



May 12, 2008

To: Our Shareholders and Financial Correspondents

RE: Bank Financial Monitoring – 1st Quarter 2008 Results

Mechanics Bank earned \$6.735 million of net income in the 1st Quarter of 2008. The 1st Quarter 2008 net income was \$454 thousand or 6.32% less than the comparable 1st Quarter 2007 results. This 2008 financial performance equates to a 1.02% annual return on average assets (ROA) which is 8 basis points less than the ROA reported in the prior year.

The balance sheet held \$2.706 billion total assets at March 31, 2008, which was \$28 million or 1.04% more assets than year ago levels. The increase of the balance sheet from year ago levels resulted from increased loans. Total loans were \$1.83 billion at March 31, 2008, which was \$90 million or 5.17% more loans outstanding than a year earlier. Total deposits at March 31, 2008 were \$2.12 billion, which was \$95 million or 4.27% less deposits than reported a year earlier. Liquid assets, consisting primarily of cash, federal funds sold and investment securities totaled \$806 million at March 31, 2008, which was 29.78% of total assets.

Asset quality remains strong. At March 31, 2008, total non-accrual loans were \$40 thousand, which was less than 1 basis point of total loans. The allowance for loan and lease losses, which covers credit losses pertaining to the loan portfolio, was \$28.0 million or 1.53% of total loans at March 31, 2008. The Bank also carried an additional \$1.3 million allowance for credit losses pertaining to its unfunded loan commitments in the liability section of its balance sheet. Collectively, the total allowances for all types of credit losses was \$29.3 million at March 31, 2008.

Total Stockholders' Equity was \$281 million at March 31, 2008 and the Bank's simple equity ratio was 10.39% of total assets on that report date. The Bank remained "well capitalized" by all regulatory standards, with a Tier 1 Leverage Capital Ratio of 10.67%, a Tier 1 Risk Based Capital Ratio of 13.50%, and a Total Risk Based Capital Ratio of 14.75%.

Attached is a copy of Mechanics Bank's 1st Quarter 2008 FDIC Call Report.

Very truly yours,

A handwritten signature in blue ink that reads "Clinton Chew".

Clinton S. Chew
Chief Financial Officer

