying value of cash and cash equivalents approximates the fair value because of the short maturity of such assets.

Securities Held-to-maturity and Securities Available-for-sale

The Bank used market quotes for similar or identical securities in an actively traded market to determine the fair values of securities held-to-maturity and securities available-for-sale as disclosed in Notes 3 and 4, respectively.

NOTE 2 – Fair Value of Financial Instruments, continued

Loans

The fair value of performing and non-performing loans was determined by a discounted cash flow analysis based on the Bank's current lending rates and discount rates that management believes would have been obtained had management elected to sell the entire loan portfolio on December 31, 2007 or 2006.

Deposits

The fair value of demand deposits, savings and money market saving accounts was determined to approximate the carrying value as they are immediately withdrawable. For fixed maturity time deposits, the fair value was estimated by discounting expected cash flows by the current offering rates of term deposits with similar maturities. In accordance with SFAS No. 107, no value has been assigned to the Bank's long-term relationship with its deposit customers (core deposit intangibles) since it is not a financial instrument as defined under SFAS No. 107.

Securities Sold Under Agreements to Repurchase

The fair value of securities sold under agreements to repurchase approximates their carrying value due to the terms and nature of the obligations.

Off-Balance Sheet Financial Instruments

As the standby letters of credit and commitments to lend have terms that are consistent with current market terms, the Bank estimates that the fair value of the fees charged to enter into such agreements to be nominal.

The following table presents estimated fair value information for the Bank's loans and deposits at December 31:

	2007	
	Carrying Value	**Estimated Fair Value**
Loans, net of allowance for loan losses	$ 1,529,898,523	$ 1,323,026,087
Deposits:		
Demand, non-interest bearing	$ 705,005,305	$ 705,005,305
Demand, interest bearing	211,061,618	211,061,618
Savings and money market savings	423,259,630	423,259,630
Time deposits	672,674,495	672,004,129
	$ 2,012,001,048	$ 2,011,330,682

	2006	
	Carrying Value	**Estimated Fair Value**
Loans, net of allowance for loan losses	$ 1,352,360,204	$ 1,222,589,328
Deposits:		
Demand, non-interest bearing	$ 770,317,100	$ 770,317,100
Demand, interest bearing	210,553,570	210,553,570
Savings and money market savings	487,318,115	487,318,115
Time deposits	597,399,236	597,345,564
	$ 2,065,588,021	$ 2,065,534,349

NOTE 3 – SECURITIES HELD-TO-MATURITY

The following is a summary of securities held-to-maturity:

	December 31, 2007	December 31, 2006
Carrying Value:		
U.S. Treasury securities	$ 9,976,201	$ 14,904,562
U.S. Government agency obligations	54,154,386	39,721,181
State and Municipal securities	140,104,931	152,640,362
Mortgage-backed securities	814,746,538	814,225,974
	$ 1,018,982,056	$ 1,021,492,079
Approximate Fair Value:		
U.S. Treasury securities	$ 9,973,400	$ 14,674,399
U.S. Government agency obligations	54,787,540	39,886,023
State and Municipal securities	141,412,979	152,521,984
Mortgage-backed securities	817,881,298	802,764,929
	$ 1,024,055,217	$ 1,009,847,335

	December 31, 2007	December 31, 2006
Gross Unrealized Gains:		
U.S. Government agency obligations	$ 667,738	$ 301,808
State and Municipal securities	1,406,870	447,793
Mortgage-backed securities	4,814,993	906,476
	6,889,601	1,656,077
Gross Unrealized Losses:		
U.S. Treasury securities	2,801	230,163
U.S. Government agency obligations	34,584	136,966
State and Municipal securities	98,822	566,171
Mortgage-backed securities	1,680,233	12,367,521
	1,816,440	13,300,821
Net Unrealized Gains (Losses)	$ 5,073,161	$ (11,644,744)

Maturities at December 31, 2007:	Carrying Value	Estimated Fair Value
Due in 1 year or less	$ 50,674,874	$ 50,773,620
Due after 1 year through 5 years	85,501,638	86,712,455
Due after 5 years through 10 years	68,059,006	68,687,844
Mortgage-backed securities	814,746,538	817,881,298
	$ 1,018,982,056	$ 1,024,055,217

NOTE 3 - Securities Held-To-Maturity, continued

There were no sales of securities held-to-maturity in 2007 or 2006. There were no transfers of securities from held-to-maturity to available-for-sale in 2007 or 2006.

Gross unrealized losses on held-to-maturity securities and the fair value of the related held-to-maturity securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities	$ -	$ -	$ 9,973,400	$ 2,801	$ 9,973,400	$ 2,801
U.S. Government agency obligations	-	-	3,423,007	34,584	3,423,007	34,584
State and Municipal securities	174,995	6	12,147,778	98,816	12,322,773	98,822
Mortgage-backed securities	20,205,208	44,264	307,156,179	1,635,969	327,361,387	1,680,233
Total temporarily impaired securities	$ 20,380,203	$ 44,270	$ 332,700,364	$ 1,772,170	$ 353,080,567	$ 1,816,440

The Bank's held-to-maturity portfolio is primarily comprised of mortgage-backed securities issued or guaranteed by FNMA (Fannie Mae) or GNMA (Ginnie Mae). The unrealized losses on mortgage-backed securities are primarily attributable to declining market prices accelerated prepayments on the mortgages resulting from a lower interest rate environment. At December 31, 2007, there were 12 and 116 held-to-maturity securities with unrealized losses less than 12 months and 12 months or longer, respectively.

At December 31, 2007, management believes that held-to-maturity securities in an unrealized loss position were temporary in nature, and therefore no impairment losses were recognized in the statement of income. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these held-to-maturity securities are not considered other-than-temporarily impaired.

Total securities with a carrying value of approximately $566,629,316 and $457,069,550 at December 31, 2007 and December 31, 2006, respectively, were pledged to secure public deposits and for other purposes required by law.

Interest income on tax-exempt securities was $5,338,944 for the year ended December 31, 2007, and $4,564,418 for the year ended December 31, 2006.

NOTE 4 – SECURITIES AVAILABLE-FOR-SALE

The following is a summary of securities available-for-sale:

	December 31, 2007	December 31, 2006
Amortized Cost:		
U.S. Treasury securities	$ -	$ 39,961,567
U.S. Government agency obligations	220,888,970	301,809,563
State and municipal securities	37,169,269	20,028,328
Mortgage-backed securities	188,180,657	87,703,533
	$ 446,238,896	$ 449,502,991
Approximate Fair Value:		
U.S. Treasury securities	$ -	$ 39,861,800
U.S. Government agency obligations	224,910,468	300,747,955
State and municipal securities	37,722,901	20,087,682
Mortgage-backed securities	191,266,013	87,992,255
	$ 453,899,382	$ 448,689,692
Gross Unrealized Gains:		
U.S. Government agency obligations	$ 4,037,131	$ 326,073
State and municipal securities	553,632	65,348
Mortgage-backed securities	3,175,959	784,136
	7,766,722	1,175,557
Gross Unrealized Losses:		
U.S. Treasury securities	-	99,767
U.S. Government agency obligations	15,633	1,387,681
State and municipal securities	-	5,994
Mortgage-backed securities	90,603	495,414
	106,236	1,988,856
Net Unrealized Gains (Losses)	$ 7,660,486	$ (813,299)

Maturities at December 31, 2007:

	Amortized Cost	Estimated Fair Value
Due in 1 year or less	$ 25,608,680	$ 25,608,370
Due after 1 year through 5 years	169,096,629	172,229,710
Due after 5 years through 10 years	63,352,930	64,795,289
Mortgage-backed securities	188,180,657	191,266,013
	$ 446,238,896	$ 453,899,382

NOTE 4 - Securities Available-for-Sale, continued

There were no sales of securities in 2007. Gross realized loss on sale of securities of $307 was recognized for 2006.

Gross unrealized losses on available-for-sale securities and the fair value of the related available-for-sale securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2007 were as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agency obligations	-	-	8,344,367	15,633	8,344,367	15,633
Mortgage-backed securities	-	-	15,111,467	90,603	15,111,467	90,603
Total temporarily impaired securities	$ -	$ -	$ 23,455,834	$ 106,236	$ 23,455,834	$ 106,236

The unrealized losses on mortgage-backed securities are primarily attributable to declining market prices caused by accelerated prepayments on the mortgages resulting from a lower interest rate environment. At December 31, 2007, there were no available-for-sale securities with unrealized losses less than 12 months and 3 available-for-sale securities with unrealized losses 12 months or longer. Whenever the cost of an investment security exceeds its fair value, management evaluates, among other factors, general market conditions, the duration and extent to which cost is more than fair value.

At December 31, 2007, management believes that available-for-sale securities in an unrealized loss position were temporary in nature, and therefore no impairment losses were recognized in the income statement. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these available-for-sale securities are not considered other-than-temporarily impaired.

The following represents the related tax effect allocated to each component of other comprehensive income for the year ended December 31, 2007:

	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 8,473,786	$ (3,562,888)	$ 4,910,898
Other comprehensive income	$ 8,473,786	$ (3,562,888)	$ 4,910,898

NOTE 4 - Securities Available-for-Sale, continued

The following represents the related tax effect allocated to each component of other comprehensive income for the year ended December 31, 2006:

	Before-Tax Amount	Tax Expense	Net-of-Tax Amount
Unrealized gains on securities:			
Unrealized holding gains arising during period	$ 2,424,102	$ (1,019,239)	$ 1,404,863
Other comprehensive gains	$ 2,424,102	$ (1,019,239)	$ 1,404,863

NOTE 5 – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of the major categories of loans:

	December 31, 2007	December 31, 2006
Commercial	$ 170,218,803	$ 170,790,729
Real estate	1,095,261,895	1,035,085,339
Construction	272,475,343	157,515,685
Consumer	19,172,364	12,647,009
	1,557,128,405	1,376,038,762
Less: Allowance for loan losses	(27,229,882)	(23,678,558)
Loans, net	$ 1,529,898,523	$ 1,352,360,204

Activities in the allowance for loan losses for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Balance, beginning of year	$ 23,678,558	$ 22,861,390
Provision for loan losses	6,364,997	901,694
Charge-offs	(3,007,896)	(120,601)
Recoveries	194,223	36,075
Balance, end of year	$ 27,229,882	$ 23,678,558

The loan portfolio is composed mainly of credit extended to borrowers in Southern California with the majority of loans secured by real estate, even though a substantial amount of the Bank's loans are intended for business purposes. There is no concentration of loans to borrowers in a specific industry within the commercial loan portfolio.

NOTE 5 – Loans and Allowance for Loan Losses, continued

Loans on which the accrual of interest has been discontinued amounted to $4,845,762 at December 31, 2007, and $1,883,895 at December 31, 2006. If interest on these loans had been accrued, interest income would have been increased by approximately $458,073 in 2007, and $365,588 in 2006.

During 2007 and 2006, the Bank recorded $131,211 and $221,931, respectively, in interest income recoveries on loans that had previously been on non-accrual.

Loans 90 days or more past due as to interest and/or principal which remain on accrual status approximated $15,964,241 at December 31, 2007 and $17,948,739 at December 31, 2006.

Included in the Bank's loan portfolio are restructured loans which are those loans whose terms have been modified because of a deterioration in the financial condition of the borrower. There were no restructured loans at December 31, 2007. The total amount of restructured loans was $1,225,014 at December 31, 2006.

At December 31, 2007, the recorded investment in loans for which an impairment has been recognized was $39,659 and the related specific allowance for loan losses was $39,659. At December 31, 2006, there was no recorded investment in loans for which an impairment has been recognized. The recorded investment in loans considered impaired and for which no specific allowance has been recorded was $3,932,961 at December 31, 2007 and $3,108,909 at December 31, 2006. The average recorded investment in impaired loans during 2007 and 2006 was $1,832,565 and $1,846,420, respectively. Interest income recognized on impaired loans was $473,297 during 2007 and $330,833 during 2006.

The Bank had outstanding loan commitments of $411,711,469 and $428,418,725 at December 31, 2007 and 2006, respectively. Substantially, all of the Bank's loan commitments are on a variable rate basis and are comprised of real estate loan commitments. Activities in the reserve for unfunded commitments included in other liabilities in the accompanying balance sheet for the years ended December 31, 2007 and 2006 were as follows:

	2007	2006
Balance, beginning of year	$ 3,192,630	$ 3,586,401
Provision for (reduction of) losses on unfunded commitments	124,559	(393,771)
Charge-offs	-	-
Recoveries	-	-
Balance, end of year	$ 3,317,189	$ 3,192,630

NOTE 6 - BANK PREMISES AND EQUIPMENT

The following is a summary of bank premises and equipment at December 31:

	2007	2006
Land	$ 9,952,616	$ 5,706,720
Buildings	27,883,200	21,183,187
Furniture, fixtures and equipment	17,344,907	16,165,032
Leasehold improvements	3,640,456	2,858,492
	58,821,179	45,913,431
Less accumulated depreciation and amortization	(23,875,577)	(21,771,367)
	$ 34,945,602	$ 24,142,064

Depreciation and amortization expense was $2,420,601 in 2007 and $2,511,323 in 2006.

The Bank is committed under operating leases on certain premises and equipment. Certain leases require the Bank to pay property taxes and insurance. Rental expense was $1,636,704 in 2007, and $1,136,794 in 2006, net of sublease income of $320,259 and $369,585, respectively. Annual minimum lease commitments at December 31, 2007 were:

2008	$ 1,472,998
2009	1,266,002
2010	1,283,277
2011	1,218,064
2012	945,059
Thereafter	4,609,695

Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

NOTE 7 – TIME DEPOSITS

The following is a summary of time deposits:

	December 31,	
	2007	2006
Time deposits less than $100,000	$ 232,506,904	$ 203,665,480
Time deposits of $100,000 and over	440,167,591	393,733,756
	$ 672,674,495	$ 597,399,236

Interest expense on time deposits of $100,000 and over totaled $16,183,096 and $11,555,970 for the years ended December 31, 2007, and 2006, respectively.

NOTE 7 – Time Deposits, continued

At December 31, 2007, the maturity distribution of the Bank's time deposits was as follows:

2008	$ 651,364,889
2009	17,138,411
2010	3,839,639
2011	331,556
	$ 672,674,495

NOTE 8 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

At December 31, 2007 and 2006, securities sold under agreements to repurchase totaled $495,545,303 and $350,806,040 and carried weighted average interest rates of 3.71% and 4.15%, respectively. The securities underlying these agreements were U.S. Treasury securities, U.S. Government agency obligations and mortgage-backed securities with carrying values of $531,443,733 and $404,201,850 and fair values of $536,391,941 and $401,661,373, at December 31, 2007 and 2006, respectively. The securities underlying these agreements are held by a custodian bank until the maturity of the agreement. The identical securities will be repurchased by the Bank.

The average outstanding amounts of securities sold under agreements to repurchase (based upon daily balances) were $447,917,219 in 2007, and $339,195,852 in 2006. The weighted average interest rates were 4.12% in 2007, and 3.76% in 2006, and the maximum amounts outstanding during the periods were $564,573,825 and $392,280,844, respectively. All agreements in 2007 and 2006 are short term with maturities in a range of 6 to 8 weeks.

NOTE 9 – INCOME TAXES

The provision for income taxes for the years ended December 31, 2007 and 2006, is comprised of the following:

	2007	2006
Current:		
Federal	$ 25,491,213	$ 27,152,378
State	8,230,361	8,750,046
Total	33,721,574	35,902,424
Deferred:		
Federal	(1,173,374)	(704,002)
State	(324,384)	(43,953)
Total	(1,497,758)	(747,955)
Total income tax expense	$ 32,223,816	$ 35,154,469

NOTE 9 – Income Taxes, continued

Significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2007 are as follows:

	Assets	Liabilities
Allowance for loan losses	$ 13,998,042	$ -
Discount accretion income	-	35,323
State income taxes	1,435,034	-
Depreciation and amortization	2,264,938	-
Fair value adjustments on securities available-for-sale	-	3,220,927
Other, net	247,473	188,200
Total deferred taxes	$ 17,945,487	$ 3,444,450

Based on management's review of the recoverability of the net deferred tax asset above, no valuation allowance was considered necessary as of December 31, 2007. The net deferred tax asset is included in other assets in the accompanying balance sheets.

Significant temporary differences that give rise to the deferred tax assets and liabilities as of December 31, 2006 are as follows:

	Assets	Liabilities
Allowance for loan losses	$ 12,313,017	$ -
Discount accretion income	-	36,006
State income taxes	1,812,439	-
Depreciation and amortization	896,534	-
Deferred gain on sale of other real estate owned	195,293	-
Fair value adjustments on securities available-for-sale	341,960	-
Other, net	1,042,930	-
Total deferred taxes	$ 16,602,173	$ 36,006

Based on management's review of the recoverability of the net deferred tax asset above, no valuation allowance was considered necessary as of December 31, 2006.

The Federal tax rate was 35% for 2007 and 2006. A reconciliation of income tax expense and the amount computed by applying the "expected" Federal income tax rate to income before income taxes follows:

	2007	2006
Federal income tax rate	35.0%	35.0%
State income taxes, net of Federal benefit	6.3%	6.3%
Tax exempt income	(2.0%)	(1.8%)
Other, primarily tax credits	(0.7%)	(0.6%)
	38.6%	38.9%

NOTE 10 - COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET RISK

In the normal course of business, there are various outstanding commitments and contingencies, such as financial instruments with off balance sheet risk, which are not reflected in the accompanying financial statements. These financial instruments primarily consist of commitments to extend credit and standby letters of credit issued to meet the financing needs of the Bank's customers. Management does not anticipate any material losses as a result of these transactions.

Commitments to extend credit and standby letters of credit only represent exposure to risk in the event the contract is drawn upon and the other party to the contract defaults. The actual credit risk of these transactions depends upon the credit worthiness of the customer and on the value of any related collateral. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Bank had outstanding loan commitments of $411,711,469 and $428,418,725 at December 31, 2007 and 2006, respectively. Substantially, all of the Bank's loan commitments are on a variable rate basis and are comprised of real estate loan commitments.

Standby letters of credit amounting to $51,986,436 and $60,217,224 were outstanding at December 31, 2007 and 2006, respectively. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Where appropriate, cash or other security support is held as collateral.

From time to time, the Bank is a defendant or plaintiff in various legal proceedings, including litigation arising in the ordinary course of its business. To date, none of these types of litigation has had a material effect on the Bank and, as of December 31, 2007, the Bank is not a party to any material litigation except as described below.

In March 2004, plaintiff Marcus D. Walker filed a purported shareholder derivative and class action complaint in the Superior Court of the State of California for the County of Orange (the "Court"), Case No. 04 cc 00090, against seven past and present members of the Bank's Board of Directors and also against two additional officers. The Bank was named solely as a nominal defendant in relation to the purported derivative claims. Plaintiff's second amended complaint generally alleged that the individual defendants breached their fiduciary duties to the Bank and to its shareholders by, inter alia, permitting the Bank to accumulate an overly large capital surplus, and by adopting corporate resolutions concerning dividends, executive compensation, registration of the Bank's stock and other matters without adequate discussion or consideration of the issues. Moreover, Plaintiff alleged that certain transactions between the Bank and Farmers and Merchants Trust Company of Long Beach and other entities were approved without adequate consideration of potential conflicts of interest or alternative sources of services. Based on these allegations, Plaintiff sought an award of general, special and punitive damages, disgorgement, and also attorneys' fees and costs.

After the Court sustained their demurrers to several causes of action with prejudice, Defendants answered the second amended complaint by generally denying Plaintiff's allegations and asserting various affirmative defenses. On April 10, 2006, the Court denied Plaintiff's motion for class certification. On May 16, 2006, Plaintiff filed a notice of appeal from the April 10 class certification order. The parties subsequently reached an agreement on the principle terms of a settlement of the litigation, and prepared a Stipulation of Settlement that was filed with the Court. The Settlement is intended to fully, finally and forever resolve the lawsuit and provides for a comprehensive release of the Bank and the other defendants from any claims that were or could have been asserted in the litigation.

NOTE 10 – Commitments, Contingencies and Off-Balance Sheet Risk, continued

The Settlement also provides, subject to certain conditions, that the Bank will commit to make certain distributions to its shareholders. As part of this commitment, the Bank is, subject to conditions, to commence a tender offer (the "Tender Offer") after the effective date of the proposed Settlement whereby the Bank would offer to purchase up to 14,720 shares of its common stock at a price of $7,300 per share. If the proposed Tender Offer does not proceed or close for any reason, then the Bank would instead commit to make distributions to its shareholders in the aggregate amount of $86,000,000 (including the $42,537,100 to be used by the Bank to repurchase shares from Marcus D. Walker and his related and affiliated parties pursuant to the Standstill Agreement described below). These alternate proposed distributions could take the form of share repurchases, dividends or other distributions, and, subject to all necessary regulatory and corporate approvals, would be made from time to time, but ultimately no later than the date that is three years following the last day of the calendar quarter during which the effective date of the Settlement occurs.

In addition, plaintiff Marcus D. Walker, members of his immediate family, and certain of his related and affiliated parties entered into a Standstill Agreement whereby they agreed to sell to the Bank, promptly after the effective date of the proposed Settlement, all of their 5,827 shares of the Bank's common stock at the same per share price that would be offered to the Bank's shareholders in the proposed Tender Offer described above. Marcus D. Walker, members of his immediate family, and his related and affiliated parties also agreed in the Standstill Agreement to never again purchase any of the Bank's securities or seek to influence the management of the Bank in any way. Marcus D. Walker also agreed to bear all of his attorneys' fees and costs incurred in the filing, prosecution, and settlement of the lawsuit, and to waive any claim to recover attorneys' fees and costs from the Bank, its shareholders and the other defendants.

The Settlement also provides that the Bank shall indemnify the individual defendants for all costs, expenses and attorneys fees borne by, or advanced to or on behalf of the individual defendants in relation to or as a result of the litigation and settlement. During 2007 and 2006, the Bank advanced approximately $975,436 and $906,048, respectively, on behalf of the individual defendants in this matter. The Settlement became effective in February 2008.

NOTE 11 – STOCKHOLDERS' EQUITY AND STOCK OPTION PLAN

In 2005, the Board of Directors approved a stock repurchase program wherein the Bank was authorized to repurchase up to $50,000,000 of its common stock. There were no shares repurchased as of December 31, 2007. As of December 31, 2006, the Bank repurchased 2,195 shares for a total price of $12,926,830 and thereafter retired the shares.

In 1997, the Bank adopted a stock option plan (the "Plan") pursuant to which the Board of Directors may grant stock options to officers and key employees. The Plan authorizes grants of options to purchase up to 15,000 shares of authorized but unissued common stock. The Board granted 4,550 options in 1997 and another 1,250 options during 2000. Stock options are granted with an exercise price equal to the stock's fair value at the date of the grant. Stock options have 5 to 10-year terms and vest and become fully exercisable after 5 to 10 years from the date of grant. No options were granted during 2007 and 2006. During 2007 and 2006, 385 and 303 options became exercisable and were exercised during the year.

There were no outstanding options at December 31, 2007.

NOTE 11 – Stockholders' Equity and Stock Option Plan, continued

Stock option activity during the periods indicated is as follows:

	Number of Shares	Weighted-Average Exercise Price
Balance at January 1, 2006	718	$ 1,900
Granted	-	-
Exercised	(303)	$ 1,900
Forfeited	(30)	$ 1,900
Expired	-	-
Balance at December 31, 2006	385	$ 1,900
Granted	-	-
Exercised	(385)	$ 1,900
Forfeited	-	-
Expired	-	-
Balance at December 31, 2007	-	$ -

A summary of the status of the Bank's nonvested shares as of December 31, 2007, and changes during the year ended December 31, 2007, is presented below:

Nonvested Shares	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2007	385	$ 425.18
Granted	-	-
Vested	(385)	$ 425.18
Forfeited	-	$ -
Nonvested at December 31, 2007	-	$ -

As of December 31, 2007, there was no unrecognized compensation cost related to nonvested options granted under the Plan. The average fair value of shares vested during the years ended December 31, 2007 and 2006 was $6,594 and $5,688, respectively.

NOTE 12 - RELATED PARTY TRANSACTIONS

At December 31, 2007 and 2006, there was one loan, with remaining outstanding balance of $447,815 and 456,521, respectively, that the Bank extended to an affiliated party. In the opinion of management, the terms of this loan were the same that would be offered to any other borrower of similar financial strength and collateral.

NOTE 12 – Related Party Transactions, continued

The Bank and Farmers & Merchants Trust Company of Long Beach (Trust Co.) are affiliated parties as a substantial percentage of the outstanding shares of the Bank and the parent company of the Trust Co. are held by common shareholders, which include Richard Darling, William Hayter, Lawrence McLaughlin, Daniel K. Walker, Kenneth G. Walker and W. Henry Walker, each of whom is either a director and/or an officer of the Bank. In addition, certain officers and/or directors of the Bank are also officers and/or directors of the parent company of the Trust Co. and its subsidiaries, including the Trust Company. The Bank provides administrative, accounting and data processing services as well as office space to the Trust Co. The Trust Co. provides trustee and financial management services to the Bank and maintains deposits with the Bank. The Bank and the Trust Co. have entered into an agreement for the exchange of services, which will result in a periodic settlement of amounts owed. This agreement was unanimously approved by their respective audit committee and Board of Directors. The Trust Co. paid Bank $34,983 and $2,078, respectively, pursuant to the agreement for the exchange of services for each of the years ended December 31, 2007 and 2006.

The Bank leases a branch location from the Trust Co.'s parent corporation. The Bank paid $267,954 and $277,456, respectively, in rent pursuant to this lease for each of the years ended December 31, 2007 and 2006.

NOTE 13 – PROFIT-SHARING PLAN

The Bank has a noncontributory profit-sharing plan in which employees are eligible to participate at year-end if they have been employed for at least 1,000 hours during the year. The Bank contributed $3,662,585 and $3,247,768 to the profit-sharing plan in 2007 and 2006, respectively. At December 31, 2007 and December 31, 2006, no shares of the Bank's stock are held by the trust created by the plan.

NOTE 14 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal and State 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 Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

NOTE 14 – Regulatory Matters, continued

The Bank's actual regulatory capital amounts and ratios are also presented in the table.

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets)	$709,776,047	37.75%	≥$150,405,956	≥8.0%	≥$188,007,445	≥10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$686,188,127	36.50%	≥$ 75,202,978	≥4.0%	≥$112,804,467	≥ 6.0%
Tier 1 Capital (to Average Assets)	$686,188,127	21.71%	≥$126,408,118	≥4.0%	≥$158,010,148	≥ 5.0%

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	$671,601,458	39.22%	≥$136,989,563	≥8.0%	≥$171,236,954	≥10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$650,129,350	37.97%	≥$ 68,494,782	≥4.0%	≥$102,742,173	≥ 6.0%
Tier 1 Capital (to Average Assets)	$650,129,350	21.32%	≥$121,948,130	≥4.0%	≥$152,435,163	≥ 5.0%