

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**WITH**  
**INDEPENDENT AUDITORS' REPORT**  
**DECEMBER 31, 2008 AND 2007**

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

VALUE THE DIFFERENCE

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of  
WCB Holdings, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of WCB Holdings, Inc. and Subsidiary as of December 31, 2008 and 2007 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WCB Holdings, Inc. and Subsidiary as of December 31, 2008 and 2007 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 25, 2009

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2008 and 2007**

**ASSETS**

	2008	2007
Cash and Due from Banks	\$ 881,522	\$ 1,703,594
Interest-Bearing Deposits in Financial Institutions	3,037,228	1,655,803
Federal Funds Sold	-	6,414,173
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>3,918,750</b>	<b>9,773,570</b>
Time Deposits in Other Banks	1,114,000	-
Investment Securities Available for Sale	1,016,523	4,611,961
Receivable from Sale of Investment Securities	10,029,156	-
Loans:		
Construction and Land Development	11,912,899	7,746,762
Real Estate - Other	46,960,743	39,894,145
Commercial	42,368,784	27,606,170
Small Business Administration "SBA"	310,698	361,603
Consumer	2,009,519	706,793
<b>TOTAL LOANS</b>	<b>103,562,643</b>	<b>76,315,473</b>
Deferred Loan Fees, Net of Costs	( 226,187)	( 175,271)
Allowance for Loan Losses	( 1,654,786)	( 870,000)
<b>NET LOANS</b>	<b>101,681,670</b>	<b>75,270,202</b>
Pacific Coast Bankers' Bank Stock, at Cost	475,000	475,000
Federal Home Loan Bank Stock, at Cost	346,300	159,000
Premises and Equipment	548,360	573,020
Other Real Estate Owned	1,711,622	-
Accrued Interest and Other Assets	643,848	524,045
	<b>\$ 121,485,229</b>	<b>\$ 91,386,798</b>

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2008 and 2007**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	2008	2007
Deposits:		
Noninterest-Bearing Demand	\$ 9,188,134	\$ 10,184,680
Savings, NOW and Money Market Accounts	17,705,275	19,181,773
Time Deposits Under \$100,000	43,165,721	30,463,587
Time Deposits \$100,000 and Over	34,979,164	18,632,778
<b>TOTAL DEPOSITS</b>	105,038,294	78,462,818
Federal Funds Purchased	1,560,000	-
Other Borrowings	4,000,000	2,050,000
Optional Convertible Subordinated Debt Securities	600,000	-
Accrued Interest and Other Liabilities	831,601	616,949
<b>TOTAL LIABILITIES</b>	112,029,895	81,129,767
Commitments and Contingencies - Notes D and K	-	-
Shareholders' Equity:		
Common Stock - 10,000,000 Shares Authorized, No Par Value;		
1,373,149 Shares Issued and Outstanding	13,731,490	13,731,490
Additional Paid-in Capital	532,171	297,686
Accumulated Deficit	( 4,824,896)	( 3,831,477)
Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Securities	16,569	59,332
<b>TOTAL SHAREHOLDERS' EQUITY</b>	9,455,334	10,257,031
	\$ 121,485,229	\$ 91,386,798

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
For the Years Ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 6,422,288	\$ 4,474,657
Interest on Investment Securities	490,200	97,661
Interest on Federal Funds Sold	132,570	355,632
Other Interest Income	86,010	33,690
<b>TOTAL INTEREST INCOME</b>	<u>7,131,068</u>	<u>4,961,640</u>
 <b>INTEREST EXPENSE</b>		
Interest on Savings Deposits, NOW and Money Market Accounts	440,017	725,871
Interest on Time Deposits	2,994,173	1,515,129
Interest on Other Borrowings	164,368	43,676
<b>TOTAL INTEREST EXPENSE</b>	<u>3,598,558</u>	<u>2,284,676</u>
<b>NET INTEREST INCOME</b>	3,532,510	2,676,964
 Provision for Loan Losses	<u>1,452,000</u>	<u>473,000</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	2,080,510	2,203,964
 <b>NONINTEREST INCOME</b>		
Service Charges, Fees and Other	444,923	110,604
Gain on Sale of Available-for-Sale Securities	212,542	-
 <b>NONINTEREST EXPENSE</b>		
Salaries and Employee Benefits	1,780,340	1,471,093
Occupancy and Equipment Expenses	567,504	442,514
Other Expenses	1,381,950	1,019,462
	<u>3,729,794</u>	<u>2,933,069</u>
<b>LOSS BEFORE INCOME TAXES</b>	( 991,819)	( 618,501)
Income Taxes	<u>1,600</u>	<u>800</u>
<b>NET LOSS</b>	<u><u>\$ ( 993,419)</u></u>	<u><u>\$ ( 619,301)</u></u>
<b>NET LOSS PER SHARE - BASIC</b>	<u><u>\$ ( 0.72)</u></u>	<u><u>\$ ( 0.45)</u></u>

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Years Ended December 31, 2008 and 2007**

	Comprehensive Income	Common Stock Number of Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
<b>Balance at January 1, 2007</b>		1,373,149	\$13,731,490	\$ 111,904	\$( 3,212,176)	\$ 16,463	\$10,647,681
Stock-Based Compensation				185,782			185,782
<b>Comprehensive Income:</b>							
Net Loss	\$( 619,301)				( 619,301)		( 619,301)
Unrealized Gain on Available-for-Sale Securities	42,869					42,869	42,869
<b>Total Comprehensive Income</b>	\$( 576,432)						
<b>Balance at December 31, 2007</b>		1,373,149	13,731,490	297,686	( 3,831,477)	59,332	10,257,031
Stock-Based Compensation				234,485			234,485
<b>Comprehensive Income:</b>							
Net Loss	\$( 993,419)				( 993,419)		( 993,419)
Reclassification Adjustment for Gain on Sale of Securities	\$( 212,542)					( 212,542)	( 212,542)
Unrealized Gain on Available-for-Sale Securities	169,779					169,779	169,779
<b>Total Comprehensive Income</b>	\$(1,036,182)						
<b>Balance at December 31, 2008</b>		1,373,149	\$13,731,490	\$ 532,171	\$( 4,824,896)	\$ 16,569	\$ 9,455,334

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2008 and 2007

	2008	2007
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$( 993,419)	\$( 619,301)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	222,034	171,949
Provision for Loan Losses	1,452,000	473,000
Stock-Based Compensation	234,485	185,782
Gain on Sale of Available-for-Sale Securities	( 212,542)	-
Other Items	71,732	33,780
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>774,290</b>	<b>245,210</b>
 <b>INVESTING ACTIVITIES</b>		
Change in Time Deposits in Other Banks	( 1,114,000)	-
Purchase of Available-for-Sale Securities	( 8,068,355)	( 3,019,298)
Principal Reduction on Available-for-Sale Securities	1,815,133	377,800
Net Increase in Loans	( 29,575,090)	( 44,478,374)
Purchase of Federal Home Loan Bank Stock	( 174,900)	( 155,400)
Purchases of Premises and Equipment	( 197,374)	( 240,019)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>( 37,314,586)</b>	<b>( 47,515,291)</b>
 <b>FINANCING ACTIVITIES</b>		
Net Change in Demand Deposits and Savings Accounts	( 2,473,044)	11,242,386
Net Increase in Time Deposits	29,048,520	38,688,668
Net Increase in Other Borrowings	3,510,000	2,050,000
Net Increase from Convertible Subordinated Debt Securities	600,000	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>30,685,476</b>	<b>51,981,054</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>( 5,854,820)</b>	<b>4,710,973</b>
Cash and Cash Equivalents at Beginning of Period	9,773,570	5,062,597
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 3,918,750</b>	<b>\$ 9,773,570</b>
 <b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 3,499,274	\$ 2,165,240
Taxes Paid	\$ 1,600	\$ 800
Transfer of Loans to Other Real Estate Owned	\$ 1,711,622	\$ -

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The consolidated financial statements included the accounts of WCB Holdings, Inc. and its wholly owned subsidiary, Western Commercial Bank (the “Bank”), collectively referred to herein as the “Company.” All significant intercompany transactions have been eliminated.

WCB Holdings, Inc. has no significant business activity other than its investment in Western Commercial Bank. Accordingly, no separate financial information on the Company is provided.

Nature of Operations

The Company has been incorporated in the State of California and organized as a single operating segment that operates one full-service office in Woodland Hills, California and one loan production office in Oxnard, California. The Company's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

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.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash, due from banks, deposits in other financial institutions with maturities under ninety days 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 its reserve requirements as of December 31, 2008 and 2007.

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

Time Deposits in Other Banks

Time deposits in other Banks mature within one year and are carried at cost.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Investment Securities

Bonds, notes, and debentures for which the Company has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity. Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers; the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Federal Home Loan Bank ("FHLB") Stock

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

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.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Loans - Continued

The Company considers a loan to be impaired when it is probable that the Company will be unable to collect any or 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 Company 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 Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

Allowance for Loan Losses

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

Other Real Estate Owned

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

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, equipment and computer 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 Company expenses the costs of advertising in the period incurred.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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.

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

Comprehensive Income

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

Financial Instruments

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

Earnings per Shares (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 securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The Company has an operating loss and therefore only reports basic EPS.

Weighted average shares outstanding used in the computation of basic earning per share were 1,373,149 in 2008 and 2007.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Stock-Based Compensation

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

Fair Value Measurement

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The impact of adoption of SFAS No. 157 is not material. Applicable disclosures are presented in these consolidated financial statements.

In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*. This FSP delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) for fiscal years beginning after November 15, 2008. Major categories of assets that are recognized or disclosed at fair value for which the Bank has not applied the provisions of SFAS 157 include Other Real Estate Owned.

In February 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard was effective for the Company on January 1, 2008. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008.

Statement 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Statement 157 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Fair Value Measurement - Continued

Level 3: Significant unobservable inputs that reflect a Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the security's relationship to other benchmark quoted securities (Level 2).

Reclassifications

Certain reclassifications have been made in the 2007 financial statements to conform to the presentation used in 2008. These reclassifications had no impact on the Bank's previously reported financial statements.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**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:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2008:				
Mortgage-Backed Securities	<u>\$ 999,954</u>	<u>\$ 16,569</u>	<u>\$ -</u>	<u>\$ 1,016,523</u>
December 31, 2007:				
Mortgage-Backed Securities	<u>\$4,552,629</u>	<u>\$ 59,332</u>	<u>\$ -</u>	<u>\$4,611,961</u>

All investment securities at December 31, 2008 and 2007, were pledged to secure borrowing arrangements discussed in Note F.

The amortized cost and estimated fair value of all investment securities as of December 31, 2008 by expected maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	<u>Available-for-Sale Securities</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due after Ten Years	<u>\$ 999,954</u>	<u>\$ 1,016,523</u>

During 2008, the Company traded securities for proceeds receivable of \$10,029,156 from the sale of fixed-rate Mortgage Backed Securities and recognized gross gains of \$212,542. This security transaction was settled in January 2009. There were no such sales in 2007.

**NOTE C - LOANS**

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE C - LOANS - Continued**

The Bank has pledged loans totaling approximately \$22.2 million to secure a line of credit with the Federal Home Loan Bank as discussed in Note F.

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

	<u>2008</u>	<u>2007</u>
Beginning Balance	\$ 870,000	\$ 397,000
Additions to the Allowance Charged to Expense	1,452,000	473,000
Recoveries on Loans Charged Off	750	-
	<u>2,322,750</u>	<u>870,000</u>
Less Loans Charged Off	<u>( 667,964)</u>	<u>-</u>
Ending Balance	<u>\$ 1,654,786</u>	<u>\$ 870,000</u>

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

	<u>2008</u>	<u>2007</u>
Year-end Impaired Loans with no Allocated Allowance	\$ -	\$ -
Year-end Impaired Loans with an Allocated Allowance	7,197,076	-
Less Guaranteed Portion of Impaired Loans	<u>( 4,689,583)</u>	<u>-</u>
	<u>\$ 2,507,493</u>	<u>\$ -</u>
Amount of Allowance for Loan Loss Allocated	<u>\$ 372,332</u>	<u>\$ -</u>
Average of Impaired Loans Outstanding during the Year	<u>\$ 4,138,250</u>	<u>\$ -</u>
Interest Income Recognized for Cash Payments	<u>\$ 85,636</u>	<u>\$ -</u>
Past Due Over 90 Days Still on Accrual	<u>\$ -</u>	<u>\$ -</u>
Nonaccrual Loans	<u>\$ 7,197,076</u>	<u>\$ -</u>

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2008 and 2007**

**NOTE D - PREMISES AND EQUIPMENT**

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

	<u>2008</u>	<u>2007</u>
Leasehold Improvements	\$ 185,985	\$ 158,126
Furniture, Fixtures, and Equipment	398,246	299,520
Computer Equipment	<u>504,426</u>	<u>435,868</u>
	1,088,657	893,514
Less Accumulated Depreciation and Amortization	<u>( 540,297)</u>	<u>( 320,494)</u>
	<u>\$ 548,360</u>	<u>\$ 573,020</u>

The Company has entered into a ten-year lease for its main banking office in Woodland Hills. The Company is responsible for its share of common area maintenance, taxes and insurance. The lease expires on June 30, 2015. The Company has entered into a three-year lease for its lending department in Woodland Hills. The Company is responsible for its share of common area maintenance, taxes and insurance. The leases expire on December 31, 2010. The Company has also entered into a five-year lease for its loan production office in Oxnard. The Company is responsible for its share of common area maintenance, taxes and insurance on the lease. The lease expires on April 30, 2014.

At December 31, 2008, the minimum rental payments for the original term plus the renewal periods that are reasonably assured for the Company's main banking office, lending department and loan production offices were as follows:

2009	\$ 297,704
2010	366,170
2011	327,417
2012	337,854
2013	348,624
Thereafter	<u>1,774,987</u>
	<u>\$ 3,452,756</u>

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense was approximately \$250,000 and \$194,000 for the periods ended December 31, 2008 and 2007, respectively.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE E - DEPOSITS**

At December 31, 2008 the scheduled maturities of time deposits are approximately as follows:

Due in One Year or Less	\$ 57,030,000
Due Over One through Three Years	18,377,000
Due Over Three Years	<u>2,738,000</u>
	<u><u>\$ 78,145,000</u></u>

As of December 31, 2008, the Bank had one deposit relationship that exceeded 22% of total deposits and aggregated \$23,555,876.

**NOTE F - BORROWING ARRANGEMENTS**

The Bank may borrow up to \$9,500,000 overnight on an unsecured basis from four of its correspondent banks. As of December 31, 2008 and 2007, there was \$1,560,000 and \$0, respectively, outstanding under these arrangements.

The Bank also has a line of credit with the Federal Home Loan Bank secured by certain of its investments and loans. As of December 31, 2008, the Bank had pledged loans totaling approximately \$22.2 million and securities of \$1.0 million resulting in a secured borrowing capacity of approximately \$13.2 million. As of December 31, 2008, the Bank had the following outstanding advances from the FHLB under this line:

<u>Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
\$ 500,000	4.94%	8/3/2009
1,500,000	4.92%	8/3/2009
<u>2,000,000</u>	2.59%	2/26/2010
<u><u>\$ 4,000,000</u></u>		

As of December 31, 2007, the Company had borrowed \$50,000 under a short term noted with a director to cover its organizational costs. This note was due and payable on June 19, 2008 with interest at 8.75%. As of December 31, 2008, the note has been paid and no balance remains outstanding.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE G - CONVERTIBLE SUBORDINATED DEBT SECURITIES**

On September 15, 2008 and October 15, 2008, the Company issued \$550,000 and \$50,000, respectively, of optional convertible subordinated debentures (the “debt securities”) to four investors. These debt securities are subordinated to effectively all borrowings of the Company and are due and payable on September 15, 2011. Interest is payable semiannually on these debt securities at a fixed rate of 8.00% per annum from the issue date until payment of the principal amount has been made. The debt securities can also be converted to common stock of the Company at any time prior to September 15, 2011, at the conversion rate of the lower of \$11.00 per share or the price offered by the Company in any offering of its common stock between the date of issuance of the debt security and the date of conversion. The debt securities can also be redeemed at book value prior to September 15, 2011 if certain events occur that impact the capital treatment of the issuance.

The holder of the debentures may only convert the debentures to common stock of the Company, if following the conversion the holder will not have in excess of 9.99% of the common stock of the Company unless the holder has obtained prior approval from the applicable regulatory agencies.

**NOTE H - INCOME TAXES**

Income taxes payable for the periods ended December 31, 2008 and 2007 were the minimum franchise tax for the State of California due to operating losses and operating loss carryovers. The tax benefit related to the operating loss incurred during the periods ended December 31, 2008 and 2007 were not recognized, as realization of the benefit is dependent upon future income.

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:

	<u>2008</u>	<u>2007</u>
Deferred Tax Assets:		
Operating Loss Carryforwards	\$ 775,000	\$ 704,000
Pre-Opening Expenses	487,000	517,000
Allowance for Loan Losses Due to Tax Limitations	462,000	246,000
Stock-Based Compensation	108,000	20,000
Other Items	215,000	22,000
	<u>2,047,000</u>	<u>1,509,000</u>
Valuation Allowance	( 1,866,000)	( 1,422,000)
Deferred Tax Liabilities:		
Loan Costs	( 119,000)	( 84,000)
Other Items	( 62,000)	( 3,000)
	<u>( 181,000)</u>	<u>( 87,000)</u>
Net Deferred Tax Assets	<u>\$ -</u>	<u>\$ -</u>

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE H - INCOME TAXES - Continued**

The valuation allowance was established because the Company has not reported earnings sufficient enough to support the recognition of the deferred tax assets.

The Company has net operating loss carryforwards of approximately \$1,899,000 for federal income and \$1,802,000 for California franchise tax purposes. Federal net operating loss carryforwards, to the extent not used will expire in 2028. California net operating loss carryforwards, to the extent not used will expire in 2017.

The Company is subject to federal income tax and California franchise tax. Federal income tax returns for the years ended December 31, 2007, 2006 and 2005 are open to audit by the federal authorities and California returns for the years ended December 31, 2007, 2006 and 2005 are open to audit by state authorities.

**NOTE I - OTHER EXPENSES**

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

	<u>2008</u>	<u>2007</u>
Data Processing	\$ 146,147	\$ 130,566
Professional Fees	436,753	355,585
Director Fees and Expenses	177,193	111,669
Marketing and Business Promotion	172,089	116,818
Regulatory Expense	112,632	60,662
Office Expenses	48,189	38,531
Loan Expenses	40,388	4,092
Insurance	30,304	30,511
Other Expenses	<u>218,255</u>	<u>171,028</u>
	<u>\$ 1,381,950</u>	<u>\$ 1,019,462</u>

**NOTE J - RELATED PARTY TRANSACTIONS**

Loans granted to certain directors, executive officers and their related interests with which they are associated totaled approximately \$2,385,000 and \$825,000 as of December 31, 2008 and 2007, respectively.

Deposits from certain directors, officers and their related interests with which they are associated held by the Bank amounted to approximately \$497,000 and \$451,000 as of December 31, 2008 and 2007, respectively. In addition, the Bank engaged a director to perform one real estate appraisal in 2007 at a cost of \$6,500.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE K - COMMITMENTS**

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

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

As of December 31, 2008 and 2007, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	<u>2008</u>	<u>2007</u>
Commitments to Extend Credit	\$ 17,877,000	\$ 17,881,000
Letters of Credit	<u>2,277,000</u>	<u>3,404,000</u>
	<u>\$ 20,154,000</u>	<u>\$ 21,285,000</u>

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

**NOTE L - STOCK-BASED COMPENSATION**

The Company's 2006 Stock Option Plan was approved by its shareholders in June 2006. Under the terms of the 2006 Stock Option Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for a maximum number of shares that may be awarded to eligible employees and directors not to exceed 411,944 shares. Stock options are granted 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 all equity based awards generally vest over five years.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE L - STOCK-BASED COMPENSATION - Continued**

In February 2008, the Company issued 50,000 warrants to four of its organizers. Each warrant can be redeemed for one share of common stock. The warrants vest at a rate of 20% over five years and may be exercised at a price of \$12.00 per share. As of December 31, 2008 there were 50,000 shares of these warrants outstanding. As of December 31, 2008 there was \$182,000 of total unrecognized compensation cost related to the outstanding warrants that will be recognized over a weighted average period of 2.9 years.

The Company recognized stock-based compensation cost of \$234,485 in 2008 and \$185,782 in 2007.

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:

	<u>2008</u>	<u>2007</u>
Risk Free Interest Rate	3.65%	4.69%
Estimated Average Life	6.5 Years	6.5 Years
Expected Dividend Rates	0.00%	0.00%
Expected Stock Volatility	20.00%	20.00%
Weighted-Average Option Value	\$1.93	\$4.74

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

	<u>2008</u>
Risk Free Interest Rate	4.60%
Estimated Average Life	8.5 Years
Expected Dividend Rates	0.00%
Expected Stock Volatility	20.00%
Weighted-Average Warrant Value	\$4.27

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

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE L - STOCK-BASED COMPENSATION - Continued**

A summary of the status of the Company's fixed stock option plan as of December 31, 2008 and changes during the periods ending thereon is presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	298,125	\$ 10.19		
Granted	12,750	\$ 11.00		
Exercised	-	\$ -		
Forfeited or Expired	<u>( 750)</u>	\$ 13.50		
Outstanding at End of Year	<u>310,125</u>	<u>\$ 10.21</u>	<u>7.0 Years</u>	<u>\$ -</u>
Options Exercisable	<u>117,300</u>	<u>\$ 10.13</u>	<u>7.2 Years</u>	<u>\$ -</u>

As of December 31, 2008 there was \$529,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.9 years.

**NOTE M - REGULATORY MATTERS**

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, that the Bank meets all capital adequacy requirements to which it is subject.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE M - REGULATORY MATTERS - Continued**

As of December 31, 2008, 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		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2008:</b>						
Total Capital (to Risk-Weighted Assets)	\$11,290	10.3%	\$ 8,812	8.0%	\$11,015	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$9,910	9.0%	\$ 4,406	4.0%	\$ 6,609	6.0%
Tier 1 Capital (to Average Assets)	\$9,910	8.0%	\$ 5,681	4.0%	\$ 7,102	5.0%
<b>As of December 31, 2007:</b>						
Total Capital (to Risk-Weighted Assets)	\$11,100	13.8%	\$ 6,454	8.0%	\$ 8,067	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$10,230	12.7%	\$ 3,227	4.0%	\$ 4,840	6.0%
Tier 1 Capital (to Average Assets)	\$10,230	11.8%	\$ 3,460	4.0%	\$ 4,325	5.0%

In addition to these capital requirements, the FDIC requires the Bank to maintain its Tier 1 Capital to average assets at 8% during its first three years of operations.

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 by the Bank's shareholders during the same period.

**NOTE N - FORMATION OF WCB HOLDINGS, INC.**

During 2007, WCB Holdings, Inc. acquired Western Commercial Bank by issuing 1,373,149 shares of common stock in exchange for the surrender of all outstanding shares of the Bank's common stock. There was no cash involved in this transaction. The acquisition was accounted for like a pooling of interests and the consolidated financial statements contained herein have been restated to give full effect to this transaction.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS**

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding the current interest rate environment and future expected loss experience, economic conditions, cash flows and risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on financial instruments both on and off the balance sheet without attempting to estimate the value of anticipated future business, and the value of assets and liabilities that are not considered financial instruments. Additionally, tax consequences related to the realization of the unrealized gains and losses can have a potential effect on fair value estimates and have not been considered in many of the estimates.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Financial Assets

The carrying amounts of cash, short-term investments, due from customers on acceptances, and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with Banks. The fair values of investment securities, including available for sale, are generally based on quoted market prices. The fair value of loans are estimated using a combination of techniques, including discounting estimated future cash flows and quoted market prices of similar instruments where available.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand, commercial paper, and other borrowed funds are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of long-term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

**WCB HOLDINGS, INC. AND SUBSIDIARY**  
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**NOTE O - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued**

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

The estimated fair value of financial instruments at December 31 is summarized as follows (amounts in thousands):

	2008	
	Carrying Value	Fair Value
<b>Financial Assets</b>		
Cash and Due From Banks	\$ 882	\$ 882
Interest-Bearing Deposits in Financial Institutions	3,037	3,037
Time Deposits in Other Banks	1,114	1,114
Investment Securities	1,017	1,017
Net Loans	101,682	102,132
Pacific Coast Bankers' Bank Stock	475	475
Federal Home Loan Bank Stock	346	346
Accrued Interest Receivable and Other Assets	644	644
<b>Financial Liabilities</b>		
Deposits	\$ 105,038	\$ 106,368
Federal Funds Purchased	1,560	1,560
Other Borrowings	4,000	4,000
Optional Convertible Subordinated Debt Securities	600	600
Accrued Interest Payable and Other Liabilities	832	832