

AMERICAN BUSINESS BANK®

2006 SUMMARY ANNUAL REPORT

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Robert L. Asher	Donald P. & Lana R. Johnson	Robert & Gail Schack
Peter Barsocchini	Karl Johnson & Barbara Smith	Wes & Kathy Schaefer
Ben Bernie	Morley Justman	Jon Schlobohm
Peter H. Betti	Russell Justman	Roy Schlobohm
Leon & Mary Blankstein	Charles King	Richard C. Seff
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David Dennis	Thomas E. Miller	Carl Von Wolfradt
Aurella De Zonia	Gene Montesano	Marshall Wax
Roger & Diane Duhl	Stan & Aileen Morse	Myra & Louis Wiener
Jack Edelstein	Robert Murphy	Max Weissberg
Leonard A. Faas, Jr.	Marc Myers	A. Charles Wilson
Herb Fields	Raymond V. O'Brien, III	Timothy Wilson
Ed Fountain	John & Laura O'Connor	Kenneth Wolt
Arnold L. Gilberg, M.D., Ph.D.	Norma Owen	William L. Young, Jr.
	Robin C. Paterson	Terence L. Young
	Barry L. Perlman	

Management's Letter

To Our Shareholders and Customers:

In 2006, we continued to build strong franchise value for American Business Bank with another year of solid performance. Even though we began to expense stock options, built two new offices and invested in additional administrative staff, the Bank returned over 15% on equity and 1% on assets.

Additional accomplishments included the following:

- We added over 80 new relationships to our client base.
- We maintained our asset quality. We had no chargeoffs, no non-performing loans, no REO and no delinquent loans at year end. We have never had sub-prime real estate loans in our portfolio. Nonetheless, we maintain a loan loss reserve almost 20% higher than the industry average.
- Our cost control measurements, such as efficiency ratio, assets per employee and non-interest expense percentage, were all substantially better than other California banks.
- We increased our risk-based capital to almost 15%, one of the highest in the state.
- We declared a three-for-two stock split for owners of record as of July 14, 2006. This reflects our continued optimism about American Business Bank's long-term position as a California banking leader.
- Once again, we received a "Premier Performing Bank" designation from the Findley Companies, a highly respected bank rating firm.

As always, we are proud of these accomplishments. At the same time, we recognize that they reflect the combined efforts of a fine group of banking professionals to whom we offer our most sincere thanks.



Robert F. Schack
Chairman and Director



Wes E. Schaefer
Vice Chairman and Director



Donald P. Johnson
President and Director



Robin C. Paterson
Executive Vice President



Leon I. Blankstein
Executive Vice President

There Are Returns and There Are Returns

Banking is a business that is relatively easy to analyze, given the abundance of statistical information available. All banks are fundamentally similar and their performance data are regularly published by the SEC and FDIC. Further, banking is one of the most thoroughly inspected industries—not only do we regularly entertain members of our CPA firm to conduct the annual financial audit, but we also have a different set of auditors doing risk assessments, followed by a whole array of regulatory agencies, each of whom is tasked with the responsibility of ensuring safety and soundness.

Given that the financial reporting is so thorough, analysts have developed a myriad of ratios and techniques to measure historical bank performance and somehow try to predict the future. Among the dozens of ratios regularly discussed are: measures of return on assets, capital adequacy, operating efficiency, loan loss reserves, chargeoffs, balance sheet and profitability growth, etc. Each is interesting in its own right and all are important pieces of the whole analysis.

However, we view our job on behalf of our shareholders more simply. Our most important performance yardstick is return on equity—the amount of wealth and value that we create on your investment in American Business Bank. Our job is not only to produce healthy returns in absolute terms, but if we're good, to produce returns that are better than the rest of the banking industry as a whole.

That said, merely measuring return on equity is still not enough. In 2006, for example, the average California bank produced a return on equity of about 11.19%, while American Business Bank's was 15.50%. While our results were very good, showing that we returned over 35% more on our equity than the average bank doesn't tell the whole story.

To really get the true picture, an investor should be constantly concerned with the amount of risk taken to produce a given level of return. Your management team at American Business Bank embraces the concept of risk-based returns as the true measure of performance.

Without going into a complicated explanation of how risk-based returns are produced, simply stated, bank balance sheets are adjusted to reflect the removal of "riskless" assets, such as government bonds, along with the corresponding capital needed to support them. Actual earnings are then measured against the adjusted equity to produce a risk-based return on equity. The resulting percentage return acts as a handicapping system that injects relative risk into actual returns. For example, a bank whose assets are comprised of sub-prime mortgages has a much higher risk profile than a bank that sits on 60% government bonds. Even though the first bank may produce a higher actual return on equity, the second bank may actually have a higher—and perhaps substantially higher—risk-based return.

In our case, the comparative results are dramatic:

FOR THE YEAR ENDED	2004	2005	2006
<u>Actual Return on Beginning Equity%</u>			
American Business Bank	13.6	18.0	15.5
California Bank Average	13.2	13.4	11.2
<u>Risk Based Return on Beginning Equity%</u>			
American Business Bank	26.2	27.4	23.2
California Bank Average	20.0	19.2	16.5

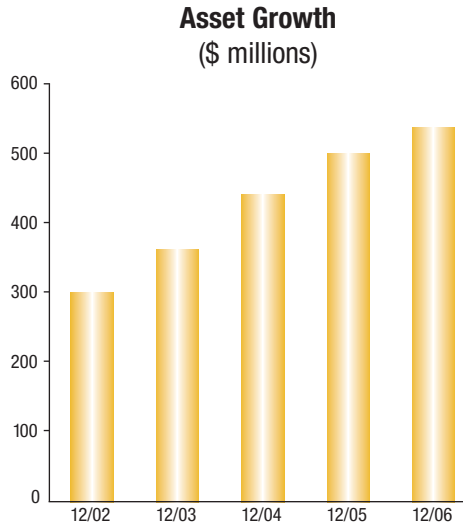
How does this relate to stock price? American Business Bank's shareholders are long-term investors who originally purchased their stock with the expectation that management would build franchise value every day and let the stock price take care of itself. We have been true to our word. While our annual risk-based returns are significant in themselves, the cumulative difference between our performance and that of the average bank is what creates quality long-term value. If we do our job every day, the value of our Bank will grow correspondingly, regardless of day-to-day stock prices. This was our original commitment and this remains true today.

Financial Highlights

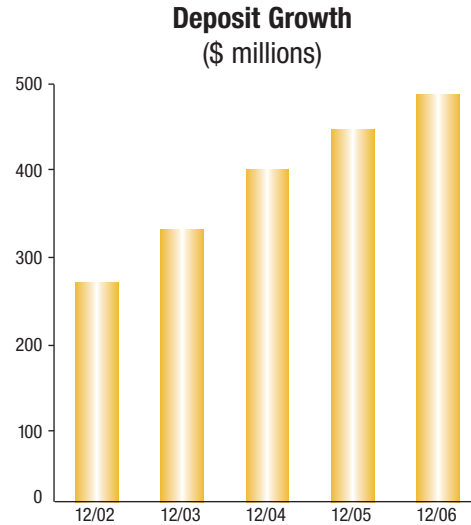
FOR THE YEAR ENDED	2002	2003	2004	2005	2006
Net Earnings	\$ 1,646,000	\$ 2,053,000	\$ 3,416,000	\$ 5,286,000	\$ 5,018,000
Return on Beginning Equity	11.15%	8.76%*	13.56%	18.03%	15.50%
Basic Earnings Per Share	\$.50	\$.62	\$ 1.04	\$ 1.64	\$ 1.55
AT YEAR END					
Total Assets	\$295,507,000	\$361,411,000	\$457,433,000	\$508,656,000	\$537,157,000
Net Loans	\$119,006,000	\$140,482,000	\$150,771,000	\$185,297,000	\$221,532,000
Investment Securities and Federal Funds Sold	\$160,844,000	\$197,931,000	\$286,766,000	\$286,713,000	\$270,032,000
Total Deposits	\$269,809,000	\$328,198,000	\$391,668,000	\$458,733,000	\$487,143,000
Shareholder's Equity	\$ 23,427,000	\$ 25,186,000	\$ 28,736,000	\$ 32,370,000	\$ 38,900,000
Adjusted Book Value Per Share	\$ 7.15	\$ 7.69	\$ 8.77	\$ 9.88	\$ 11.87
Year End Shares Outstanding	1,872,375	1,980,885	2,014,633	2,155,929	3,274,780

*After a 50% increase in capital in late 2002

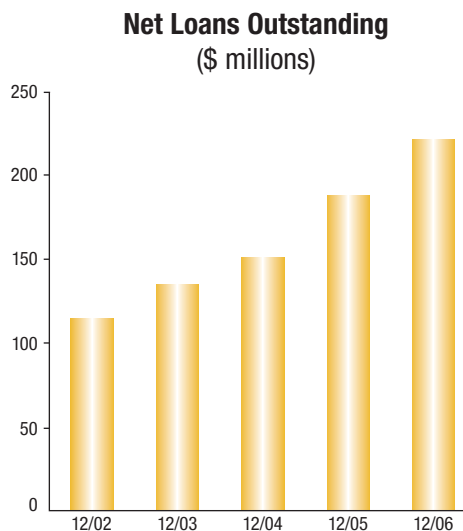
Analysis of Operating Results



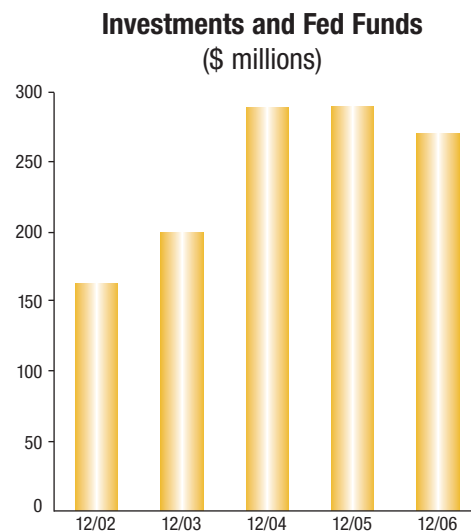
American Business Bank has enjoyed impressive asset growth over the past five years. More importantly, however, the quality of our assets is among the highest in the industry.



Given its relationship orientation, American Business Bank has been able to attract a growing number of business depositors who value our brand of banking. We have no brokered deposits of any kind and even our certificates of deposit are from existing relationships.



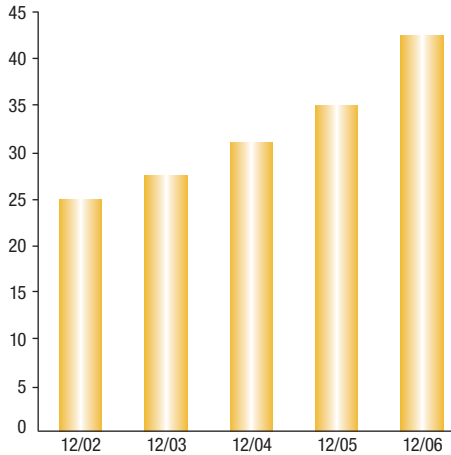
American Business Bank's loan portfolio is comprised of business loans to credit worthy borrowers who are well-known to the bank and are the envy of the industry. We have no sub-prime loans of any kind.



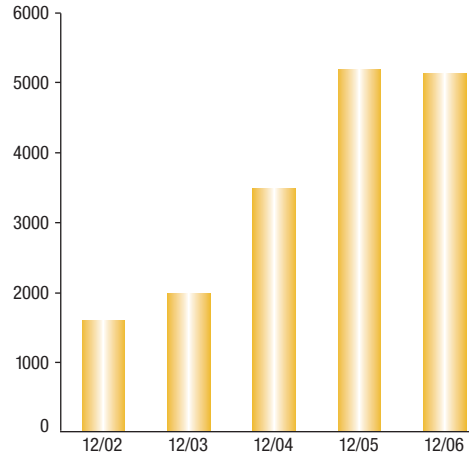
American Business Bank's investment portfolio is comprised exclusively of government bonds which are actively managed by the bank. The result is a relatively low asset risk profile. The decline in 2006 was a direct result of healthy loan growth.

Analysis of Operating Results

Capital and Reserves
(\$ millions)



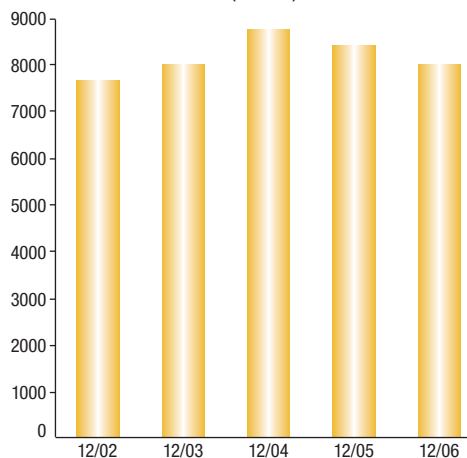
Net Profit
(\$000)



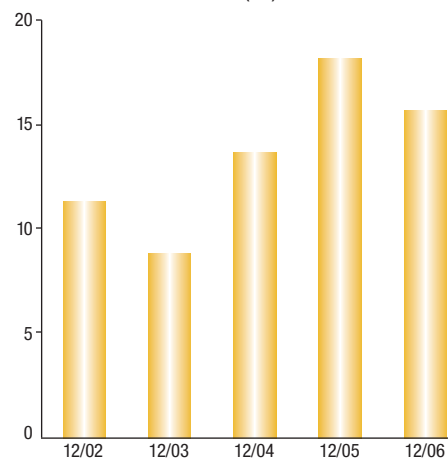
True to our commitment, American Business Bank retains its “well-capitalized” designation and is proud of one of the highest risk-based capital positions in its peer group.

In 2006, the bank began to expense stock options for the first time and chose to build its infrastructure, through hiring of senior level executives and the build-out of new offices. Nonetheless, earnings still topped \$5 million.

Assets Per Employee
(\$000)



Return on Equity
(%)



Despite the fact that ABB chose to add to its professional staff during 2006, assets per employee still ranks almost twice that of our peer group.

American Business Bank’s return on beginning equity has been quite strong over the past five years, with 2006 outpacing the California average by over 35%. In terms of risk-based returns, the disparity widens even further.

Management's Discussion of Results

Assets

American Business Bank's assets grew 6% in 2006, reflecting a similar growth in deposits. More importantly, however, loans grew by 20%, a rate significantly greater than our peer group.

In addition to our loan growth, our loan quality remained strong. Despite the fact that we retained reserves almost 20% higher than the California bank average, we suffered no chargeoffs, no REO, no non-performing and no 30-day delinquent loans at year end.

Deposits

Deposit growth during the year exceeded that for our peer group, reflecting our commitment to relationship business banking. Our success in this niche is evidenced by the fact that 39% of our deposits are non-interest bearing, a level almost three times that of other California banks.

Furthermore, most of this growth took place in the last nine months of the year, a momentum that continues into 2007.

Earnings

The past year was a challenging one for all banks. A relatively flat yield curve, combined with rising short-term deposit rates, squeezed profit margins throughout the industry. American Business Bank was no exception. Revenues were up 18%, but interest expense was up 87%, reflecting the overall rise in short-term rates. Despite this margin squeeze, net interest income still increased about 4% for the year.

These gains in net interest income were offset by increases in compensation and premises expense, as management elected to add two new offices, along with administrative support staff, both of which are necessary to take the bank to the next level.

As a result, earnings were down slightly from 2005, but still exceeded \$5 million, and represented a return on equity of over 15%. This is particularly noteworthy, given the fact that 2006 was a building year for the bank.

Capital and Reserves

American Business Bank's risk-based capital finished the year at more than 14%, a rate level significantly above the California bank average. Tier-1 leveraged capital improved to 7.24% from 6.36% at year end 2005. We continue to retain our designation as a "well-capitalized" bank and our capital, especially considering our overall risk profile, is completely sufficient to support our expected growth over the coming years.

Balance Sheet and Income Statement

(in thousands)

	<u>12/31/06</u>	<u>12/31/05</u>
Assets		
Investment Securities	\$ 265,632	\$ 281,311
Federal Funds Sold	4,500	5,400
Loans and Leases (net)	221,532	185,297
Cash, Checks in Process of Collection, Due from Banks	24,775	18,293
Premises, Equipment and other Assets	<u>20,718</u>	<u>18,355</u>
Total Assets	<u>\$ 537,157</u>	<u>\$ 508,656</u>
Liability and Shareholders' Equity		
Demand Deposits	\$ 192,990	\$ 179,924
Money Market and NOW Deposits	206,642	227,573
Savings and Time Deposits	<u>87,511</u>	<u>51,236</u>
Total Deposits	\$ 487,143	\$ 458,733
FHLB Advances	\$ 7,585	\$ 13,420
Other Liabilities	3,529	4,133
Shareholders' Equity	<u>38,900</u>	<u>32,370</u>
Total Liabilities and Shareholders' Equity	<u>\$ 537,157</u>	<u>\$ 508,656</u>
Twelve Months Ended	<u>12/31/06</u>	<u>12/31/05</u>
Interest Income		
Loans and Leases	\$ 14,758	\$ 10,578
Investment Securities	11,413	11,270
Federal Funds Sold	<u>209</u>	<u>454</u>
Total Interest Income	\$ 26,380	\$ 22,302
Interest Expense		
Money Market and NOW Accounts	\$ 3,849	\$ 2,531
Savings and Time Deposits	2,316	1,069
FHLB Advances	<u>1,008</u>	<u>219</u>
Total Interest Expense	\$ 7,173	\$ 3,819
Net Interest Income	\$ 19,207	\$ 18,483
Provision for Loan Losses	<u>405</u>	<u>330</u>
Net Interest Income After Provision for Loan Losses	\$ 18,802	\$ 18,153
Non Interest Income	\$ 946	\$ 740
Non Interest Expense	\$ 12,495	\$ 11,419
Operating Income Before Taxes	\$ 7,253	\$ 7,474
Income Tax Expense	<u>2,235</u>	<u>2,187</u>
Net Income	<u>\$ 5,018</u>	<u>\$ 5,287</u>
Adjusted Net Income Per Share — Basic	\$ 1.55	\$ 1.64
Adjusted Net Income Per Share — Diluted	\$ 1.44	\$ 1.50
Weighted Average Shares — Basic	3,246,919	2,150,095
Weighted Average Shares — Diluted	3,493,128	2,353,958

If you desire more detailed financial information, please contact Wes Schaefer at (213) 430-4000.

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.

Board of Directors and Executive Management

Executive Officers



(From left) Leon L. Blankstein, Executive Vice President; Robin C. Paterson, Executive Vice President; Wes Schaefer, Vice Chairman and Director; Robert F. Schack, Chairman and Director; Donald P. Johnson, President and Director

Board of Directors



Donald P. Johnson
President



Robert F. Schack
Chairman



Wes Schaefer
Vice Chairman



D. Van Skilling
President
Skilling Enterprises



Trent D. Merrill
Executive Vice President
Lucky Brand Dungarees



Raymond V. O'Brien, III
Chief Executive Officer
Cal Plate Company



Jon Schlobohm
Retired President
National Corset Supply

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