# CALWEST BANCORP AND SUBSIDIARY

## CONSOLIDATED FINANCIAL STATEMENTS
## WITH
## INDEPENDENT AUDITORS' REPORT

**December 31, 2010 and 2009**

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# INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
CalWest Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheets of CalWest Bancorp and Subsidiary and Subsidiary as of December 31, 2010 and 2009 and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CalWest Bancorp and Subsidiary as of December 31, 2010 and 2009 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.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating schedules are presented for purposes of additional analysis of the December 31, 2010 consolidated financial statements rather than to present the financial position and results of operations of the individual companies. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
June 9, 2011

## CALWEST BANCORP AND SUBSIDIARY

### CONSOLIDATED BALANCE SHEETS
### December 31, 2010 and 2009

| ASSETS | 2010 | 2009 |
|---|---|---|
| Cash and Due from Banks | $ 3,260,887 | $ 4,645,284 |
| Federal Funds Sold and Interest-Bearing Balances | | |
| at the Federal Reserve Bank | 11,000,000 | 2,165,000 |
| **TOTAL CASH AND CASH EQUIVALENTS** | 14,260,887 | 6,810,284 |
| Interest-Bearing Deposits in Other Banks | 400,000 | 250,000 |
| Investment Securities: | | |
| Available for Sale | 33,298,152 | 21,665,403 |
| Held to Maturity | 19,005,020 | 27,352,969 |
| **TOTAL INVESTMENT SECURITIES** | 52,303,172 | 49,018,372 |
| Loans Held for Sale | 3,644,522 | 574,438 |
| Loans: | | |
| Construction and Land Development | 3,442,156 | 9,982,895 |
| Commercial Real Estate | 33,694,190 | 31,629,409 |
| Residential Real Estate | 16,502,998 | 10,200,926 |
| Small Business Administration | 4,713,100 | 6,784,770 |
| Commercial and Industrial | 40,234,922 | 59,316,275 |
| Consumer | 1,627,351 | 2,094,166 |
| **TOTAL LOANS** | 100,214,717 | 120,008,441 |
| Net Deferred Loan Fees, Costs and Discounts | ( 1,189,367) | ( 17,948) |
| Allowance for Loan Losses | ( 4,309,378) | ( 2,030,400) |
| **NET LOANS** | 94,715,972 | 117,960,093 |
| Federal Reserve Bank and Federal Home Loan | | |
| Bank Stock - at Cost | 1,646,500 | 1,930,250 |
| Premises and Equipment | 283,713 | 578,040 |
| Other Real Estate Owned | 1,289,855 | 2,011,627 |
| Company Owned Life Insurance | 6,511,226 | 6,286,436 |
| FDIC Prepaid Assessment | 613,928 | 937,843 |
| Accrued Interest and Other Assets | 2,574,173 | 4,289,504 |
| **TOTAL ASSETS** | $ 178,243,948 | $ 190,646,887 |

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

## CALWEST BANCORP AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS
**December 31, 2010 and 2009**

| LIABILITIES AND SHAREHOLDERS' EQUITY | 2010 | 2009 |
|---|---|---|
| Deposits: | | |
| Noninterest-Bearing Demand | $ 53,243,160 | $ 38,496,921 |
| Money Market and NOW Accounts | 40,553,063 | 56,252,330 |
| Savings | 11,681,757 | 7,679,806 |
| Time Deposits Under $100,000 | 22,162,000 | 20,478,069 |
| Time Deposits $100,000 and Over | 33,465,200 | 38,392,603 |
| **TOTAL DEPOSITS** | 161,105,180 | 161,299,729 |
| Other Borrowings | 6,533,691 | 12,000,000 |
| Subordinated Debentures and Notes | 3,723,000 | 3,093,000 |
| Accrued Interest and Other Liabilities | 545,206 | 1,276,581 |
| **TOTAL LIABILITIES** | 171,907,077 | 177,669,310 |
| Commitments and Contingencies - Notes D and L | - | - |
| Shareholders' Equity: | | |
| Preferred Stock - 5,000,000 Shares Authorized, 4,656 Shares Issued and Outstanding, Redemption Value of $4,889,000 | 4,708,854 | 4,662,294 |
| Common Stock - 10,000,000 Shares Authorized, Par Value $5.00; Shares Issued and Outstanding 2,413,730 and 2,350,889 in 2010 and 2009 | 12,067,733 | 11,753,528 |
| Surplus | 16,203,310 | 16,128,114 |
| Accumulated Deficit | ( 26,743,895) | ( 19,833,460) |
| Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Securities | 100,869 | 267,101 |
| **TOTAL SHAREHOLDERS' EQUITY** | 6,336,871 | 12,977,577 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 178,243,948 | $ 190,646,887 |

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

**CALWEST BANCORP AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**
**For the Years Ended December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **INTEREST INCOME** | | |
| Interest and Fees on Loans | $ 6,132,713 | $ 6,813,036 |
| Interest on Investment Securities | 1,719,839 | 1,642,062 |
| Other Interest Income | 89,303 | 86,236 |
| **TOTAL INTEREST INCOME** | 7,941,855 | 8,541,334 |
| **INTEREST EXPENSE** | | |
| Interest on Money Market and NOW Accounts | 591,869 | 943,789 |
| Interest on Savings Deposits | 82,114 | 76,101 |
| Interest on Time Deposits | 1,108,280 | 1,179,079 |
| Interest on Borrowings | 272,945 | 655,919 |
| **TOTAL INTEREST EXPENSE** | 2,055,208 | 2,854,888 |
| **NET INTEREST INCOME** | 5,886,647 | 5,686,446 |
| Provision for Loan Losses | 6,280,000 | 4,370,000 |
| **NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES** | ( 393,353) | 1,316,446 |
| **NONINTEREST INCOME** | | |
| Service Charges and Fees | 841,895 | 858,878 |
| Gain and Servicing Income on Loans Sold | 474,040 | 173,019 |
| Gain on Sale of Securities | 45,967 | 141,124 |
| Net Gain (Loss) on Sale of Other Real Estate Owned | ( 979,929) | 116,869 |
| Earnings on Company Owned Life Insurance | 224,790 | 232,878 |
| Other Income | 45,127 | 10,159 |
| **TOTAL NONINTEREST INCOME** | 651,890 | 1,532,927 |
| **NONINTEREST EXPENSE** | | |
| Salaries and Employee Benefits | 3,073,166 | 3,861,566 |
| Occupancy Expenses | 764,987 | 916,055 |
| Furniture and Equipment | 347,702 | 470,989 |
| Other Expenses | 2,746,228 | 2,515,373 |
| **TOTAL NONINTEREST EXPENSE** | 6,932,083 | 7,763,983 |
| **LOSS BEFORE INCOME TAXES** | ( 6,673,546) | ( 4,914,610) |
| Income Tax Expense | - | 217,285 |
| **NET LOSS** | $ (6,673,546) | $ (5,131,895) |
| Preferred Stock Dividends and Accretion of Discount | (236,889) | (252,394) |
| **NET LOSS AVAILABLE TO COMMON STOCKHOLDERS** | $ (6,910,435) | $ (5,384,289) |
| Per Share Data: | | |
| Net Loss - Basic | $ (2.91) | $ (2.29) |

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

## CALWEST BANCORP AND SUBSIDIARY

### CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY
### For the Years Ended December 31, 2010 and 2009

| | | Preferred Stock | | Common Stock | | | | Accumulated Other | |
|---|---|---|---|---|---|---|---|---|---|
| | Comprehensive Income | Number of Shares | Amount | Number of Shares | Amount | Surplus | Accumulated Deficit | Comprehensive Income | Total |
| **Balance at January 1, 2009** | | - | $ - | 2,350,889 | $ 11,753,528 | $ 16,054,586 | $( 14,449,171) | $ 13,827 | $ 13,372,770 |
| Issuance of Preferred Stock, Net of Costs of $40,266 | | 4,656 | 4,615,734 | | | | | | 4,615,734 |
| Dividends on Preferred Stock | | | | | | | ( 205,834) | | ( 205,834) |
| Accretion on Preferred Stock | | | 46,560 | | | | ( 46,560) | | - |
| Stock-Based Compensation | | | | | | 79,339 | | | 79,339 |
| Deferred Tax on Split Dollar Life Insurance | | | | | | ( 5,811) | | | ( 5,811) |
| **Comprehensive Income:** | | | | | | | | | |
| Net Loss | $( 5,131,895) | | | | | | ( 5,131,895) | | ( 5,131,895) |
| Reclassification of Gain on Sale of Securities Recognized in Earnings | ( 141,124) | | | | | | | ( 141,124) | ( 141,124) |
| Unrealized Gain on Available-for-Sale Securities | 394,398 | | | | | | | 394,398 | 394,398 |
| **Total Comprehensive Income** | $( 4,878,621) | | | | | | | | |
| **Balance at December 31, 2009** | | 4,656 | 4,662,294 | 2,350,889 | 11,753,528 | 16,128,114 | ( 19,833,460) | 267,101 | 12,977,577 |
| Dividends on Preferred Stock | | | | | | | ( 190,329) | | ( 190,329) |
| Accretion on Preferred Stock | | | 46,560 | | | | ( 46,560) | | - |
| Conversion of Liability Plan to Equity Plan | | | | 62,841 | 314,205 | | | | 314,205 |
| Stock-Based Compensation | | | | | | 75,196 | | | 75,196 |
| **Comprehensive Income:** | | | | | | | | | |
| Net Loss | $( 6,673,546) | | | | | | ( 6,673,546) | | ( 6,673,546) |
| Reclassification of Gain on Sale of Securities Recognized in Earnings | ( 45,967) | | | | | | | ( 45,967) | ( 45,967) |
| Unrealized Gain on Available-for-Sale Securities | ( 120,265) | | | | | | | ( 120,265) | ( 120,265) |
| **Total Comprehensive Income** | $( 6,839,778) | | | | | | | | |
| **Balance at December 31, 2010** | | 4,656 | $ 4,708,854 | 2,413,730 | $ 12,067,733 | $ 16,203,310 | $( 26,743,895) | $ 100,869 | $ 6,336,871 |

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

**CALWEST BANCORP AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the Years Ended December 31, 2010 and 2009**

| | 2010 | 2009 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net Loss | $( 6,673,546) | $( 5,131,895) |
| Adjustments to Reconcile Net Loss to Net Cash | | |
| From Operating Activities: | | |
| Depreciation and Amortization of Premises and Equipment | 297,529 | 370,623 |
| Net Amortization (Accretion) on Loans and Securities | 333,693 | 478,046 |
| Provision for Loan Losses | 6,280,000 | 4,370,000 |
| Gain on Sale of SBA Loans | ( 491,096) | ( 165,498) |
| Gain on Sale of Securities | ( 45,967) | ( 141,124) |
| Loss (Gain) on Sale of Other Real Estate Owned | 979,929 | ( 116,869) |
| Write-down on Other Real Estate Owned | - | 137,000 |
| Stock-based Compensation | 75,196 | 79,339 |
| Deferred Taxes | - | 197,000 |
| Income on Company Owned Life Insurance | ( 224,790) | ( 232,878) |
| FDIC Prepaid Assessment | - | ( 937,843) |
| Net Change in Loans Held for Sale | ( 3,070,084) | ( 574,438) |
| Other Items | 961,645 | 338,022 |
| **NET CASH FROM OPERATING ACTIVITIES** | ( 1,577,491) | ( 1,330,515) |
| **INVESTING ACTIVITIES** | | |
| Net Change in Interest Bearing Deposits in Other Banks | ( 150,000) | 7,250,000 |
| Purchases of Held-to-Maturity Securities | - | ( 18,433,468) |
| Purchases of Available-for-Sale Securities | ( 19,918,918) | ( 24,399,959) |
| Proceeds from Maturities of Held-to-Maturity Securities | 7,217,237 | 4,204,466 |
| Proceeds from Maturities of Available-for-Sale Securities | 6,678,053 | 11,129,694 |
| Proceeds from the Sale of Available-for-Sale Securities | 2,238,043 | 11,102,499 |
| Net Change in Loans | 9,801,633 | ( 4,173,328) |
| Proceeds from Sale of SBA Loans | 6,637,359 | 3,071,447 |
| Net Change in Bank Stocks | 283,750 | 69,350 |
| Proceeds from Sale of Other Real Estate Owned | 796,132 | 2,299,499 |
| Purchases of Premises and Equipment | ( 3,202) | ( 64,402) |
| **NET CASH FROM INVESTING ACTIVITIES** | 13,580,087 | ( 7,944,202) |
| **FINANCING ACTIVITIES** | | |
| Net Increase (Decrease) in Demand Deposits and Savings Accounts | 3,048,923 | ( 11,492,819) |
| Net (Decrease) Increase in Time Deposits | ( 2,888,483) | 16,592,300 |
| Net Decrease in Other Borrowings | ( 5,466,309) | ( 5,000,000) |
| Proceeds from Issuance of Subordinated Notes | 630,000 | - |
| Proceeds from Issuance of Preferred Stock, Net of Expenses | - | 4,615,734 |
| Proceeds from Issuance of Common Stock | 314,205 | - |
| Dividends Paid on Preferred Stock | ( 190,329) | ( 205,834) |
| **NET CASH FROM FINANCING ACTIVITIES** | ( 4,551,993) | 4,509,381 |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 7,450,603 | ( 4,765,336) |
| Cash and Cash Equivalents at Beginning of Period | 6,810,284 | 11,575,620 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | $ 14,260,887 | $ 6,810,284 |
| **Supplemental Disclosures of Cash Flow Information:** | | |
| Interest Paid | $ 2,253,222 | $ 2,988,090 |
| Taxes Paid | $ - | $ - |
| Loans Transferred to Other Real Estate Owned | $ 1,490,979 | $ 2,510,000 |
| Carrying Value of OREO and Loans Transferred in Asset Exchange | $ 1,639,932 | $ - |

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

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements include the accounts of CalWest Bancorp and its subsidiary, South County Bank (the "Bank") collectively referred to herein as the "Company." All significant intercompany transactions have been eliminated. CalWest Bancorp has no significant business activity other than its investment in South County Bank. Accordingly, no separate financial information on the Company is provided, other than reflected in the consolidating schedules included as supplementary information.

Nature of Operations

The Bank has been organized as a single operating segment with two separate divisions, Inland Valley Bank and Surf City Bank. The Bank operates a full service branch in Redlands under the Inland Valley Bank division and a full service branch in Huntington Beach under the Surf City Bank division. In addition, the Bank operates two full service branches in Rancho Santa Margarita and Irvine, California under the name South County Bank N.A.

The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through June 9, 2011, which is the date the financial statements were available to be issued.

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, federal funds sold and interest-bearing balances held at the Federal Reserve Bank ("FRB"). 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 Company complied with the reserve requirements as of December 31, 2010 and 2009.

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

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

### Interest-Bearing Deposits in Other Banks

Interest-bearing deposits in other banks mature within one year and are carried at cost.

### 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.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows; OTTI related to credit loss, which must be recognized in the income statement and; OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

### Loans Held for Sale

Loans originated or purchased and intended for sale are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

### 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.

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

Loans - Continued

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 based on the contractual terms of the loan or when, in the opinion of management, there is reasonable doubt as to collectibility. 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.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are generally considered troubled debt restructurings and are also classified as impaired.

Generally, large balance non-homogeneous loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral.

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

Allowance for Loan Losses - Continued

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio classes identified by the Company include construction and land development, commercial real estate, residential real estate, small business administration, commercial & industrial and consumer loans. Relevant risk characteristics for these portfolio classes generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

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 ten years for furniture and fixtures. 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.

Federal Home Loan Bank ("FHLB") Stock

The Company 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. The Company's investment in FHLB stock was $1,274,000 and $1,433,300 at December 31, 2010 and 2009, respectively.

Other Real Estate Owned

Other real estate owned ("OREO") represents properties acquired through foreclosure or other proceedings. OREO is held for sale and is recorded at the lower of the recorded amount of the loan or fair value of the properties less estimated costs of disposal. Any write-down to fair value at the time of transfer to OREO is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowances to reduce the carrying amounts to fair value less estimated costs to dispose are recorded as necessary. Additions to or reductions from valuation allowances are recorded in other expense.

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

Company Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Advertising Costs

The Company 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 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 Company has adopted guidance issued by the Financial Accounting Standards Board (“FASB”) that 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 taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Comprehensive Income

Changes in unrealized gain on available-for-sale securities is 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 L. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

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

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. Due to operating losses, the Company only reported basic earnings per share in 2010 and 2009. Average shares used in the computation of basic earnings per share were 2,377,073 for 2010 and 2,350,889 for 2009.

Stock-Based Compensation

The Company recognizes 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. See Note J for additional information on the Company’s stock option plan.

Fair Value Measurement

Fair value is 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. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value. The guidance 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.
>
> 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.

See Note O for more information and disclosures relating to the Company’s fair value measurements.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the classifications used in 2010.

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

Adoption of New Accounting Standards

In June 2009, accounting standards were amended to clarify when a transferor has surrendered control over transferred financial assets and thus is entitled to account for the transfer as a sale. The amendments establish specific conditions for accounting for the transfer of a financial asset, or a portion of a financial asset, as a sale. This guidance was effective for transfers occurring on or after January 1, 2010 and impacted when a loan participation or SBA loan sale could be accounted for as a sale and the related transferred asset derecognized by the Company. Adoption of the standard by the Company in 2010 did not have a material impact on its balance sheet or statement of operations other than a three month delay in the recognition of the sale and related gain on SBA loan sales due to the existence of recourse provisions commonly found in SBA loan sale agreements. See Note G for additional details about the impact of this new accounting standard in 2010.

In July 2010, accounting standards were amended to require significantly more information about the credit quality of the Company's loan portfolio. Although this statement addresses only disclosure and does not seek to change recognition or measurement, the disclosure represents a meaningful change in practice. New period-end related disclosures are reflected in these financial statements while new activity related disclosures will be effective in 2011.

## NOTE B - INVESTMENT SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amount of securities and their approximate fair values at December 31 were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **December 31, 2010** | | | | |
| **Available-for-Sale Securities:** | | | | |
| U.S. Government and Agency Securities | $ 3,500,000 | $ 6,807 | $( 83,587) | $ 3,423,220 |
| State and Municipal Securities | 5,423,425 | 110,574 | ( 5,571) | 5,528,428 |
| Mortgage-Backed Securities: | | | | |
| Agency | 24,273,858 | 301,718 | ( 229,072) | 24,346,504 |
| | $ 33,197,283 | $ 419,099 | $( 318,230) | $ 33,298,152 |
| **Held-To-Maturity Securities:** | | | | |
| U.S. Government and Agency Securities | $ 1,011,706 | $ 38,874 | $ - | 1,050,580 |
| State and Municipal Securities | 3,560,176 | 133,428 | ( 10,812) | 3,682,792 |
| Mortgage-Backed Securities: | | | | |
| Agency | 13,821,023 | 595,504 | - | 14,416,527 |
| Corporate Bonds | 612,115 | 39,982 | - | 652,097 |
| | $ 19,005,020 | $ 807,788 | $( 10,812) | $ 19,801,996 |
| **December 31, 2009** | | | | |
| **Available-for-Sale Securities:** | | | | |
| State and Municipal Securities | $ 5,275,634 | $ 151,485 | $( 13,956) | $ 5,413,163 |
| Mortgage-Backed Securities: | | | | |
| Agency | 16,122,668 | 142,102 | ( 12,530) | 16,252,240 |
| | $ 21,398,302 | $ 293,587 | $( 26,486) | $ 21,665,403 |
| **Held-To-Maturity Securities:** | | | | |
| U.S. Government and Agency Securities | $ 4,214,590 | $ 33,679 | $( 41,389) | 4,206,880 |
| State and Municipal Securities | 3,567,567 | 111,115 | ( 16,067) | 3,662,615 |
| Mortgage-Backed Securities: | | | | |
| Agency | 18,954,629 | 526,514 | - | 19,481,143 |
| Corporate Bonds | 616,183 | 28,181 | - | 644,364 |
| | $ 27,352,969 | $ 699,489 | $( 57,456) | $ 27,995,002 |

**NOTE B - INVESTMENT SECURITIES – Continued**

During 2010, the Company received proceeds of $2,238,043 from the sale of available-for-sale investment securities resulting in gross gains of $45,967 and no gross losses. During 2009, the Company received proceeds of $11,102,499 from the sale of available-for-sale investment securities resulting in gross gains of $141,124 and no gross losses.

Investment securities carried at approximately $51,692,000 and $23,200,000, at December 31, 2010 and December 31, 2009, respectively, were pledged to secure public deposits and the borrowings discussed in Note G.

The scheduled maturities of investment securities at December 31, 2010, were as follows:

| | Available-for-Sale Securities | | Held-to-Maturity Securities | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in One Year or Less | $ - | $ - | $ - | $ - |
| Due in One Year to Five Years | 1,785,874 | 1,833,625 | 2,851,184 | 3,011,718 |
| Due in Five to Ten Years | 2,658,975 | 2,583,463 | 1,246,707 | 1,296,852 |
| Greater Than Ten Years | 4,478,576 | 4,534,560 | 1,086,106 | 1,076,899 |
| Mortgage-Backed Securities | 24,273,858 | 24,346,504 | 13,821,023 | 14,416,527 |
| | $ 33,197,283 | $ 33,298,152 | $ 19,005,020 | $ 19,801,996 |

## NOTE B - INVESTMENT SECURITIES - Continued

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31 are as follows:

| | Less than Twelve Months | | Over Twelve Months | | Total | |
|---|---|---|---|---|---|---|
| | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value | Unrealized Loss | Estimated Fair Value |
| December 31, 2010 | | | | | | |
| U.S. Government and Agency Securities | $( 83,587) | $ 2,166,413 | $ - | $ - | $( 83,587) | $ 2,166,413 |
| State and Municipal Securities | (6,155) | 752,116 | ( 10,228) | 245,166 | (16,383) | 997,282 |
| Mortgage-Backed Securities: | | | | | | |
| Agency | (224,273) | 8,902,800 | - | - | (224,273) | 8,902,800 |
| | $( 314,015) | $ 11,821,329 | $( 10,228) | $ 245,166 | $( 324,243) | $ 12,066,495 |
| December 31, 2009 | | | | | | |
| U.S. Government and Agency Securities | $( 41,389) | $ 2,160,310 | $ - | $ - | $( 41,389) | $ 2,160,310 |
| State and Municipal Securities | (16,665) | 1,832,258 | ( 13,358) | 243,646 | (30,023) | 2,075,904 |
| Mortgage-Backed Securities: | | | | | | |
| Agency | (11,318) | 3,431,028 | ( 1,212) | 151,405 | (12,530) | 3,582,433 |
| | $( 69,372) | $ 7,423,596 | $( 14,570) | $ 395,051 | $( 83,942) | $ 7,818,647 |

As of December 31, 2010, the Company had several investment securities where total estimated fair value had declined from the Company's total amortized cost. Because the decline in market value is attributable to changes in interest rates and not credit quality and because the Company does not intend to sell these securities and it is not more likely than not that the Company will be required to sell the securities, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

## NOTE C - LOANS

The Company's loan portfolio consists primarily of loans to borrowers within Southern 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.

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

| | 2010 | 2009 |
|---|---|---|
| Balance at Beginning of Year | $ 2,030,400 | $ 2,316,231 |
| Additions to the Allowance Charged to Expense | 6,280,000 | 4,370,000 |
| Recoveries on Loans Charged Off | 496,080 | 278,140 |
| | 8,806,480 | 6,964,371 |
| Less Loans Charged Off | ( 4,497,102) | ( 4,933,971) |
| | $ 4,309,378 | $ 2,030,400 |

The following table presents the approximate balance in the allowance for loan losses and the recorded investment in loans by impairment method as of December 31, 2010:

| | Evaluated for Impairment | | |
|---|---|---|---|
| | Collectively | Individually | Total |
| **Allowance for Loan Losses** | | | |
| Construction and Land Development | $ 1,000 | $ 1,072,000 | $ 1,073,000 |
| Commercial Real Estate | 841,000 | - | 841,000 |
| Residential Real Estate | 479,000 | - | 479,000 |
| Small Business Administration | 90,000 | - | 90,000 |
| Commercial and Industrial | 1,576,000 | 229,000 | 1,805,000 |
| Consumer | 21,000 | - | 21,000 |
| | $ 3,008,000 | $ 1,301,000 | $ 4,309,000 |
| **Loans** | | | |
| Construction and Land Development | $ 875,156 | $ 2,567,000 | $ 3,442,156 |
| Commercial Real Estate | 28,635,190 | 5,059,000 | 33,694,190 |
| Residential Real Estate | 16,439,998 | 63,000 | 16,502,998 |
| Small Business Administration | 4,192,100 | 521,000 | 4,713,100 |
| Commercial and Industrial | 37,151,922 | 3,083,000 | 40,234,922 |
| Consumer | 1,627,351 | - | 1,627,351 |
| | $ 88,921,717 | $ 11,293,000 | $ 100,214,717 |

**NOTE C – LOANS – Continued**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

**Special Mention -** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard -** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Impaired** – A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

Based on the most recent analysis performed, the approximate amount of loans by risk category and class of loans is as follows as of December 31, 2010:

| | Pass | Special Mention | Substandard | Impaired | Total |
|---|---|---|---|---|---|
| **December 31, 2010** | | | | | |
| Construction and Land Development | $ 875,156 | $ - | $ - | $ 2,567,000 | $ 3,442,156 |
| Commercial Real Estate | 26,758,732 | 202,082 | 1,674,376 | 5,059,000 | 33,694,190 |
| Residential Real Estate | 15,280,792 | 61,240 | 1,097,966 | 63,000 | 16,502,998 |
| Small Business Administration | 4,087,211 | - | 104,889 | 521,000 | 4,713,100 |
| Commercial and Industrial | 31,234,697 | 2,316,940 | 3,600,285 | 3,083,000 | 40,234,922 |
| Consumer | 1,615,725 | - | 11,626 | - | 1,627,351 |
| | $ 79,852,313 | $ 2,580,262 | $ 6,489,142 | $ 11,293,000 | $ 100,214,717 |

**NOTE C – LOANS - Continued**

Approximate amounts of past due and nonaccrual loans were as follows as of December 31, 2010:

| | Still Accruing | | |
|---|---|---|---|
| | 30-89 Days Past Due | Over 90 Days Past Due | Nonaccrual |
| **December 31, 2010** | | | |
| Construction and Land Development | $ - | $ - | $ 2,567,000 |
| Commercial Real Estate | - | - | 4,771,000 |
| Residential Real Estate | 61,000 | - | 430,000 |
| Small Business Administration | - | - | 666,000 |
| Commercial and Industrial | 15,000 | - | 4,129,000 |
| Consumer | - | - | 12,000 |
| | $ 76,000 | $ - | $ 12,575,000 |

Amounts relating to individually impaired loans were as follows as of December 31, 2010:

| | Unpaid Principal Balance | Recorded Investment | Related Allowance | Average Recorded Investment |
|---|---|---|---|---|
| **December 31, 2010** | | | | |
| **With An Allowance Recorded** | | | | |
| Construction and Land Development | $ 2,566,717 | $ 2,567,000 | $ 1,072,000 | $ 3,330,000 |
| Commercial and Industrial | 866,206 | 866,000 | 229,000 | 911,000 |
| **With No Related Allowance Recorded** | | | | |
| Commercial Real Estate | 5,299,175 | 5,059,000 | - | 5,116,000 |
| Residential Real Estate | 173,128 | 63,000 | - | 63,000 |
| Small Business Administration | 879,032 | 521,000 | - | 521,000 |
| Commercial and Industrial | 2,491,218 | 2,217,000 | - | 2,341,000 |
| | $ 12,275,476 | $ 11,293,000 | $ 1,301,000 | $ 12,282,000 |

No interest income was recognized on impaired loans in 2010 and 2009. The Company has allocated $147,853 of specific reserves on loans with a recorded investment of $5,095,586 whose terms have been modified in troubled debt restructurings as of December 31, 2010.

## NOTE C - LOANS - Continued

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, 2009:

| | 2009 |
|---|---|
| Impaired Loans with No Allocated Allowance | $ 4,631,000 |
| Impaired Loans with Allocated Allowance | - |
| | $ 4,631,000 |
| Related Allowance for Loan Losses | $ - |
| Average Recorded Investment in Impaired Loans | $ 5,806,000 |
| Interest Income Recognized for Cash Payments | $ - |
| Total Nonaccrual Loans | $ 4,631,000 |
| Total Loans Past-Due Ninety Days or More and Still Accruing | $ - |

The Company originates SBA Loans. The guaranteed portion of these loans may be periodically sold to institutional investors depending on the Company's overall asset allocation and goals. Funding for the SBA program depends on annual appropriations by the U.S. Congress.

At December 31, 2010 and 2009, the Company was servicing $17,820,812 and $18,889,080, respectively, in SBA loans previously sold. The Company has recorded servicing assets related to these loans totaling $284,804 and $222,444 at December 31, 2010 and 2009, respectively. The estimated fair value of the servicing assets approximated the carrying amount at December 31, 2010 and 2009.

Fair value is estimated by discounting estimated future cash flows from the servicing assets using discount rates that approximate current market rates over the expected lives of the loans being serviced. For purposes of measuring impairment, the Company has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset.

## NOTE D - PREMISES AND EQUIPMENT

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

| | 2010 | 2009 |
|---|---|---|
| Furniture, Fixtures, and Equipment | $ 2,583,546 | $ 2,617,967 |
| Leasehold Improvements | 843,087 | 769,855 |
| | 3,426,633 | 3,387,822 |
| Less Accumulated Depreciation and Amortization | ( 3,142,920) | ( 2,809,782) |
| | $ 283,713 | $ 578,040 |

## NOTE D - PREMISES AND EQUIPMENT - Continued

The Company leases its facilities under noncancellable operating leases expiring at various dates through 2015. At December 31, 2010, the future minimum annual payments for these leases are as follows:

| | |
|---|---|
| 2011 | $ 725,000 |
| 2012 | 761,000 |
| 2013 | 707,000 |
| 2014 | 395,000 |
| 2015 | 90,000 |
| Total Minimum Payments Required | $ 2,678,000 |

The minimum rental payments shown above are given for the existing lease obligations and include annual rent adjustments.

Rental expense, including related common area maintenance charges, was $706,969 and $861,532 for 2010 and 2009, respectively.

## NOTE E - DEPOSITS

At December 31, 2010, the scheduled maturities of time deposits are as follows:

| | |
|---|---|
| Due in One Year or Less | $ 42,238,527 |
| Due from One to Three Years | 8,962,275 |
| Due over Three Years | 4,426,398 |
| | $ 55,627,200 |

## NOTE F - SUBORDINATED DEBENTURES AND NOTES

On September 17, 2003, the Company issued $3,093,000 of junior subordinated deferrable interest debentures (the "debentures") to CalWest Statutory Trust I (the "Trust"). These debentures are subordinated to effectively all borrowings of the Company and are due and payable on September 17, 2033. Interest is payable quarterly on these debentures at three-month LIBOR plus 2.95% for an effective rate of 3.25% as of December 31, 2010.

## NOTE F - SUBORDINATED DEBENTURES AND NOTES- Continued

The Company also purchased a 3% common interest in the Trust. The balance of the equity of the Trust is comprised of mandatorily redeemable preferred securities. The Federal Reserve Board has issued final regulations confirming that these types of mandatorily redeemable preferred securities qualify as Tier 1 Capital (up to 25% of other components of Tier 1 Capital) and the remainder as Tier 2 Capital.

In 2010, the Company issued $630,000 of mandatorily convertible subordinated notes to various individuals. These notes are subordinated to effectively all borrowings of the Company and mature three years after issuance, at which time the Company can convert the notes to shares of common stock. The Company may prepay all or a portion of the notes prior to the conversion date. Interest is payable semi-annually at a rate of 8%, but the Company can defer interest payments until maturity.

## NOTE G - OTHER BORROWINGS

Included in Other Borrowings as of December 31, 2010 are Federal Home Loan Bank advances as follows:

| Maturity | Weighted-Average Rate | Amount |
|---|---|---|
| 1/28/11 | 2.83% | $ 3,000,000 |
| 2/3/10 | 0.40% | 1,000,000 |
| 8/3/10 | 0.69% | 1,000,000 |
| 2/28/12 | 1.08% | 1,000,000 |
| | | $ 6,000,000 |

As a member of the Federal Home Loan Bank of San Francisco (“FHLBSF”), the Company may borrow against a line of credit with a maximum financing availability of 20% of its total assets, adjusted quarterly, subject to the pledge of eligible collateral as well as other terms and conditions. As of December 31, 2010, the Company had maximum financing availability of $37,216,000 based on total assets with remaining borrowing capacity of $14,582,000 based upon the amount of FHLBSF capital stock owned and pledged securities with a fair value of approximately $31.8 million. Reflected in the remaining borrowing capacity is a letter of credit in the amount of $8,000,000 issued on behalf of Company customers.

The Company may also borrow from the discount window and other financing facilities available through the Federal Reserve Bank of San Francisco, subject to the pledge of eligible collateral. No amounts were outstanding and securities with a fair value of approximately of $4.2 million were pledged on this arrangement as of December 31, 2010.

**NOTE G - OTHER BORROWINGS - Continued**

The Company may also borrow up to $11.5 million overnight from its correspondent banks on a secured and unsecured basis. No amounts were outstanding and securities with a fair value of approximately $5.7 million were pledged on the secured arrangements as of December 31, 2010.

Also included in Other Borrowings is $533,691 of SBA loans sold in the fourth quarter 2010. Certain recourse provisions in SBA sales agreements cause a delay in the recognition of the sale transaction under current accounting standards. Proceeds from SBA loan sales are recognized as a secured borrowing until the recourse provisions expire, which is typically three months after the settlement date. Upon expiration of the recourse provisions, the Bank recognizes a gain on the sale and derecognizes the loan receivable and the related secured borrowing. Gains deferred on SBA loan sales amounted to $43,824 as of December 31, 2010.

**NOTE H - INCOME TAXES**

Income taxes for the years ended December 31 consists of the following:

| | 2010 | 2009 |
|---|---|---|
| Currently Payable: | | |
| Federal | $ - | $ 16,686 |
| State | - | 1,600 |
| | - | 18,286 |
| Deferred | - | 199,000 |
| | $ - | $ 217,286 |

A comparison of the federal statutory income tax rates to the Company's effective income tax follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Federal Tax Rate | $( 2,273,000) | ( 34.0)% | $( 1,671,000) | ( 34.0)% |
| California Franchise Taxes | ( 494,000) | ( 7.5)% | ( 380,000) | ( 7.7)% |
| Tax-Free Income | ( 196,000) | ( 2.9)% | ( 164,000) | ( 3.3)% |
| Stock-Based Compensation | 26,000 | 0.4 % | 27,000 | 0.5 % |
| Valuation Allowance | 2,947,000 | 44.2 % | 2,405,000 | 48.9 % |
| Other Items - net | ( 10,000) | ( 0.2)% | 286 | - |
| | $ - | 0.0 % | $ 217,286 | 4.4 % |

## NOTE H - INCOME TAXES - Continued

The Company is subject to federal income tax and California franchise tax. Federal income tax returns for the years ended December 31, 2009, 2008 and 2007 are open to audit by the federal authorities and California returns for the years ended December 31, 2009, 2008, 2007 and 2006 are open to audit by state authorities. Unrecognized tax benefits are not expected to significantly increase or decrease within the next twelve months.

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying consolidated balance sheets:

| | 2010 | 2009 |
|---|---|---|
| Deferred Tax Assets: | | |
| Allowance for Loan Losses Due to Tax Limitations | $ 704,000 | $ - |
| Net Operating Loss Carryforwards | 6,784,000 | 5,251,000 |
| Depreciation Differences | 123,000 | 219,000 |
| Deferred Compensation Plans | 129,000 | 208,000 |
| Fair Value Adjustment on HELOC Loans | 512,000 | - |
| Other | 372,000 | 99,000 |
| | 8,624,000 | 5,777,000 |
| Valuation Allowance | ( 8,287,000) | ( 5,340,000) |
| Deferred Tax Liabilities: | | |
| Allowance for Loan Losses Due to Tax Limitations | - | ( 23,000) |
| Deferred Loan Costs | ( 263,000) | ( 312,000) |
| Other | ( 74,000) | ( 102,000) |
| | ( 337,000) | ( 437,000) |
| Net Deferred Tax Assets | $ - | $ - |

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 carry forwards of approximately $16.3 and $17.5 million for federal income and California franchise tax purposes, respectively. Net operating loss carry forwards, to the extent not used will begin to expire in 2028.

## NOTE I - OTHER EXPENSES

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

| | 2010 | 2009 |
|---|---|---|
| Marketing and Business Promotion | $ 235,808 | $ 297,608 |
| Professional and Consulting | 794,882 | 551,744 |
| Office Expenses | 224,503 | 238,119 |
| Data Processing | 374,927 | 360,765 |
| Directors Expense | 115,616 | 96,224 |
| Loan Expense | 97,490 | 113,111 |
| Regulatory Assessments | 395,646 | 492,667 |
| Other Expenses | 507,356 | 365,135 |
| | $ 2,746,228 | $ 2,515,373 |

## NOTE J - STOCK OPTION PLAN

The shareholders approved the Company's 1999 Stock Option Plan in October 1999, under which 200,037 shares of the Company's common stock may be issued. In July 2003, the shareholders approved the 2003 Stock Option Plan under which 192,995 shares of the Company's common stock may be issued, raising the total shares available to 393,032. Under the terms of the Company's stock option plans, employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options.

In May 2006, the shareholders approved the Company's 2006 Equity Based Compensation Plan under which 201,651 shares of the Company's common stock may be issued. The 2006 Plan authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock awards and restricted stock units. Under the Plan vesting restrictions on awards may be time based and/or performance based. Participation in the 2006 Plan is open to all employees of the Company and the Bank as well as the Company's directors. Under the terms of the 2006 Plan employees may be granted nonqualified stock options or incentive stock options and directors may be granted nonqualified stock options. Generally, all awards expire no later than ten years from the date of the grant. Under the 2006 Plan no further grants will be made from the 2003 or 1999 Stock Option Plans.

**NOTE J - STOCK OPTION PLAN - Continued**

The fair value of each option grant in 2009 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 2009 |
|---|---|
| Risk Free Interest Rate | 2.29% |
| Estimated Average Life | 5 years |
| Expected Dividend Rates | 0.00% |
| Expected Stock Volatility | 25.00% |
| Weighted-Average Option Value | $ 0.60 |

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 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.

A summary of the status of the Company's stock option plan as of December 31, and changes during the years are presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at Beginning of Year | 325,501 | $ 8.00 | | |
| Granted | - | $ - | | |
| Forfeited and Expired | ( 33,825) | $ 11.72 | | |
| Exercised | - | $ - | | |
| Outstanding at End of Year | 291,676 | $ 7.56 | 4.7 Years | None |
| Options Exercisable at Year-End | 209,115 | $ 8.30 | 3.6 Years | None |

As of December 31, 2010 there was approximately $142,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 3.2 years.

## NOTE K - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors and the companies with which they are associated. The balance of these loans outstanding at December 31, 2010 and 2009 was approximately $749,000 and $1,128,000, respectively.

Also, in the ordinary course of business, certain executive officers, directors and companies with which they are associated have deposits with the Company. The balance of these deposits at December 31, 2010 and 2009 was approximately $863,000 and $1,676,000, respectively.

## NOTE L - 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, 2010 and 2009, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

| | 2010 | 2009 |
|---|---|---|
| Commitments to Extend Credit | $ 23,030,000 | $ 21,006,000 |
| Standby Letters of Credit | - | 30,000 |
| | $ 23,030,000 | $ 21,036,000 |

**NOTE L - COMMITMENTS - Continued**

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 customer'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.

The Company is involved in various matters of litigation which have arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material effect on the Company's financial statements.

**NOTE M – EMPLOYEE BENEFITS**

The Company has entered into salary continuation agreements with certain executive officers. Under these agreements, the Company is obligated to provide, upon retirement, a 15 year benefit to the officers. 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. On May 5, 2010, certain officers entered into agreements that effectively converted the then existing liability under the salary continuation agreements of $314,205 to shares of common stock of the Company.

The Company has also entered into split-dollar life insurance agreements with certain executive officers. The present value of the post-retirement cost of maintaining the life insurance policy is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants.

The expense (benefit) incurred for these agreements, net of forfeitures totaled approximately $17,461 and $(5,630) for 2010 and 2009, respectively. Total accrued liability for these agreements as of December 31, 2010 and 2009 was $173,115 and $504,781, respectively.

The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements. Income earned on the cash surrender value of these polices is tax-free to the Company and is utilized to reduce the overall costs of benefits provided to key officers.

## NOTE N - REGULATORY MATTERS AND SUBSEQUENT EVENT

Consent Order: On January 24, 2011, subsequent to the Company's year-end, the Bank consented to the issuance of a Consent Order ("the Order") by the Office of the Comptroller of the Currency ("OCC"). The Order places significant requirements on the Bank, as summarized below.

The Bank must maintain Tier 1 Capital to total assets ratio of at least 9% and Total Capital to risk-weighted assets of at least 12% throughout the life of the Order. No dividends may be paid without the prior written consent of the OCC. The Bank must submit a written strategic plan to improve profits and maintain sufficient capital.

The Order stipulates that the Board of Directors shall adopt policies and procedures to ensure that the Bank has effective senior management in place, including the Chief Credit Officer position which is currently unfilled. In addition, the Bank must adopt and implement policies and procedures to strengthen management of overall risk exposures in certain areas, including loan portfolio management, criticized assets, nonaccrual loans and troubled debt restructurings, concentrations of credit, allowance for loan losses, loan review and liquidity risk management.

Effective with the date of the Order, the Bank will be considered adequately capitalized under the FDIC's prompt corrective action rules. As a result of its being deemed adequately capitalized, the Bank will not be able to accept, renew, or rollover any brokered deposit unless it has been granted a waiver of such prohibition by the FDIC and may not accept high rate deposits as defined by regulation. Brokered deposits as of December 31, 2010 amounted to approximately $13,602,000, which represents 8.4% of total deposits.

The Bank expects to work closely with the OCC to address the provisions of the Order. Regular updates will be submitted to report progress made in correcting the items addressed in the Order. The Order will remain in effect until terminated by the OCC. Failure to comply with terms of the Order may result in additional enforcement action against the Bank.

**NOTE N - REGULATORY MATTERS AND SUBSEQUENT EVENT - Continued**

Capital Requirements: 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 Company'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 their assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. Their capital amounts and classifications 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 that the Bank meets all capital adequacy requirements.

As of December 31, 2010, the most recent notification from the Comptroller of the Currency categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action.

To be categorized as well-capitalized, the Bank must maintain minimum 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 |
| **As of December 31, 2010** | | | | | | |
| Bank: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 11,206 | 9.84% | $ 9,115 | 8.00% | $ 11,393 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | $ 9,745 | 8.55% | $ 4,557 | 4.00% | $ 6,836 | 6.00% |
| Tier 1 Capital (to Average Assets) | $ 9,745 | 5.27% | $ 7,386 | 4.00% | $ 9,233 | 5.00% |
| **As of December 31, 2009** | | | | | | |
| Bank: | | | | | | |
| Total Capital (to Risk-Weighted Assets) | $ 17,200 | 12.06% | $ 11,412 | 8.00% | $ 14,265 | 10.00% |
| Tier 1 Capital (to Risk-Weighted Assets) | $ 15,413 | 10.80% | $ 5,706 | 4.00% | $ 8,559 | 6.00% |
| Tier 1 Capital (to Average Assets) | $ 15,413 | 8.09% | $ 7,624 | 4.00% | $ 9,529 | 5.00% |

The Bank is restricted as to the amount of dividends, which can be paid. Dividends declared by national banks that exceed the net income (as defined) for the current year plus retained net income for the preceding two years must be approved by the OCC. The Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above. With certain exceptions, a California corporation, like the Company, may not pay a dividend to its shareholders unless its retained earnings equal at least the amount of the proposed dividend.

## NOTE O - FAIR VALUE MEASUREMENTS

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or 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 securities' relationship to other benchmark quoted securities (Level 2).

Collateral-Dependent Impaired Loans: The Company does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and such adjustments are typically significant (Level 3).

Other Real Estate Owned: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized.

**NOTE O - FAIR VALUE MEASUREMENTS - Continued**

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31 (dollar amounts in thousands):

| | Fair Value Measurements Using: 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets and Liabilities Measured at Fair Value on a Recurring Basis:** | | | | |
| Securities Available for Sale | $ - | $ 33,298 | $ - | $ 33,298 |
| **Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:** | | | | |
| Collateral-Dependent Impaired Loans, net of Specific Reserves | $ - | $ - | $ 3,253 | $ 3,253 |
| Other Real Estate Loans, net | $ - | $ - | $ 1,290 | $ 1,290 |

| | Fair Value Measurements Using: 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets and Liabilities Measured at Fair Value on a Recurring Basis:** | | | | |
| Securities Available for Sale | $ - | $ 21,665 | $ - | $ 21,665 |
| **Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:** | | | | |
| Collateral-Dependent Impaired Loans, net of Specific Reserves | $ - | $ - | $ 1,912 | $ 1,912 |

As of December 31, 2010 and 2009, collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying value of approximately $4,476,000 and $1,912,000 with related specific allocated reserves of approximately $1,223,000 and $0, respectively.

As of December 31, 2010 and 2009, other real estate owned had a carrying value of approximately $1,290,000 and $2,015,000, with approximately $0 and $3,000 in specific allocated reserves, respectively. Write-downs of other real estate owned charged against income totaled approximately $0 and $137,000 for the periods ended December 31, 2010 and 2009, respectively.

## NOTE P - 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:

<u>Financial Assets</u>

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 are discussed in Note O. 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.

<u>Financial Liabilities</u>

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.

<u>Off-Balance Sheet Financial Instruments</u>

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.

## NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of financial instruments at December 31, 2010 and 2009 are summarized as follows (dollar amounts in thousands):

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and Due from Banks | $ 3,261 | $ 3,261 | $ 4,645 | $ 4,645 |
| Federal Funds Sold and Interest-Bearing deposits at FRB | 11,000 | 11,000 | 2,165 | 2,165 |
| Interest-Bearing Deposits | 400 | 400 | 250 | 250 |
| Investment Securities | 52,303 | 53,101 | 49,018 | 49,660 |
| Loans Held for Sale | 3,645 | 3,645 | 574 | 574 |
| Net Loans | 94,716 | 94,707 | 117,961 | 116,676 |
| Federal Reserve Bank and Federal Home Loan Bank Stock | 1,647 | 1,647 | 1,930 | 1,930 |
| Company Owned Life Insurance | 6,511 | 6,511 | 6,286 | 6,286 |
| Accrued Interest Receivable | 674 | 674 | 706 | 706 |
| **Financial Liabilities** | | | | |
| Deposits | 161,105 | 158,308 | 161,300 | 161,660 |
| Other Borrowings | 6,534 | 6,547 | 12,000 | 12,109 |
| Debentures | 3,723 | 3,723 | 3,093 | 3,093 |
| Accrued Interest Payable and Other Liabilities | 545 | 545 | 1,277 | 1,277 |

## NOTE Q - SENIOR PREFERRED STOCK

On January 23, 2009, the Company entered into a Purchase Agreement with the United States Department of the Treasury (the "Treasury"), pursuant to which the Company issued and sold 4,656 shares of the Company's Preferred Stock as Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") and 233 shares of Fixed Rate Cumulative Perpetual Warrant Preferred Stock, Series B (the "Series B Preferred Stock") for an aggregate purchase price of $4,656,000 in cash. The redemption of both Series A and Series B Preferred Stock is $4,889,000. The discount of $233,000 plus estimated issuance costs of $25,000 is accreted against retained earnings over the estimated five-year life of the Preferred Stock reducing the reported income available for common shareholders.

## NOTE Q - SENIOR PREFERRED STOCK - Continued

The Series A Preferred Stock qualifies as Tier 1 capital and pay cumulative dividends at a rate of 5% per annum for the first five years and 9% per annum thereafter. The Series A Preferred Stock may be redeemed by the Company after three years. The Series B Preferred Stock will also qualify as Tier 1 capital and will pay cumulative dividends at a rate of 9% per annum. The Series B Preferred Stock may only be redeemed after all of the Series A Preferred Stock has been redeemed. If dividends on the Preferred Stock are not paid in full for six dividend periods, whether or not consecutive, the Treasury will have the right to elect 2 directors. The right to elect directors will end when full dividends have been paid for all prior dividend periods in the case of cumulative Preferred Stock. For as long as any Preferred Stock is outstanding and held by the Treasury, no dividends may be declared on common shares unless approved by the Treasury.

During the year, the Company paid total dividends on the Preferred Stock of $190,329. The Company did not make the dividend payments of $63,443 due on November 15, 2010 and February 15, 2011. The Company does not accrue a liability for dividends until they are declared and therefore dividends in arrears of $63,443 have not been reflected as a reduction of shareholders' equity as of December 31, 2010.

In the Purchase Agreement, the Company agreed that, until such time as the Treasury ceases to own any debt or equity securities of the Company acquired pursuant to the Purchase Agreement, the Company will take all necessary action to ensure that its benefit plans with respect to its senior executive officers comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (the "EESA"), as amended by the American Recovery and Reinvestment Act of 2009, and as implemented by any guidance or regulation under the EESA that has been issued and is in effect, from time to time, and has agreed to not adopt any benefit plans with respect to, or which covers, its senior executive officers that do not comply with the EESA, and the applicable executives have consented to the foregoing.

## NOTE R – LOANS ACQUIRED IN EXCHANGE OF ASSETS

In 2010, the Company executed agreements to sell a classified loan and a piece of property held in other real estate with a carrying value of $1,639,932 for $1,900,261 and also provide cash of $5,700,784 in exchange for a pool of home equity lines of credit ("HELOC's") with a par value of $7,601,045.

Accounting standards require that assets received in full satisfaction of receivables be recorded at fair value. A discount of $1,333,994 was recorded to reduce the par value of the HELOC's to reflect a fair value of $6,332,451. The discount was recorded, net of the excess sales price over carrying value of $260,329, and resulted in the recognition of a loss on the sale of the other real estate of $886,684, a charge-off on the loan of $62,690 and a charge to miscellaneous expense of $124,291.

The discount is being recognized as interest income over the life of the HELOC's with $84,690 recognized into income in 2010. The remaining balance of the discount is $1,249,304 as of December 31, 2010.

# CALWEST BANCORP AND SUBSIDIARY

## Supplementary Information

## Consolidating Schedules

# CALWEST BANCORP AND SUBSIDIARY
## CONSOLIDATING BALANCE SHEET
## For the Year Ended December 31, 2010

| Assets | South County Bank | CalWest Bancorp | Eliminating Entries | Consolidated Balance |
|---|---|---|---|---|
| Cash and Due from Banks | $ 3,260,887 | $ 147,732 | $ (147,732) | $ 3,260,887 |
| Federal Funds Sold and Interest-Bearing Balances | | | | |
| at the Federal Reserve Bank | 11,000,000 | | | 11,000,000 |
| Interest-Bearing Deposits in Other Bank | 400,000 | | | 400,000 |
| Investment Securities Available for Sale | 33,298,152 | | | 33,298,152 |
| Investment Securities Held to Maturity | 19,005,020 | | | 19,005,020 |
| Loans Held for Sale | 3,644,522 | | | 3,644,522 |
| Loans, Net | 94,715,972 | | | 94,715,972 |
| FRB and FHLB Stock, at Cost | 1,646,500 | | | 1,646,500 |
| Premises and Equipment | 283,713 | | | 283,713 |
| Other Real Estate Owned | 1,289,855 | | | 1,289,855 |
| Company Owned Life Insurance | 6,511,226 | | | 6,511,226 |
| FDIC Prepaid Assessment | 613,928 | | | 613,928 |
| Accrued Interest and Other Assets | 2,481,174 | 9,938,089 | (9,906,338) | 2,512,925 |
| | $ 178,150,949 | $ 10,085,821 | $ (10,054,070) | $ 178,182,700 |
| **Liabilities and Stockholders' Equity** | | | | |
| Deposits | $ 161,252,912 | $ - | $ (147,732) | $ 161,105,180 |
| Other Borrowings | 6,533,691 | | | 6,533,691 |
| Subordinated Debentures and Notes | | 3,723,000 | | 3,723,000 |
| Accrued Interest and Other Liabilities | 519,256 | 25,950 | | 545,206 |
| Total Liabilities | 168,305,859 | 3,748,950 | (147,732) | 171,907,077 |
| Stockholders' Equity: | | | | |
| Preferred Stock | - | 4,708,854 | - | 4,708,854 |
| Common Stock | 10,658,905 | 12,067,733 | (10,658,905) | 12,067,733 |
| Surplus | 15,306,919 | 16,203,310 | (15,306,919) | 16,203,310 |
| Accumulated Deficit | (16,221,603) | (26,743,895) | 16,221,603 | (26,743,895) |
| Accumulated Other Comprehensive Income | 100,869 | 100,869 | (100,869) | 100,869 |
| Total Stockholders' Equity | 9,845,090 | 6,336,871 | (9,845,090) | 6,336,871 |
| | $ 178,150,949 | $ 10,085,821 | $ (9,992,822) | $ 178,243,948 |

## CALWEST BANCORP AND SUBSIDIARY

### CONSOLIDATING STATEMENT OF OPERATIONS
### For the Year Ended December 31, 2010

| | South County Bank | CalWest Bancorp | Eliminations | Consolidated |
|---|---|---|---|---|
| **Interest Income** | | | | |
| Interest and Fees on Loans | $ 6,132,713 | $ - | $ - | $ 6,132,713 |
| Interest on Investment Securities | 1,719,839 | | | 1,719,839 |
| Other Interest Income | 89,303 | | | 89,303 |
| **Total Interest Income** | 7,941,855 | - | - | 7,941,855 |
| **Interest Expense** | | | | |
| Interest on Money Market and NOW Accounts | 597,057 | ( 5,188) | | 591,869 |
| Interest on Savings Deposits | 82,114 | | | 82,114 |
| Interest on Time Deposits | 1,108,280 | | | 1,108,280 |
| Other Interest Expense | 133,381 | 139,564 | | 272,945 |
| **Total Interest Expense** | 1,920,832 | 134,376 | - | 2,055,208 |
| **Net Interest Income** | 6,021,023 | ( 134,376) | - | 5,886,647 |
| Provision for Loan Losses | 6,280,000 | | | 6,280,000 |
| **Net Interest Income (Loss) after Provision for Loan Losses** | ( 258,977) | ( 134,376) | - | ( 393,353) |
| **Noninterest Income** | | | | |
| Service Charges and Fees | 841,895 | | | 841,895 |
| Gain and Servicing Income on Loans Sold | 474,040 | | | 474,040 |
| Gain on Sale of Securities | 45,967 | | | 45,967 |
| Loss on Sale of Other Real Estate Owned | ( 979,929) | | | ( 979,929) |
| Earnings on Company Owned Life Insurance | 224,790 | | | 224,790 |
| Other Income | 45,127 | | | 45,127 |
| **Total Noninterest Income** | 651,890 | - | - | 651,890 |
| **Noninterest Expense** | | | | |
| Salaries and Employee Benefits | 3,073,166 | | | 3,073,166 |
| Occupancy Expenses | 764,987 | | | 764,987 |
| Furniture and Equipment | 347,702 | | | 347,702 |
| Other Expenses | 2,719,724 | 26,504 | | 2,746,228 |
| **Total Noninterest Expense** | 6,905,579 | 26,504 | - | 6,932,083 |
| **Loss before Taxes and Income (Loss) from Subsidiary** | ( 6,512,666) | ( 160,880) | - | ( 6,673,546) |
| Income Taxes | - | | | - |
| Income (Loss) from Subsidiary | | ( 6,512,666) | 6,512,666 | - |
| **Net Income (Loss)** | $( 6,512,666) | $( 6,673,546) | $ 6,512,666 | $( 6,673,546) |