CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2011 AND 2010

CONTENTS

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders of
CalWest Bancorp and Subsidiary

We have audited the accompanying consolidated balance sheets of CalWest Bancorp and Subsidiary as of December 31, 2011 and 2010, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CalWest Bancorp and Subsidiary as of December 31, 2011 and 2010, 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, 2011, 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
March 5, 2012

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CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Due from Banks	$ 4,402,876	$ 3,260,887
Federal Funds Sold and Interest-Bearing Balances		
at the Federal Reserve Bank	5,365,000	11,000,000
TOTAL CASH AND CASH EQUIVALENTS	9,767,876	14,260,887
Interest-Bearing Deposits in Other Banks	1,230,000	400,000
Investment Securities:		
Available for Sale	27,111,912	33,298,152
Held to Maturity	22,335,715	19,005,020
TOTAL INVESTMENT SECURITIES	49,447,627	52,303,172
Loans Held for Sale	1,350,075	3,644,522
Loans:		
Real Estate	44,162,505	53,639,344
Commercial and Industrial	33,239,393	44,948,022
Consumer	1,110,000	1,627,351
TOTAL LOANS	78,511,898	100,214,717
Net Deferred Loan Fees, Costs and Discounts	(1,096,884)	(1,189,367)
Allowance for Loan Losses	(3,896,550)	(4,309,378)
NET LOANS	73,518,464	94,715,972
Federal Reserve Bank and Federal Home Loan		
Bank Stock - at Cost	1,365,850	1,646,500
Premises and Equipment	125,808	283,713
Other Real Estate Owned	1,015,079	1,289,855
Company Owned Life Insurance	5,804,704	6,511,226
Accrued Interest and Other Assets	1,989,980	3,188,101
TOTAL ASSETS	$ 145,615,463	$ 178,243,948

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

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-Bearing Demand	$ 50,141,815	$ 53,243,160
Money Market and NOW Accounts	35,508,735	40,553,063
Savings	10,702,903	11,681,757
Time Deposits Under $100,000	11,616,000	22,162,000
Time Deposits $100,000 and Over	25,776,000	33,465,200
TOTAL DEPOSITS	133,745,453	161,105,180
Other Borrowings	1,000,000	6,533,691
Subordinated Debentures and Notes	3,723,000	3,723,000
Accrued Interest and Other Liabilities	849,431	545,206
TOTAL LIABILITIES	139,317,884	171,907,077
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	4,755,414	4,708,854
Common Stock - 50,000,000 Shares Authorized, Par Value $5.00; 2,413,730 Shares Issued and Outstanding	12,067,733	12,067,733
Surplus	16,255,487	16,203,310
Accumulated Deficit	(27,230,037)	(26,743,895)
Accumulated Other Comprehensive Income - Unrealized Gain on Available-for-Sale Securities	448,982	100,869
TOTAL SHAREHOLDERS' EQUITY	6,297,579	6,336,871
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 145,615,463	$ 178,243,948

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, 2011 AND 2010

	2011	2010
INTEREST INCOME		
Interest and Fees on Loans	$ 4,476,402	$ 6,132,713
Interest on Investment Securities	1,315,436	1,719,839
Other Interest Income	101,799	89,303
TOTAL INTEREST INCOME	5,893,637	7,941,855
INTEREST EXPENSE		
Interest on Money Market and NOW Accounts	200,928	591,869
Interest on Savings Deposits	68,620	82,114
Interest on Time Deposits	751,592	1,108,280
Interest on Borrowings	173,683	272,945
TOTAL INTEREST EXPENSE	1,194,823	2,055,208
NET INTEREST INCOME	4,698,814	5,886,647
Provision for Loan Losses	189,145	6,280,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	4,509,669	(393,353)
NONINTEREST INCOME		
Service Charges and Fees	668,048	841,895
Gain and Servicing Income on Loans Sold	345,522	474,040
Gain on Sale of Securities	390,708	45,967
Net Gain (Loss) on Sale of Other Real Estate Owned	(3,987)	(979,929)
Earnings on Company Owned Life Insurance	618,131	224,790
Other Income	5,948	45,127
TOTAL NONINTEREST INCOME	2,024,370	651,890
NONINTEREST EXPENSE		
Salaries and Employee Benefits	2,760,601	3,073,166
Occupancy Expenses	814,923	764,987
Furniture and Equipment	204,526	347,702
Other Expenses	3,191,971	2,746,228
TOTAL NONINTEREST EXPENSE	6,972,021	6,932,083
LOSS BEFORE INCOME TAXES	(437,982)	(6,673,546)
Income Tax Expense	1,600	-
NET LOSS	(439,582)	(6,673,546)
Preferred Stock Dividends and Accretion of Discount	(300,332)	(300,332)
NET LOSS AVAILABLE TO COMMON STOCKHOLDERS	$ (739,914)	$ (6,973,878)
NET LOSS PER SHARE-BASIC AND DILUTED	$ (0.31)	$ (2.93)

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, 2011 AND 2010

	Preferred Stock		Common Stock				Accumulated Other	
	Number of Shares	Amount	Number of Shares	Amount	Surplus	Accumulated Deficit	Comprehensive Income	Total
Balance at January 1, 2010	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 Loss:								
Net Loss						(6,673,546)		(6,673,546)
Reclassification of Loss on Sale of Securities Recognized in Earnings							(45,967)	(45,967)
Unrealized Loss on Available-for-Sale Securities							(120,265)	(120,265)
Total Comprehensive Loss								(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
Accretion on Preferred Stock		46,560				(46,560)		-
Stock-Based Compensation					52,177			52,177
Comprehensive Loss:								
Net Loss						(439,582)		(439,582)
Reclassification of Gain on Sale of Securities Recognized in Earnings							(390,708)	(390,708)
Unrealized Gain on Available-for-Sale Securities							738,821	738,821
Total Comprehensive Loss								(91,469)
Balance at December 31, 2011	4,656	$ 4,755,414	2,413,730	$ 12,067,733	$16,255,487	$ (27,230,037)	$ 448,982	$ 6,297,579

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, 2011 AND 2010

	2011	2010
OPERATING ACTIVITIES		
Net Loss	$ (439,582)	$ (6,673,546)
Adjustments to Reconcile Net Loss to Net Cash From Operating Activities:		
Depreciation and Amortization of Premises and Equipment	157,905	297,529
Net Amortization (Accretion) on Loans and Securities	98,819	333,693
Provision for Loan Losses	189,145	6,280,000
Gain on Sale of Loans	(278,605)	(491,096)
Gain on Sale of Securities	(390,708)	(45,967)
Write-downs and Loss on Sale of Other Real Estate Owned	104,464	979,929
Stock-based Compensation	52,177	75,196
Income on Company Owned Life Insurance	(617,206)	(224,790)
Net Change in Loans Held for Sale	2,294,447	(3,070,084)
Other Items	1,502,621	961,645
NET CASH FROM OPERATING ACTIVITIES	2,673,477	(1,577,491)
INVESTING ACTIVITIES		
Net Change in Interest Bearing Deposits in Other Banks	(830,000)	(150,000)
Purchases of Available-for-Sale Securities	(17,149,136)	(19,918,918)
Purchases of Held-to-Maturity Securities	(6,325,794)	-
Proceeds from Maturities of Held-to-Maturity Securities	2,926,855	7,217,237
Proceeds from Maturities of Available-for-Sale Securities	7,300,866	6,678,053
Proceeds from the Sale of Available-for-Sale Securities	16,539,957	2,238,043
Net Change in Loans	16,648,841	9,801,633
Proceeds from Sale of Loans	4,840,926	6,637,359
Net Change in Bank Stocks	280,650	283,750
Proceeds from Sale of Other Real Estate Owned	170,312	796,132
Proceeds from Life Insurance	1,323,728	-
Purchases of Premises and Equipment	-	(3,202)
NET CASH FROM INVESTING ACTIVITIES	25,727,205	13,580,087
FINANCING ACTIVITIES		
Net (Decrease) Increase in Demand Deposits and Savings Accounts	(9,124,527)	3,048,923
Net Decrease in Time Deposits	(18,235,475)	(2,888,483)
Net Decrease in Other Borrowings	(5,533,691)	(5,466,309)
Proceeds from Issuance of Subordinated Notes	-	630,000
Proceeds from Issuance of Common Stock	-	314,205
Dividends Paid on Preferred Stock	-	(190,329)
NET CASH FROM FINANCING ACTIVITIES	(32,893,693)	(4,551,993)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,493,011)	7,450,603
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,260,887	6,810,284
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 9,767,876	$ 14,260,887
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,118,060	$ 2,253,222
Taxes Paid	$ 1,600	$ -
Loans Transferred to Other Real Estate Owned	$ -	$ 1,490,979

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 three separate divisions, CalWest Bank, Inland Valley Bank and Surf City Bank. The Bank operates a full service branch in Irvine under the name of CalWest Bank division, 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 a full service branches in Rancho Santa Margarita, 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 March 5, 2012, 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, 2011 and 2010. 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 and Servicing Assets

Small Business Administration (“SBA”) 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. Gains on sales of loans are recognized at the time of sale equal to the difference between the net sales proceeds and the carrying value of the loan sold, adjusted for any servicing asset recognized. A valuation allowance is recorded against servicing assets when fair value is below the carrying amount.

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. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

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

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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. Smaller balance, homogeneous loans are collectively evaluated for impairment.

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 segments identified by the Bank include real estate, commercial and consumer loans. Relevant risk characteristics for these portfolio segments 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 $1,067,400 and $1,274,000 at December 31, 2011 and 2010, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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, potentially dilutive instruments become anti-dilutive and therefore basic and dilutive EPS are the same in 2011 and 2010. Average shares used in the computation of basic earnings per share were 2,413,730 for 2011, and 2,377,073 for 2010.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the classifications used in 2011.

Adoption of New Accounting Standards

In July 2010, the Financial Accounting Standard Board ("FASB") amended guidance to require significantly more information about the credit quality of the Bank's loan portfolio. The Bank had previously included period-end related disclosures as required by the new amendment. Newly required activity related disclosures are effective for interim and annual reporting periods ending after December 15, 2011 and are included in these financial statements.

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring ("TDR"). The amendments clarify the guidance for a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance was effective for interim and annual reporting periods beginning after June 15, 2011 and is to be applied retrospectively to the beginning of the annual period of adoption. The new guidance did not have a significant impact on the Bank's determination of whether a restructuring is a TDR.

Newly Issued But Not Yet Effective Standards

In May 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendment in this guidance will be effective for annual reporting periods beginning after December 15, 2011. The amendment is not expected to significantly impact the Bank.

In September 2011, the FASB amended existing guidance and eliminated the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendment requires that comprehensive income be presented in either a single continuous statement or in two separate consecutive statements. This amendment will be effective for annual reporting periods beginning after December 15, 2011. The adoption of this amendment will change the presentation of the components of comprehensive income for the Bank as part of the statement of shareholders' equity.

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:

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
Mortgage-Backed Securities:				
Agency	$ 26,662,930	$ 480,527	$ (31,545)	$ 27,111,912
Held-To-Maturity Securities:				
U.S. Government and Agency Securities	$ 1,010,470	$ 150,110	$ -	$ 1,160,580
State and Municipal Securities	3,182,670	203,971	(1,209)	3,385,432
Mortgage-Backed Securities:				
Agency	17,534,726	608,125	(4,914)	18,137,937
Corporate Bonds	607,849	22,455	-	630,304
	$ 22,335,715	$ 984,661	$ (6,123)	$ 23,314,253
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

NOTE B - INVESTMENT SECURITIES – Continued

During 2011, the Company received proceeds of $16,539,957 from the sale of available-for-sale investment securities resulting in gross gains of $433,274 and gross losses of $42,566. 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.

Investment securities carried at approximately $41.8 million and $51.7 million at December 31, 2011 and 2010, respectively, were pledged to secure public deposits and the borrowings discussed in Note G.

The scheduled maturities of investment securities at December 31, 2011 are shown below. Securities not due at a single maturity date are shown separately.

	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	-	-	2,708,428	2,875,005
Due in Five to Ten Years	-	-	1,244,578	1,402,657
Greater Than Ten Years	-	-	847,983	898,654
Mortgage-Backed Securities	26,662,930	27,111,912	17,534,726	18,137,937
	$ 26,662,930	$ 27,111,912	$ 22,335,715	$ 23,314,253

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	
December 31, 2011	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value
U.S. Government and Agency Securities	$ (36,459)	$ 7,364,519	$ -	$ -	$ (36,459)	$ 7,364,519
State and Municipal Securities	-	-	(1,209)	252,503	(1,209)	252,503
	$ (36,459)	$ 7,364,519	$ (1,209)	$ 252,503	$ (37,668)	$ 7,617,022
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	(229,072)	8,902,800	-	-	(229,072)	8,902,800
	$ (318,814)	$ 11,821,329	$ (10,228)	$ 245,166	$ (329,042)	$ 12,066,495

At December 31, 2011, the Company had six 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, 2011.

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:

	2011	2010
Balance at Beginning of Year	$ 4,309,378	$ 2,030,400
Additions to the Allowance Charged to Expense	189,145	6,280,000
Recoveries on Loans Charged Off	374,703	496,080
	4,873,226	8,806,480
Less Loans Charged Off	(976,676)	(4,497,102)
	$ 3,896,550	$ 4,309,378

The following table presents the activity in the allowance for loan losses for the year 2011, and the recorded investment in loans and impairment method as of December 31, 2011, by portfolio segment:

December 31, 2011	Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:				
Beginning of Year	$ 2,385,898	$ 1,901,518	$ 21,962	$ 4,309,378
Provisions	(261,240)	430,933	19,452	189,145
Recoveries	28,882	319,190	26,631	374,703
Charge-offs	(428,563)	(537,701)	(10,412)	(976,676)
End of Year	$ 1,724,977	$ 2,113,940	$ 57,633	$ 3,896,550
Reserves:				
Specific	$ 417,000	$ 437,000	$ -	$ 854,000
General	1,307,977	1,676,940	57,633	3,042,550
	$ 1,724,977	$ 2,113,940	$ 57,633	$ 3,896,550
Loans Evaluated for Impairment:				
Individually	$ 5,207,696	$ 3,611,065	$ -	$ 8,818,761
Collectively	38,954,809	29,628,328	1,110,000	69,693,137
	$ 44,162,505	$ 33,239,393	$ 1,110,000	$ 78,511,898

NOTE C – LOANS – Continued

The following table presents the recorded investment in loans and impairment method as of December 31, 2010, by portfolio segment:

December 31, 2010	Real Estate	Commercial	Consumer	Total
Reserves:				
Specific	$ 1,072,000	$ 229,000	$ -	$ 1,301,000
General	1,313,898	1,672,518	21,962	3,008,378
	$ 2,385,898	$ 1,901,518	$ 21,962	$ 4,309,378
Loans Evaluated for Impairment:				
Individually	$ 7,689,000	$ 3,604,000	$ -	$ 11,293,000
Collectively	45,950,344	41,344,022	1,627,351	88,921,717
	$ 53,639,344	$ 44,948,022	$ 1,627,351	$ 100,214,717

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:

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

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.

NOTE C – LOANS – Continued

The risk category of loans by class of loans was as follows as of December 31, 2011 and 2010:

December 31, 2011	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
Construction and Land Development	$ 1,391,000	$ -	$ -	$ -	$ 1,391,000
Commercial Real Estate	22,624,221	192,000	828,817	4,638,962	28,284,000
Residential Real Estate	12,164,114	1,000,000	754,657	568,734	14,487,505
Commercial Loans:					
Small Business Administration	4,403,080	128,000	55,000	727,313	5,313,393
Commercial and Industrial	22,259,798	1,555,000	1,227,450	2,883,752	27,926,000
Consumer Loans	1,110,000	-	-	-	1,110,000
	$63,952,213	$2,875,000	$2,865,924	$ 8,818,761	$ 78,511,898

December 31, 2010	Pass	Special Mention	Substandard	Impaired	Total
Real Estate Loans:					
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
Commercial Loans:					
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 Loans	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

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2011 and 2010:

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
December 31, 2011			
Real Estate Loans:			
Commercial Real Estate	$ 488,000	$ -	$ 4,639,000
Residential Real Estate	-	-	569,000
Commercial Loans:			
Small Business Administration	-	-	727,000
Commercial and Industrial	57,000	-	2,884,000
Consumer Loans	43,000	-	-
	$ 588,000	$ -	$ 8,819,000
December 31, 2010			
Real Estate Loans:			
Construction and Land Development	$ -	$ -	$ 2,567,000
Commercial Real Estate	-	-	4,771,000
Residential Real Estate	61,000	-	430,000
Commercial Loans:			
Small Business Administration		-	666,000
Commercial and Industrial	15,000	-	4,129,000
Consumer Loans	-	-	12,000
	$ 76,000	$ -	$ 12,575,000

NOTE C – LOANS - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2011 and 2010:

December 31, 2011	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an Allowance Recorded					
Real Estate Loans:					
Commercial Real Estate	$ 978,573	$ 914,714	$ 288,322	$ 1,006,244	$ 18,827
Residential Real Estate	367,046	256,918	128,968	376,323	-
Commercial Loans:					
Small Business Administration	299,012	299,012	126,369	1,494,499	-
Commercial and Industrial	426,005	426,005	311,318	452,378	-
With No Related Allowance Recorded					
Real Estate Loans:					
Commercial Real Estate	3,935,863	3,724,248	-	3,865,774	-
Residential Real Estate	426,465	311,816	-	453,979	-
Commercial Loans:					
Small Business Administration	886,233	428,301	-	935,471	-
Commercial and Industrial	2,568,208	2,457,747	-	2,652,774	13,865
	$ 9,887,405	$ 8,818,761	$ 854,977	$ 11,237,442	$ 32,692
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	$ -

NOTE C – LOANS - Continued

No interest income was recognized on impaired loans in 2010. The Company allocated $670,006 and $147,853 of specific reserves on loans with a recorded investment of $5,889,826 and $5,095,586 whose terms have been modified in troubled debt restructuring as of December 31, 2011 and 2010, respectively. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2011 and 2010.

A summary of activity in troubled debt restructurings (TDR's) presented by loan class follows for the year ended December 31, 2011.

December 31, 2011	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
Residential Real Estate	2	$ 255,251	$ 255,251
Small Business Administration	1	46,336	46,336
Commercial and Industrial	5	1,035,099	1,035,099
	8	$ 1,336,686	$ 1,336,686

The modification of the terms of such loans included one or a combination of the following: an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk or a temporary forbearance with regard to the payment of principal or interest. Modifications involving an extension of the maturity date were for periods ranging from 6 months to 7 years. One modification was made involving a temporary forbearance of principal on an SBA loan for a period of one year.

The determination of the allowance for loan losses related to troubled debt restructurings depends on the collectability of principal and interest, according to the repayment terms. The troubled debt restructurings that occurred in 2011 did not materially change the estimated collectability and therefore did not materially change the related allowance for loan loss amounts.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the period ended December 31, 2011:

	Number of Contracts	Balance as of December 31, 2011
Small Business Administration	1	$ 51,469
Commercial and Industrial	1	820,608
	2	$ 872,077

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms. The troubled debt restructurings that subsequently defaulted described above have not been charged-off and were individually evaluated for reserve adequacy as of December 31, 2011 using the normal methods applied to impaired loans. Specific reserves on these two loans were zero as of December 31, 2011.

NOTE C - LOANS - Continued

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, 2011 and 2010, the Company was servicing $16,449,604 and $17,820,812, respectively, in SBA loans previously sold. The carrying value of servicing assets related to these loans, which approximates fair value, totaled $233,727 and $284,804 at December 31, 2011 and 2010, respectively.

NOTE D - PREMISES AND EQUIPMENT

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

	2011	2010
Furniture, Fixtures, and Equipment	$ 1,869,394	$ 2,583,546
Leasehold Improvements	843,087	843,087
	2,712,481	3,426,633
Less Accumulated Depreciation and Amortization	(2,586,673)	(3,142,920)
	$ 125,808	$ 283,713

The Company leases its facilities under noncancellable operating leases expiring at various dates through 2015. Future minimum annual payments for these leases, including the affect of amendments to lease arrangements executed in February 2012, are as follows:

Year Ending	Amount
2012	$ 695,000
2013	406,000
2014	343,000
2015	75,000
Total Minimum Payments Required	$ 1,519,000

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 $754,321 and $706,969 for 2011 and 2010, respectively.

NOTE E - DEPOSITS

At December 31, 2011, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	$ 29,409,000
Due from One to Three Years	4,678,000
Due over Three Years	3,305,000
	$ 37,392,000

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 3.485% as of December 31, 2011. The Company has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years. The Company has elected to defer all interest payments due after the fourth quarter 2010 and approximately $102,000 of due but unpaid interest is included in Accrued Interest and Other Liabilities at December 31, 2011.

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. No payments of interest have been made on these subordinated notes and approximately $50,000 of due but unpaid interest has been included in Accrued Interest and Other Liabilities at December 31, 2011.

NOTE G - OTHER BORROWINGS

Included in Other Borrowings as of December 31, 2011, are Federal Home Loan Bank advances in the amount of $1 million. This advance matures on February 3, 2012 and carries an interest rate of 1.08%.

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.

NOTE G - OTHER BORROWINGS - Continued

As of December 31, 2011, the Company had maximum financing availability of $30,858,000 based on total assets with remaining borrowing capacity of $20,858,000. Securities with a fair value of approximately $33.4 million at December 31, 2011 have been on pledged on this arrangement. Reflected in the remaining borrowing capacity is a letter of credit in the amount of $9 million 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. Securities with a fair value of approximately $4.7 million were pledged on this arrangement as of December 31, 2011 which supports approximately $4.6 million in related borrowing capacity. No amounts were outstanding on this arrangement as of December 31, 2011.

The Company may also borrow up to $6.0 million overnight from its correspondent banks on a secured and unsecured basis. No amounts were outstanding and securities with a fair value of approximately $3.9 million were pledged on the secured arrangements as of December 31, 2011.

NOTE H - INCOME TAXES

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

	2011	2010
Currently Payable:		
Federal	$ -	$ -
State	1,600	-
	1,600	-
Deferred	-	-
	$ 1,600	$ -

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

	2011		2010	
	Amount	Rate	Amount	Rate
Federal Tax Rate	$ (149,000)	(34.0)%	$ (2,273,000)	(34.0)%
California Franchise Taxes	(84,000)	(19.1)%	(494,000)	(7.5)%
Tax-Free Income	(264,000)	(60.1)%	(196,000)	(2.9)%
Stock-Based Compensation	18,000	4.1 %	26,000	0.4 %
Valuation Allowance	482,000	109.6 %	2,947,000	44.2 %
Other Items - net	(1,400)	(0.3)%	(10,000)	(0.1)%
Actual Tax Expense	$ 1,600	0.3 %	$ -	0.0 %

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, 2010, 2009, and 2008 are open to audit by the federal authorities and California returns for the years ended December 31, 2010, 2009, 2008, and 2007 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:

	2011	2010
Deferred Tax Assets:		
Allowance for Loan Losses Due to Tax Limitations	$ 818,000	$ 704,000
Net Operating Loss Carryforwards	7,463,000	7,296,000
Depreciation Differences	84,000	123,000
Deferred Compensation Plans	140,000	129,000
Nonaccrual Loan Interest	272,000	111,000
Other	272,000	261,000
	9,049,000	8,624,000
Valuation Allowance	(8,769,000)	(8,287,000)
Deferred Tax Liabilities:		
Deferred Loan Costs	(219,000)	(263,000)
Other	(61,000)	(74,000)
	(280,000)	(337,000)
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 $17.9 and $19.2 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:

	2011	2010
Marketing and Business Promotion	$ 112,822	$ 235,808
Professional and Consulting	1,023,891	794,882
Office Expenses	170,465	224,503
Data Processing	415,372	374,927
Directors Expense	142,125	115,616
Loan Expense	187,497	97,490
Regulatory Assessments	577,235	395,646
Other Expenses	562,564	507,356
	$ 3,191,971	$ 2,746,228

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 Company amended the Plan in 2011 and increased the number of shares available to be issued under the 2006 Plan to 1,110,651. 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. The Company did not grant any options in 2011 or 2010.

NOTE J - STOCK OPTION PLAN - Continued

A summary of the status of the Company's stock option plan as of December 31, 2011, and changes during the year are presented below:

December 31, 2011	Shares	Weighted-Average Exercise Price		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	291,676	$	7.56		
Granted	-	$	-		
Forfeited and Expired	(154,600)	$	7.46		
Exercised	-	$	-		
Outstanding at End of Year	137,076	$	7.67	3.6 Years	None
Options Exercisable at Year-End	113,002	$	8.13	2.9 Years	None

As of December 31, 2011 there was approximately $29,000 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 1.4 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, 2011 and 2010, was approximately $626,000 and $749,000, 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, 2011 and 2010, was approximately $205,000 and $863,000, 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, 2011 and 2010, the Company had the following outstanding financial commitments whose contractual amount represents credit risk:

	2011	2010
Commitments to Extend Credit	$ 14,018,000	$ 23,030,000

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 ($40,624) and $17,461 for 2011 and 2010, respectively. Total accrued liability for these agreements as of December 31, 2011 and 2010, was $26,170 and $173,115, respectively.

NOTE M – EMPLOYEE BENEFITS - Continued

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. In 2011, the Company received life insurance proceeds relating to the death of a covered executive officer in the amount of $1,323,728. A gain of $394,034 was recognized after retirement of the related cash surrender value of $929,694.

NOTE N - REGULATORY MATTERS

Consent Order: On January 24, 2011 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. 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 was considered adequately capitalized under the FDIC's prompt corrective action rules. As a result of its being deemed adequately capitalized, the Bank was not 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. Remaining brokered deposits as of December 31, 2011, amounted to approximately $5,981,000, which represents 4.5% of total deposits.

The Bank expects to work closely with the OCC to address the provisions of the Order. Regular updates have been 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 - 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.

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-Capitalize(Under Prompt Corrective Provisions	
As of December 31, 2011	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)	$ 10,617	12.43%	$ 6,832	8.00%	$ 8,541	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	9,513	11.14%	$ 3,416	4.00%	$ 5,124	6.00%
Tier 1 Capital (to Average Assets)	9,513	6.30%	$ 6,037	4.00%	$ 7,546	5.00%
As of December 31, 2010						
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%

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.

CALWEST BANCORP AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

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, 2011 and 2010:

	Fair Value Measurements Using:			
December 31, 2011	Level 1	Level 2	Level 3	Total
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$27,112,000	$ -	$27,112,000
Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:				
Collateral-Dependent Impaired Loans, net of Specific Reserves of $375,000	$ -	$ -	$ 1,404,000	$ 1,404,000
Other Real Estate Owned, net of Specific Reserves of $97,600	$ -	$ -	$ 1,015,000	$ 1,015,000
December 31, 2010				
Assets and Liabilities Measured at Fair Value on a Recurring Basis:				
Securities Available for Sale	$ -	$33,298,000	$ -	$33,298,000
Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis:				
Collateral-Dependent Impaired Loans, net of Specific Reserves $1,223,000	$ -	$ -	$ 3,253,000	$ 3,253,000
Other Real Estate Loans, net Specific Reserves of $0	$ -	$ -	$ 1,290,000	$ 1,290,000

Write-downs of other real estate owned charged against income totaled approximately $97,600 and $0 for the periods ended December 31, 2011 and 2010, 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.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

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

Financial Assets

The carrying amounts of cash, short-term investments, due from customers on acceptances and Bank acceptances outstanding are considered to approximate fair value. Short term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with Banks. The fair values of investment securities 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.

Financial Liabilities

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

Off-Balance Sheet Financial Instruments

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

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

The estimated fair value of financial instruments at December 31, 2011 and 2010, are summarized as follows (dollar amounts in thousands):

	2011		2010	
	Carrying	Fair Value	Carrying	Fair Value
Financial Assets				
Cash and Due from Banks	$ 4,403	$ 4,403	$ 3,261	$ 3,261
Federal Funds Sold and Interest-Bearing deposits at FRB	5,365	5,365	11,000	11,000
Interest-Bearing Deposits	1,230	1,230	400	400
Investment Securities	49,448	50,426	52,303	53,101
Loans Held for Sale	1,350	1,350	3,645	3,645
Net Loans	73,518	71,677	94,716	94,707
Federal Reserve Bank and Federal Home Loan Bank Stock	1,366	1,366	1,647	1,647
Company Owned Life Insurance	5,805	5,805	6,511	6,511
Accrued Interest Receivable	454	454	674	674
Financial Liabilities				
Deposits	$ 133,745	$ 132,015	$ 161,105	$ 158,308
Other Borrowings	1,000	1,000	6,534	6,547
Debentures	3,723	3,723	3,723	3,723
Accrued Interest Payable and Other Liabilities	555	555	545	545

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 pays 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 2010, the Company paid total dividends on the Preferred Stock of $190,329 through the August 15, 2010 payment. The Company has not paid dividends since that date missing a total of five scheduled payments. The Company does not accrue a liability for dividends until they are declared and therefore dividends in arrears of $317,215 have not been reflected as a reduction of shareholders' equity as of December 31, 2011. However, they have been reflected in net income (loss) available to common shareholders and the earnings per share amounts reported for 2011 and 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 $202,799 and $84,690 recognized into income in 2011 and 2010, respectively. The remaining balance of the discount is $1,046,505 as of December 31, 2011.

CALWEST BANCORP AND SUBSIDIARY

Supplementary Information

Consolidating Schedules

CALWEST BANCORP AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2011

Assets	South County Bank	CalWest Bancorp	Eliminating Entries	Consolidated Balance
Cash and Due from Banks	$ 4,402,876	$ 127,087	$ (127,087)	$ 4,402,876
Federal Funds Sold and Interest-Bearing Balances				
at the Federal Reserve Bank	5,365,000			5,365,000
Interest-Bearing Deposits in Other Bank	1,230,000			1,230,000
Investment Securities Available for Sale	27,111,912			27,111,912
Investment Securities Held to Maturity	22,335,715			22,335,715
Loans Held for Sale	1,350,075			1,350,075
Loans, Net	73,518,464			73,518,464
FRB and FHLB Stock, at Cost	1,365,850			1,365,850
Premises and Equipment	125,808			125,808
Other Real Estate Owned	1,015,079			1,015,079
Company Owned Life Insurance	5,804,704			5,804,704
Accrued Interest and Other Assets	1,896,980	10,055,353	(9,962,353)	1,989,980
	$ 145,522,463	$ 10,182,440	$ (10,089,440)	$ 145,615,463
Liabilities and Stockholders' Equity				
Deposits	$ 133,872,540	$ -	$ (127,087)	$ 133,745,453
Other Borrowings	1,000,000			1,000,000
Subordinated Debentures and Notes	-	3,723,000		3,723,000
Accrued Interest and Other Liabilities	687,570	161,861		849,431
Total Liabilities	135,560,110	3,884,861	(127,087)	139,317,884
Stockholders' Equity:				
Preferred Stock	-	4,755,414	-	4,755,414
Common Stock	10,658,905	12,067,733	(10,658,905)	12,067,733
Surplus	15,306,919	16,255,487	(15,306,919)	16,255,487
Accumulated Deficit	(16,452,453)	(27,230,037)	16,452,453	(27,230,037)
Accumulated Other Comprehensive Income	448,982	448,982	(448,982)	448,982
Total Stockholders' Equity	9,962,353	6,297,579	(9,962,353)	6,297,579
	$ 145,522,463	$ 10,182,440	$ (10,089,440)	$ 145,615,463

CALWEST BANCORP AND SUBSIDIARY

CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011

	South County Bank	CalWest Bancorp	Eliminations	Consolidated
Interest Income				
Interest and Fees on Loans	$ 4,476,402	$ -	$ -	$ 4,476,402
Interest on Investment Securities	1,315,436			1,315,436
Other Interest Income	101,799			101,799
Total Interest Income	5,893,637	-	-	5,893,637
Interest Expense				
Interest on Money Market and NOW Accounts	201,382	(454)		200,928
Interest on Savings Deposits	68,620			68,620
Interest on Time Deposits	751,592			751,592
Other Interest Expense	21,528	152,155		173,683
Total Interest Expense	1,043,122	151,701	-	1,194,823
Net Interest Income	4,850,515	(151,701)	-	4,698,814
Provision for Loan Losses	189,145			189,145
Net Interest Income (Loss) after Provision for Loan Losses	4,661,370	(151,701)	-	4,509,669
Noninterest Income				
Service Charges and Fees	668,048			668,048
Gain and Servicing Income on Loans Sold	345,522			345,522
Gain on Sale of Securities	390,708			390,708
Loss on Sale of Other Real Estate Owned	(3,987)			(3,987)
Earnings on Company Owned Life Insurance	618,131			618,131
Other Income	5,948			5,948
Total Noninterest Income	2,024,370	-	-	2,024,370
Noninterest Expense				
Salaries and Employee Benefits	2,760,601			2,760,601
Occupancy Expenses	814,923			814,923
Furniture and Equipment	204,526			204,526
Other Expenses	3,187,116	4,855		3,191,971
Total Noninterest Expense	6,967,166	4,855	-	6,972,021
Loss before Taxes and Income (Loss) from Subsidiary	(281,426)	(156,556)	-	(437,982)
Income Taxes	1,600			1,600
Income (Loss) from Subsidiary		(283,026)	283,026	-
Net Income (Loss)	$ (283,026)	$ (439,582)	$ 283,026	$ (439,582)