

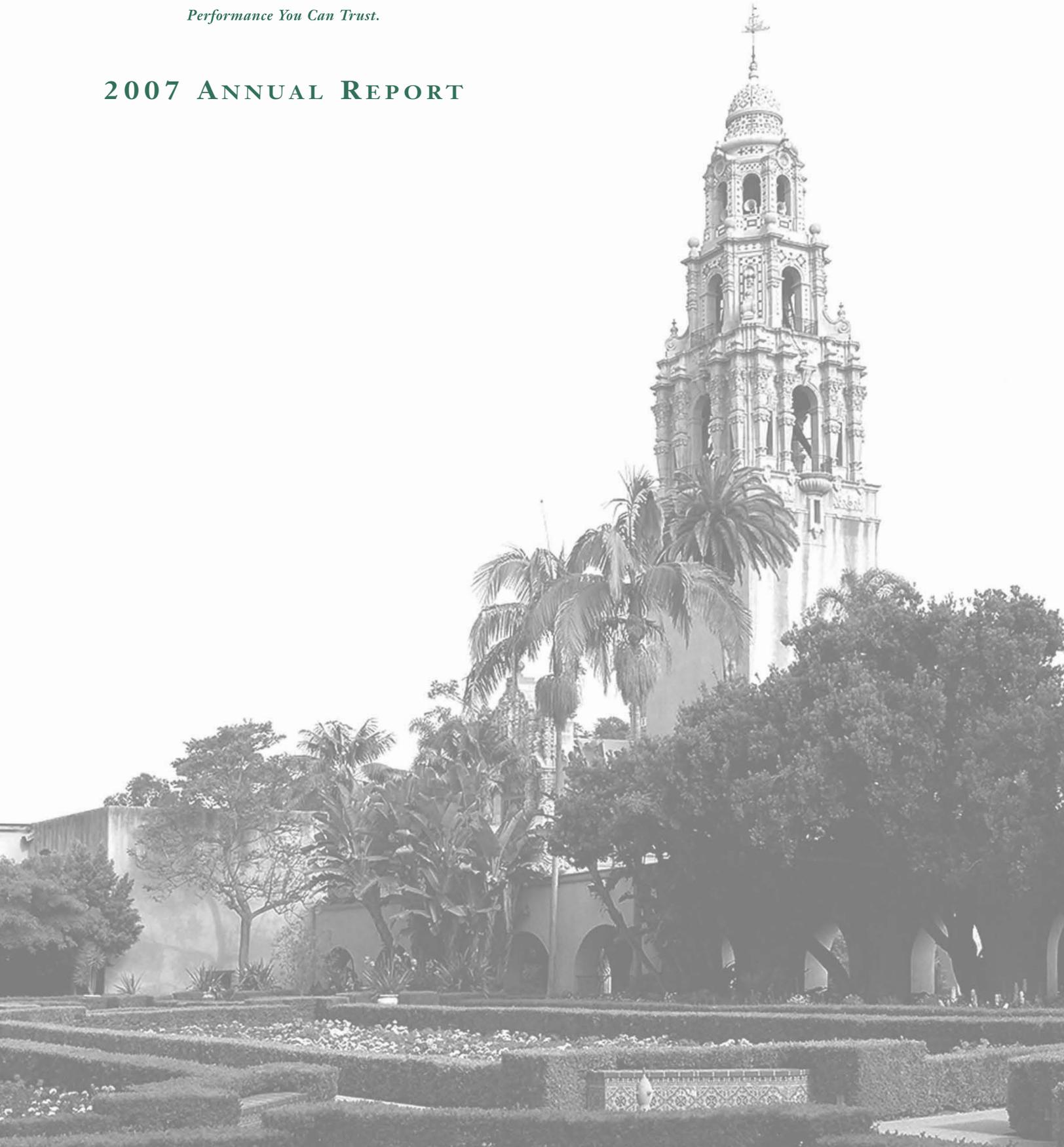


San Diego Trust

BANK

*Performance You Can Trust.*

## 2007 ANNUAL REPORT



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## MESSAGE FROM MICHAEL E. PERRY, CHAIRMAN, PRESIDENT AND CEO



Dear Friend,

I'm excited to be able to report the following strong results to our loyal shareholders given today's unfavorable economic environment and the much publicized challenges facing our industry. Despite a moderating economy, slumping housing market, and increasing pressure on margins, the Bank posted record pre-tax earnings and finished 2007 with record assets of more than \$100 million!

The fact that we were able to report such favorable results given the current economic backdrop, while also absorbing the significant expense incurred to open our new Encinitas Office, truly underscores the strength of our core earnings and the dedication of our entire team.

While no financial institution is completely immune to the strains associated with an extended economic downturn, we have strategically positioned our company over the past two years to mitigate the heightened level of risk associated with deteriorating market conditions. The Bank has never engaged in the permanent residential mortgage market nor holds any sub-prime securities in its portfolio, and therefore is not impacted directly by the turmoil in this market.

Our focused and disciplined approach on establishing quality relationships with the "*best of San Diego*" has not only translated to exceptional performance on the earnings front, but has enabled us to build a sound loan portfolio that continues to perform exceptionally well. Since inception, the Bank has yet to report a single past due or delinquent loan in our entire portfolio, a claim very few in our industry can make these days.

We enter 2008 with a solid balance sheet, strong consistent earnings, and most importantly, the experience and skills necessary to navigate through this cyclical downturn. We shall seek to capitalize on opportunities in our market as they present themselves, but will not sacrifice future results simply in an effort to generate short-term gains at the expense of realizing our long-term objectives.

I would like to personally thank each and every one of you for your continued support, loyalty and confidence over the past several years. You have my pledge that every member of our team is committed to the realization of becoming "*the Premier Community Bank*" in our market and continues to approach each day with passion, conviction, and an unrelenting quest to deliver "*Performance You Can Trust*".

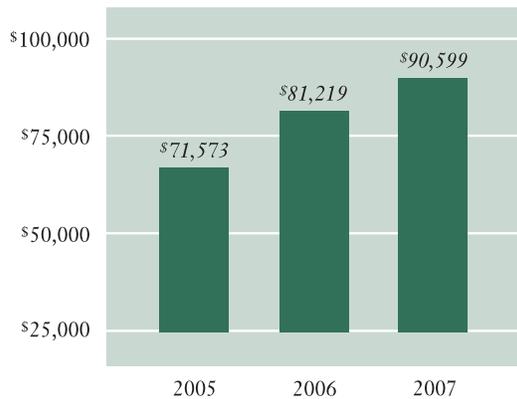
Very truly yours,

A handwritten signature in black ink, appearing to read "Michael E. Perry". The signature is stylized and fluid.

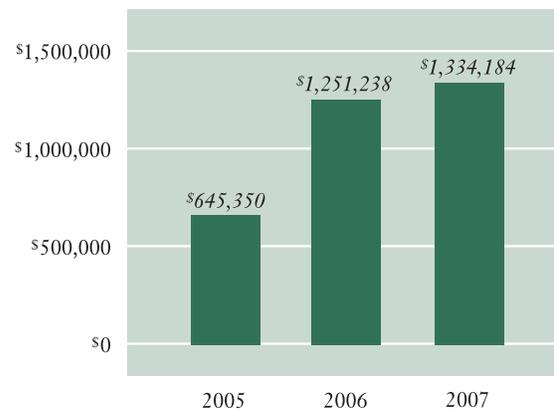
MICHAEL E. PERRY

## CHARTS AND GRAPHS

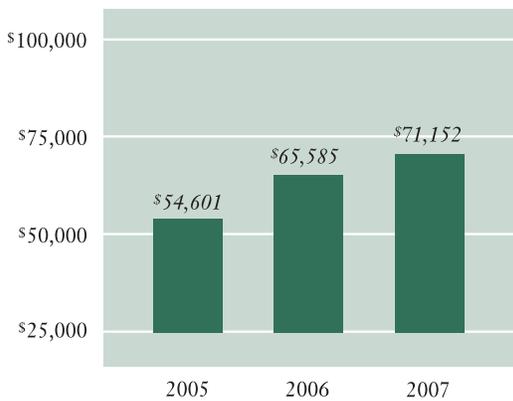
**Total Deposits** (In Thousands)



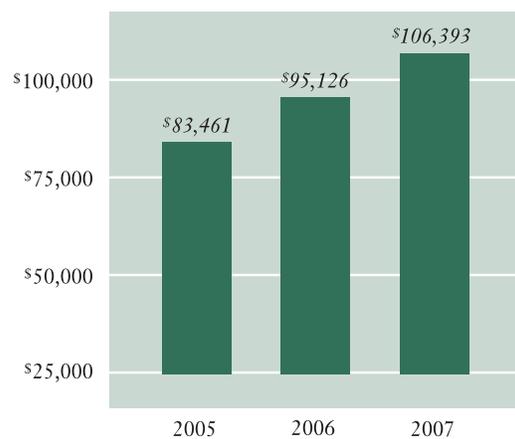
**Pre-Tax Earnings** (In Dollars)



**Total Loans** (In Thousands)



**Total Assets** (In Thousands)





## INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of San Diego Trust Bank

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

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

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

*Vaurinek, Trime, Day & Co., LLP*

Laguna Hills, California  
February 1, 2008

## STATEMENTS OF FINANCIAL CONDITION

December 31, 2007 and 2006

	2007	2006
<b>ASSETS</b>		
Cash and Due from Banks	\$ 1,974,901	\$ 2,078,514
Federal Funds Sold	9,015,000	5,035,000
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>10,989,901</b>	<b>7,113,514</b>
Interest-Bearing Deposits in Other Financial Institutions	5,357,000	10,331,000
Investment Securities Available for Sale	12,412,264	7,901,635
Loans:		
Construction	22,059,142	21,786,949
Real Estate – Other	41,858,279	37,138,763
Commercial	7,000,589	6,621,095
Consumer	233,665	37,961
<b>TOTAL LOANS</b>	<b>71,151,675</b>	<b>65,584,768</b>
Deferred Loan Fees, Net of Costs	(94,001)	(116,656)
Allowance for Loan Losses	(885,000)	(847,300)
<b>NET LOANS</b>	<b>70,172,674</b>	<b>64,620,812</b>
Premises and Equipment	1,920,575	1,058,279
Bank Owned Life Insurance	3,842,110	2,722,626
Deferred Tax Assets, Net	191,000	621,000
Accrued Interest and Other Assets	1,507,111	756,737
	<b>\$ 106,392,635</b>	<b>\$ 95,125,603</b>

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

## STATEMENTS OF FINANCIAL CONDITION

December 31, 2007 and 2006

	2007	2006
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits:		
Noninterest-Bearing Demand	\$ 25,241,746	\$ 19,686,045
Savings, NOW and Money Market Accounts	49,213,914	42,693,685
Time Deposits Under \$100,000	1,095,516	940,270
Time Deposits \$100,000 and Over	15,047,939	17,899,284
<b>TOTAL DEPOSITS</b>	<b>90,599,115</b>	<b>81,219,284</b>
Accrued Interest and Other Liabilities	1,038,551	414,823
<b>TOTAL LIABILITIES</b>	<b>91,637,666</b>	<b>81,634,107</b>
Commitments and Contingencies – Notes D and J	—	—
Shareholders' Equity:		
Preferred Stock – 10,000,000 Shares Authorized, None Issued and Outstanding	—	—
Common Stock – No Par Value; Authorized 10,000,000 Shares; 1,941,796 Shares Issued and Outstanding in 2007 and 1,924,996 Shares Issued and Outstanding in 2006	13,291,814	13,179,794
Additional Paid in Capital	634,697	345,506
Retained Earnings	785,975	17,791
Accumulated Other Comprehensive Income – Net Unrealized Gain (Loss) on Available-for-Sale Securities, net of Taxes of \$29,711 in 2007	42,483	(51,595)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>14,754,969</b>	<b>13,491,496</b>
	<b>\$ 106,392,635</b>	<b>\$ 95,125,603</b>

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

## STATEMENTS OF INCOME

For the Years Ended December 31, 2007 and 2006

	2007	2006
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 5,677,548	\$ 4,810,864
Interest on Investment Securities	453,648	179,029
Other Interest Income	629,965	767,786
<b>TOTAL INTEREST INCOME</b>	<b>6,761,161</b>	<b>5,757,679</b>
<b>INTEREST EXPENSE</b>		
Interest on Savings Deposits, NOW and Money Market Accounts	981,123	710,478
Interest on Time Deposits	846,355	620,086
Interest on Borrowings	50,968	30
<b>TOTAL INTEREST EXPENSE</b>	<b>1,878,446</b>	<b>1,330,594</b>
<b>NET INTEREST INCOME</b>	<b>4,882,715</b>	<b>4,427,085</b>
Provision for Loan Losses	37,700	139,300
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>4,845,015</b>	<b>4,287,785</b>
<b>NONINTEREST INCOME</b>		
Service Charges and Fees	97,376	76,569
Earnings on Cash Surrender Value of Life Insurance	129,732	122,177
	<b>227,108</b>	<b>198,746</b>
<b>NONINTEREST EXPENSE</b>		
Salaries and Employee Benefits	2,183,361	1,918,873
Occupancy and Equipment Expenses	636,873	555,689
Other Expenses	917,705	760,731
	<b>3,737,939</b>	<b>3,235,293</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>1,334,184</b>	<b>1,251,238</b>
Income Taxes	566,000	800
<b>NET INCOME</b>	<b>\$ 768,184</b>	<b>\$ 1,250,438</b>
<b>NET INCOME PER SHARE – BASIC</b>	<b>\$ 0.40</b>	<b>\$ 0.65</b>
<b>NET INCOME PER SHARE – DILUTED</b>	<b>\$ 0.36</b>	<b>\$ 0.59</b>

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

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2007 and 2006

	COMMON STOCK			ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	COMPREHENSIVE INCOME	NUMBER OF SHARES	AMOUNT				
<b>Balance at January 1, 2006</b>		1,896,596	\$ 12,922,911	\$ —	\$ (1,232,647)	\$ (33,400)	\$ 11,656,864
Exercise of Options, including \$134,981 of related tax benefits		28,400	256,883	129,506			386,389
Stock-Based Compensation				216,000			216,000
<b>Comprehensive Income:</b>							
Net Income	\$ 1,250,438				1,250,438		1,250,438
Unrealized Loss On Available-for-Sale Securities	(18,195)					(18,195)	(18,195)
<b>Total Comprehensive Income</b>	<u>\$ 1,232,243</u>						
<b>Balance at December 31, 2006</b>		1,924,996	13,179,794	345,506	17,791	(51,595)	13,491,496
Exercise of Options, including \$157,971 of related tax benefits		16,800	112,020	157,971			269,991
Stock-Based Compensation				131,220			131,220
<b>Comprehensive Income:</b>							
Net Income	\$ 768,184				768,184		768,184
Unrealized Gain On Available-for-Sale Securities net of Taxes of \$29,711	94,078					94,078	94,078
<b>Total Comprehensive Income</b>	<u>\$ 862,262</u>						
<b>Balance at December 31, 2007</b>		<u>1,941,796</u>	<u>\$ 13,291,814</u>	<u>\$ 634,697</u>	<u>\$ 785,975</u>	<u>\$ 42,483</u>	<u>\$ 14,754,969</u>

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

## STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2007 and 2006

	2007	2006
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 768,184	\$ 1,250,438
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Depreciation and Amortization	149,200	118,924
Provision for Loan Losses	37,700	139,300
Net Earnings on Bank Owned Life Insurance	(119,484)	(116,015)
Stock-Based Compensation	131,220	216,000
Deferred Income Taxes	562,000	—
Other Items, net	(288,358)	(283,772)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,240,462</b>	<b>1,324,875</b>
<b>INVESTING ACTIVITIES</b>		
Net Change in Time Deposits		
in Other Financial Institutions	4,974,000	(3,531,000)
Purchase of Available-for-Sale Securities	(9,000,175)	(4,982,913)
Proceeds from Maturities of Available-for-Sale Securities	4,615,573	530,314
Net Increase in Loans	(5,589,562)	(11,052,018)
Purchase of Bank Owned Life Insurance	(1,000,000)	—
Purchases of Premises and Equipment	(1,013,732)	(340,087)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(7,013,896)</b>	<b>(19,375,704)</b>
<b>FINANCING ACTIVITIES</b>		
Net Increase in Demand Deposits and Savings Accounts	12,075,930	3,666,814
Net Change in Time Deposits	(2,696,100)	5,979,912
Proceeds from the Exercise of Stock Options	269,991	386,389
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>9,649,821</b>	<b>10,033,115</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,876,387</b>	<b>(8,017,714)</b>
Cash and Cash Equivalents at Beginning of Period	7,113,514	15,131,228
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 10,989,901</b>	<b>\$ 7,113,514</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 1,878,446	\$ 1,301,804
Taxes Paid	\$ 11,000	\$ 800

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

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### NATURE OF OPERATIONS

The Bank has been organized as a single operating segment and operates full-service offices in San Diego and Encinitas, California. The Bank'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 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 complied with the reserve requirements as of December 31, 2007.

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

#### INVESTMENT SECURITIES

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

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

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

## LOANS

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs or specific valuation accounts and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan.

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

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

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

## ALLOWANCE FOR LOAN LOSSES

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

## PREMISES AND EQUIPMENT

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

## ADVERTISING COSTS

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

## INCOME TAXES

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

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

#### 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 on available-for-sale securities are the only component of accumulated other comprehensive income for the Bank.

#### FINANCIAL INSTRUMENTS

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

#### EARNINGS PER SHARE (EPS)

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

#### STOCK-BASED COMPENSATION

The Bank 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.

#### DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board (“FASB”) SFAS No. 107 specifies the disclosure of the estimated fair value of financial instruments. The Bank’s estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since the end of the year and, therefore, current estimates of fair value may differ significantly from the amounts presented in the accompanying notes.

#### NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, “*Fair Value Measurements*”, effective for the Company January 1, 2008. This Statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement establishes a fair value hierarchy that distinguishes between valua-

tions obtained from sources independent of the entity and those from the entity's own observable inputs that are not corroborated by observable market data. SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. The disclosures focus on the inputs used to measure fair value, and for recurring fair value measurements using significant unobservable inputs, the effect of the measurements on earnings or changes in net assets for the period. The Bank believes this guidance will have no material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115." SFAS 159 permits an entity to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS 159 are elective; however, the amendment to SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale or trading securities. For financial instruments elected to be accounted for at fair value, an entity will report the unrealized gains and losses in earnings. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Bank has determined it will not elect to apply fair value accounting to any of its existing financial assets and liabilities and, accordingly, this pronouncement will have no material impact on its financial statements.

#### RECLASSIFICATIONS

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

#### NOTE B – INVESTMENT SECURITIES

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of available-for-sale securities and their approximate fair values at December 31 were as follows:

	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
<b>December 31, 2007:</b>				
U.S. Government and Agency Securities	\$11,000,000	\$ 55,661	\$ —	\$11,055,661
Mortgage-backed Securities	1,340,070	16,533	—	1,356,603
	\$12,340,070	\$ 72,194	\$ —	\$12,412,264
<b>December 31, 2006:</b>				
U.S. Government and Agency Securities	\$ 7,000,000	\$ —	\$ (50,300)	\$ 6,949,700
Mortgage-backed Securities	953,230	4,794	(6,089)	951,935
	\$ 7,953,230	\$ 4,794	\$ (56,389)	\$ 7,901,635

As of December 31, unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are summarized as follows:

	LESS THAN TWELVE MONTHS		OVER TWELVE MONTHS		TOTAL	
	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE
<b>December 31, 2007:</b>						
U.S. Government and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Mortgage-backed Securities	—	—	—	—	—	—
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>December 31, 2006:</b>						
U.S. Government and Agency Securities	\$ (19,370)	\$ 3,980,630	\$ (30,930)	\$ 2,969,070	\$ (50,300)	\$ 6,949,700
Mortgage-backed Securities	(6,089)	485,985	—	—	(6,089)	485,985
	\$ (25,459)	\$ 4,466,615	\$ (30,930)	\$ 2,969,070	\$ (56,389)	\$ 7,435,685

The Bank has never invested in or holds any “sub-prime” securities. As of December 31, 2007, the Bank did not have any securities where estimated fair value was less than the Bank’s amortized cost. Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Bank has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value, which may be at maturity.

No investment securities were pledged as of December 31, 2007. The carrying value of investments securities pledged for borrowings and for other purposes as required or permitted by law amounts to approximately \$994,000 at December 31, 2006.

The scheduled maturities of securities at December 31, 2007 were as follows:

	AVAILABLE-FOR-SALE	
	AMORTIZED COST	FAIR VALUE
Due in One Year or Less	\$ 2,000,000	\$ 2,003,131
Due from One Year to Five Years	7,000,000	7,050,650
Due from Five Years to Ten Years	2,000,000	2,001,880
Mortgage-backed Securities	1,340,070	1,356,603
	\$ 12,340,070	\$ 12,412,264

## NOTE C – LOANS

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

The Bank has pledged loans totaling approximately \$32.1 million to secure a line of credit with the Federal Home Loan Bank as discussed in Note G.

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

	2007	2006
Beginning Balance	<b>\$847,300</b>	\$708,000
Additions to the Allowance		
Charged to Expense	<b>37,700</b>	139,300
Recoveries on Loans		
Charged Off	—	—
	<b>885,000</b>	847,300
Less Loans Charged Off	—	—
Ending Balance	<b>\$885,000</b>	\$847,300

The Bank did not have any non-performing or impaired loans during the periods ended December 31, 2007 and 2006.

## NOTE D – PREMISES AND EQUIPMENT

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

	2007	2006
Furniture, Fixtures, and Equipment	<b>\$1,006,416</b>	\$ 656,354
Leasehold Improvements	<b>1,365,599</b>	701,929
	<b>2,372,015</b>	1,358,283
Less Accumulated Depreciation and Amortization	<b>(415,440)</b>	(300,004)
	<b>\$1,920,575</b>	\$1,058,279

Depreciation expense was \$151,436 for the year ended December 31, 2007, and \$119,555 for the year ended December 31, 2006.

The Bank leases their main branch office and their Encinitas branch office under long-term leases that expire on April 14, 2014 and October 14, 2017 respectively. The Bank also leases administrative space under leases that expire on April 14, 2013. All leases provide for two five-year options to renew. The Bank is also responsible for its pro rata share of common area expenses including maintenance, taxes and insurance. The Bank also sub-leases a portion of their administrative space.

The Encinitas lease also has a purchase option that the Bank can exercise prior to the eighteenth full month of the lease. The Bank has no obligation to exercise the purchase option and if it does not elect to exercise the option, it will receive a rent abatement of approximately \$220,000. The rent abatement benefit will be amortized over the remaining term of the lease.

At December 31, 2007, the future minimum lease commitments and sub-lease income under noncancellable operating lease commitments was as follows:

	LEASE COMMITMENTS		SUB-LEASE INCOME	
2008	\$	586,803	\$	109,000
2009		604,315		112,000
2010		622,481		116,000
2011		640,995		24,000
2012		660,531		—
Thereafter		1,357,624		—
	\$	4,472,749	\$	361,000

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, including common area expenses and net of sub-lease income was \$331,897 and \$259,491 for the years ended December 31, 2007 and 2006, respectively.

## NOTE E – DEPOSITS

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

Due in One Year or Less	\$ 15,980,003
Due from One to Three Years	163,452
	\$ 16,143,455

## NOTE F – RELATED PARTY TRANSACTIONS

Loans granted to certain directors, executive officers and their related interests with which they are associated totaled approximately \$6,905,000 and \$6,164,000 as of December 31, 2007 and 2006, respectively.

Deposits from certain directors, executive officers and their related interests with which they are associated held by the Bank at December 31, 2007 and 2006 amounted to approximately \$6,122,000 and \$4,820,000, respectively.

## NOTE G – BORROWING ARRANGEMENTS

The Bank has a borrowing arrangement with the Federal Home Loan Bank of San Francisco. The Bank can borrow up to approximately \$15.8 million against which the Bank has pledged approximately \$32.1 million of its real estate secured loans.

The Bank may borrow up to \$8,000,000 on an unsecured basis from two correspondent banks. As of December 31, 2007, no amounts were outstanding and no assets had been pledged under these arrangements.

## NOTE H – INCOME TAXES

The asset and liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

The provision for income taxes consists of the following:

	2007	2006
Currently payable	\$ 4,000	\$ 800
Deferred taxes	562,000	—
	\$ 566,000	\$ 800

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

	2007		2006	
	AMOUNT	RATE	AMOUNT	RATE
Statutory Federal Tax	\$ 454,000	34.0%	\$ 425,000	34.0%
State Franchise Tax, Net of Federal Benefit	98,000	7.3%	88,000	7.1%
Decrease in Valuation Allowance	—	—	(541,000)	(43.2%)
Tax Free Income on Life Insurance Policies	(41,000)	(3.1%)	(50,000)	(4.1%)
Stock-Based Compensation	45,000	3.4%	76,000	6.1%
Other Items, Net	10,000	0.8%	2,800	0.2%
Actual Tax Expense	\$ 566,000	42.4%	\$ 800	0.1%

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition. The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying statements of financial condition at December 31:

	2007	2006
Deferred Tax Assets:		
Pre-Opening Expenses	\$ 34,000	\$ 75,000
Allowance for Loan Losses Due to Tax Limitations	308,000	282,000
Operating Loss Carryforwards	114,000	501,000
Other Items	58,000	33,000
	<b>514,000</b>	891,000
Valuation Allowance	—	—
Deferred Tax Liabilities:		
Depreciation Differences	(147,000)	(156,000)
Deferred Loan Costs	(73,000)	(73,000)
Accrual to Cash	(65,000)	(33,000)
Unrecognized Gain on Available-for-Sale Securities	(30,000)	—
Other Items	(8,000)	(8,000)
	<b>(323,000)</b>	(270,000)
Net Deferred Tax Assets	<b>\$ 191,000</b>	<b>\$ 621,000</b>

The Bank has net operating loss carry forwards of approximately \$328,000 for federal income and \$26,000 for California franchise tax purposes. Federal net operating loss carry forwards, to the extent not used, will expire in 2025. California net operating loss carry forwards, to the extent not used will expire in 2015.

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

#### NOTE I – OTHER EXPENSES

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

	2007	2006
Professional Fees	<b>\$ 387,194</b>	\$ 336,707
Marketing and Business Promotion	<b>132,062</b>	126,639
Office Expenses	<b>111,395</b>	85,136
Correspondent Bank Charges	<b>58,385</b>	53,805
Messenger and Delivery Services	<b>49,755</b>	35,865
Other Expenses	<b>178,914</b>	122,579
	<b>\$ 917,705</b>	<b>\$ 760,731</b>

## NOTE J – COMMITMENTS

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

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

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

	2007	2006
Commitments to Extend Credit	\$27,403,000	\$ 22,201,000
Letters of Credit	120,000	322,000
	<b>\$27,523,000</b>	<b>\$ 22,523,000</b>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do

not necessarily represent future cash requirements. The Bank evaluates each client's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank is based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

The Bank has purchased life insurance on several key executives to which the Bank is the sole beneficiary of such policies. The tax-free income generated from these policies is utilized to offset the costs of employee benefits, including, but not limited to health insurance premiums, worker's compensation insurance, and 401k expense. A portion is also being accrued in contemplation of certain supplemental retirement agreements that have been entered into with certain key executives. The amounts due under such agreements vary greatly, are generally payable at age 65, are payable over a ten-year period, and are subject to achieving certain vesting requirements. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The amount accrued for the year ending December 31, 2007 was \$67,522.

## NOTE K – EARNINGS PER SHARE (EPS)

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

	2007		2006	
	INCOME	SHARES	INCOME	SHARES
Net Income as Reported	\$ 768,184		\$1,250,438	
Shares Outstanding at Year End		1,941,796		1,924,996
Impact of Weighting Shares Purchased During the Year		(5,021)		(9,890)
<b>Used in Basic EPS</b>	<b>768,184</b>	<b>1,936,775</b>	<b>1,250,438</b>	<b>1,915,106</b>
Dilutive Effect of Outstanding Stock Options		222,228		221,549
<b>Used in Dilutive EPS</b>	<b>\$ 768,184</b>	<b>2,159,003</b>	<b>\$1,250,438</b>	<b>2,136,655</b>

## NOTE L – STOCK OPTION PLAN

Under the terms of the 2003 Stock Plan, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. The Plan provides for options to purchase 540,000 shares of common stock at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant.

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

	2007	2006
Risk Free Interest Rate	4.5%	4.79%
Estimated Average Life	6 years	6 years
Expected Dividend Rates	0.00%	0.00%
Expected Stock Volatility	20.00%	20.00%
Weighted-Average Option Value	\$ 10.13	\$ 11.57

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

	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE
Outstanding at Beginning of Year	374,900	\$ 9.14		
Granted	12,250	\$ 32.66		
Exercised	(16,800)	\$ 6.67		
Forfeited	(5,000)	\$ 35.00		
Outstanding at End of Year	<u>365,350</u>	<u>\$ 9.69</u>	<u>6.2 Years</u>	<u>\$ 6,142,000</u>
Options Exercisable	<u>345,200</u>	<u>\$ 8.45</u>	<u>6.0 Years</u>	<u>\$ 6,232,000</u>

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 were approximately \$388,944 and \$638,517 respectively. As of December 31, 2007 there was \$160,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 1.6 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, 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 Deposit Insurance Corporation (the "FDIC") categorized the Bank as well capitalized under the regulatory framework for prompt corrective action (there are no conditions or events since that notification that management believes have changed the Bank's category). To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	AMOUNT OF CAPITAL REQUIRED					
	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL-CAPITALIZED UNDER PROMPT CORRECTIVE PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
<b>As of December 31, 2007:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 15,324	17.3%	\$ 7,082	8.0%	\$ 8,853	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 14,415	16.3%	\$ 3,541	4.0%	\$ 5,312	6.0%
Tier 1 Capital (to Average Assets)	\$ 14,415	13.2%	\$ 4,361	4.0%	\$ 5,451	5.0%
<b>As of December 31, 2006:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 14,316	19.1%	\$ 6,011	8.0%	\$ 7,514	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 13,451	17.9%	\$ 3,006	4.0%	\$ 4,509	6.0%
Tier 1 Capital (to Average Assets)	\$ 13,451	15.0%	\$ 3,598	4.0%	\$ 4,498	5.0%

The California Financial Code provides that a bank may not make 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 to shareholders during the same period.

#### NOTE N – 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 future expected loss experience, current economic conditions, 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.

#### 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, 2007 and 2006 are summarized as follows (dollar amounts in thousands):

	2007		2006	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<b>Financial Assets</b>				
Cash and Due From Banks \$	1,975	\$ 1,975	\$ 2,079	\$ 2,079
Federal Funds Sold	9,015	9,015	5,035	5,035
Interest-Bearing Deposits	5,357	5,357	10,331	10,331
Investment Securities	12,412	12,412	7,902	7,902
Net Loans	70,173	70,333	64,621	64,621
Bank Owned Life Insurance	3,842	3,842	2,723	2,723
Accrued Interest Receivable	736	736	669	669
<b>Financial Liabilities</b>				
Deposits	90,599	90,608	81,219	81,219
Accrued Interest Payable and Other Liabilities	1,039	1,039	415	415

## SAN DIEGO TRUST BANK TEAM

### *Bank Management*

**MICHAEL E. PERRY**  
*Chairman of the Board, President &  
Chief Executive Officer*

**TOBY RESCHAN**  
*Senior Executive Vice President &  
Chief Operating Officer*

**JOE SIMMONS**  
*Executive Vice President &  
Chief Credit Officer*

**JOHN PENRITH**  
*Executive Vice President,  
Real Estate Industries Group*

**JOHN JEFFRIES**  
*Senior Vice President &  
Chief Financial Officer*

**NASRIN ROSTAMI**  
*Senior Vice President  
Operations/Risk Management*

**MARY PURVIANCE**  
*Senior Vice President & Manager  
Encinitas Office*

### *Board of Directors*

**MICHAEL E. PERRY**  
*Chairman of the Board*

**BRIAN H. GOWLAND**  
*Vice Chairman of the Board*

**TOBY RESCHAN**

**WILLIAM E. COLE**

**CHRISTOPHER J. COSEO**

**DANIEL D. HERDE**

**JAMES W. LEDWITH**

**MICHAEL A. MORTON**

**JAMES R. ST. JOHN**

**RICHARD H. WESSELINK**

**CLAUDETTE G. WILSON**

**LARRY L. WILLETTE**  
*Chairman Emeritus*

### *Staff Members*

**KEDEST BERHANU**  
*Assistant Vice President  
Customer Service Manager*

**BETSY CHADWICK**  
*Senior Loan Administrator*

**TODD CHRISTENSEN**  
*Accounting Assistant*

**STEPHANIE FORD**  
*Financial Services Representative*

**ISA GARCIA**  
*Financial Services Representative*

**SABRINA GARCIA**  
*Customer Service Representative*

**JUDI IDES**  
*Assistant Vice President  
Real Estate Manager*

**WILLIAM LAMISON**  
*Senior Vice President  
Commercial Lending Officer*

**VERA LLAMAS**  
*Customer Service Representative*

**CATHY LEWIS**  
*Executive Assistant*

**ARLENA RICKSTAD**  
*Customer Service Representative*

**MARCIA ROBINSON**  
*Financial Services Manager*

**FARIBA SEYSAN**  
*Operations Assistant*

**JAMI STRONA**  
*Assistant Vice President  
Customer Service Manager*

### *Market Makers*

San Diego Trust Bank common stock is traded on the Over-the-Counter Bulletin Board (OTCBB) under the symbol "SDBK". For information on acquiring the company's stock please contact our primary market maker:

Mr. Richard Levenson, *President*  
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*Performance You Can Trust.*

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