SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

DECEMBER 31, 2012 AND 2011

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Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders of
Security California Bancorp
Riverside, California

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Security California Bancorp, which comprise the consolidated balance sheet as of December 31, 2012 and the related consolidated statement of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Security California Bancorp as of December 31, 2012, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of Security California Bancorp as of December 31, 2011 were audited by other auditors whose report dated April 16, 2012, expressed an unqualified opinion on those statements.

Crowe Horwath LLP

Sacramento, California
March 29, 2013

SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and due from banks	$ 17,326,082	$ 29,008,356
Interest bearing deposits with other financial institutions	27,614,989	22,891,010
Federal funds sold	996,701	-
Cash and Cash Equivalents	45,937,772	51,899,366
Investment securities available-for-sale	109,885,108	54,723,002
Loans, net of deferred fees and cost	322,903,767	302,462,570
Allowance for loan and lease losses	(5,758,599)	(5,758,502)
Net loans	317,145,168	296,704,068
Premises and equipment, net	1,166,434	1,389,483
Restricted stock, at cost	2,399,800	2,054,200
Investment in limited partnership	5,215,445	-
Accrued interest receivable and other assets	4,559,591	5,300,099
Total Assets	$ 486,309,318	$ 412,070,218
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Noninterest-bearing deposits	$ 186,169,261	$ 149,538,264
Interest-bearing deposits	234,280,480	198,280,980
Total Deposits	420,449,741	347,819,244
Accrued interest payable and other liabilities	843,021	1,331,609
Total Liabilities	421,292,762	349,150,853
Commitments and Contingencies (Note 10)	-	-
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; 10,000,000 shares authorized; 7,200 Senior (series C) shares issued and outstanding in 2012 and 2011	7,133,447	7,133,447
Common stock, no par value, 40,000,000 shares authorized; 5,663,276 shares issued and outstanding in 2012 and 5,638,156 shares issued and outstanding in 2011	53,444,239	53,542,639
Additional paid in capital	2,949,061	2,764,417
Retained Earnings (accumulated deficit)	1,010,567	(626,099)
Accumulated other comprehensive income	479,242	104,961
Total Shareholders' Equity	65,016,556	62,919,365
Total Liabilities and Shareholders' Equity	$ 486,309,318	$ 412,070,218

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

SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Interest Income		
Interest and fees on loans	$ 15,350,927	$ 14,791,033
Interest on Federal funds sold	1,701	-
Interest on investment securities	1,953,850	1,050,686
Interest on deposits with other financial institutions	102,493	59,267
Total Interest Income	17,408,971	15,900,986
Interest Expense		
Interest expense on deposits	1,358,006	1,315,093
Interest expense on other borrowings	210	5,591
Total Interest Expense	1,358,216	1,320,684
Net Interest Income	16,050,755	14,580,302
Provision for Loan and Lease Losses	4,299,000	2,212,000
Net Interest Income After Provision for Loan and Lease Lossess	11,751,755	12,368,302
Other Income		
Gains from sales of SBA loans and related fees	847,317	1,410,238
Service charges on deposit accounts	1,036,540	957,986
Investment in limited partnership income	215,445	-
Net gain on sale of investment securities	376,087	311,851
Other fees and miscellaneous income	223,394	298,902
Total Other Income	2,698,783	2,978,977
Operating Expenses		
Salaries and other employee benefits	6,425,316	6,642,300
Occupancy	1,731,061	1,451,215
Provision (Credit) for off-balance sheet liabilities	38,000	29,000
Advertising and marketing	160,332	150,623
Professional services	858,604	613,068
Core processing	233,022	206,867
Item processing	300,707	228,223
Stationery, printing and supplies	285,525	256,006
Information and communications	182,031	203,955
Corporate insurance	49,281	52,386
Supervisory assessments	429,205	447,681
Correspondent bank charges	132,992	134,187
Other	786,796	667,734
Total Operating Expenses	11,612,872	11,083,245
Income Before Provision for Income Taxes	2,837,666	4,264,034
Income Tax Provision	1,201,000	1,899,000
Net Income	$ 1,636,666	$ 2,365,034
Dividends paid on preferred stock	98,400	514,133
Net Income available to common shareholders	$ 1,538,266	$ 1,850,901
Earnings Per Common Share - Basic	$ 0.27	$ 0.33
Earnings Per Common Share - Diluted	$ 0.27	$ 0.33

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

SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Net Income	$ 1,636,666	$2,365,034
Other Comprehensive Income		
Unrealized gains on securities:		
Unrealized holding gain arising during the period	1,010,459	1,317,675
Less: reclassification adjustment for net (gains) loss included in net income	(376,087)	(311,851)
Other comprehensive income before tax	634,372	1,005,824
Tax effect	(260,091)	(412,387)
Net of tax	374,281	593,437
Comprehensive Income	$ 2,010,947	$2,958,471

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

SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Preferred Stock		Common Stock		Additional	Retained Earnings	Accumulated Other	Total
	Shares Outstanding	Amount	Shares Outstanding	Amount	Paid-in Capital	(Accumulated Deficit)	Comprehensive Income(Loss)	Shareholders' Equity
Balance, December 31, 2010	7,156	$ 6,936,981	5,620,196	$ 53,852,172	$ 2,345,748	$ (2,786,533)	$ (488,476)	$ 59,859,892
Retirement of preferred share Senior (Series A)	(6,815)	(6,815,000)	-	-	-	-	-	(6,815,000)
Retirement of preferred share Warrant (Series B)	(341)	(341,000)	-	-	-	-	-	(341,000)
Issuance of preferred share Senior (Series C) (net of costs $52,134)	7,200	7,147,866	-	-	-	-	-	7,147,866
Share-based compensation expense	-	-	-	-	299,318	-	-	299,318
Restricted shares	-	-	17,960	-	119,351	-	-	119,351
Preferred shares warrants (Series B)	-	-	-	-	-	-	-	-
Preferred shares discount	-	-	-	-	-	-	-	-
Preferred shares CPP TARP dividend	-	-	-	(309,533)	-	-	-	(309,533)
Preferred shares accretion	-	204,600	-	-	-	(204,600)	-	-
Comprehensive Income	-	-	-	-	-	-	593,437	593,437
Net income	-	-	-	-	-	2,365,034	-	2,365,034
Balance, December 31, 2011	7,200	7,133,447	5,638,156	53,542,639	2,764,417	(626,099)	104,961	62,919,365
Share-based compensation expense	-	-	-	-	38,600	-	-	38,600
Restricted shares	-	-	25,120	-	146,044	-	-	146,044
Cash dividends on SBLF preferred shares	-	-	-	(98,400)	-	-	-	(98,400)
Comprehensive Income	-	-	-	-	-	-	374,281	374,281
Net income	-	-	-	-	-	1,636,666	-	1,636,666
Balance, December 31, 2012	7,200	$ 7,133,447	5,663,276	$ 53,444,239	$ 2,949,061	$ 1,010,567	$ 479,242	$ 65,016,556

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

SECURITY CALIFORNIA BANCORP AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities		
Net Income	$ 1,636,666	$ 2,365,034
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	540,564	504,438
Accretion of securities premiums and discounts, net	790,180	195,679
Income from investment in limited partnership	(215,445)	-
Provision for loan and lease losses	4,299,000	2,212,000
Share-based compensation expense	184,644	418,669
Gain on sale of investments	(376,087)	(311,851)
Gain on sale of SBA loans	(645,933)	(1,342,872)
Decrease in accrued interest receivable and other assets	1,522,753	63,908
Decrease in accrued interest payable and other liabilities	(1,597,372)	(550,116)
Net Cash Provided by Operating Activities	6,138,970	3,554,889
Cash Flows from Investing Activities		
Sales, maturities and paydowns of securities available-for-sale	71,355,067	39,450,128
Purchases of securities available-for-sale	(126,296,892)	(63,412,373)
Purchases of restricted stock	(345,600)	(223,600)
Net increase in loans	(24,080,199)	(22,653,854)
Investment in limited partnership	(5,000,000)	-
Purchase of premises and equipment	(317,515)	(245,230)
Net Cash Used in Investing Activities	(84,685,139)	(47,084,929)
Cash Flows from Financing Activities		
Net increase in deposits	72,682,975	70,525,751
Net proceeds from issuance of preferred shares	-	7,147,866
Retirement of preferred shares and warrants	-	(7,156,000)
Preferred stock dividend paid	(98,400)	(309,533)
Net Cash Provided by Financing Activities	72,584,575	70,208,084
Net (Decrease) Increase in Cash and Cash Equivalents	(5,961,594)	26,678,044
Cash and Cash Equivalents, Beginning of Year	51,899,366	25,221,322
Cash and Cash Equivalents, End of Year	$ 45,937,772	$ 51,899,366
Supplemental Cash Flow Information:		
Interest paid	$ 1,358,954	$ 1,333,436
Taxes paid	$ 800,000	$ 2,010,000

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Security California Bancorp (the Company) and Subsidiaries are in accordance with accounting principles generally accepted in the United States of America and conform to practices within the banking industry. A summary of the accompanying financial statements follows:

Nature of Operations

The Company is a bank holding company with a single banking subsidiary, Security Bank of California (the Bank), and a single nonbank subsidiary, SCB Asset Management, Inc. (SCBAM). The Company was incorporated on March 20, 2008. The Company acquired all of the stock of the Bank pursuant to a Plan of Reorganization between the holding company and the Bank approved by the shareholders of the Bank on May 8, 2008. On October 1, 2008, the Company obtained regulatory approval to become the parent company of the Bank.

The Bank was formed in 2004, was incorporated on January 13, 2005, and commenced operations on June 20, 2005. The Bank operates as a commercial bank offering loans and depository services to businesses and customers. The Bank has offices in the cities of Riverside, San Bernardino, Redlands, Orange, and Irwindale, in Southern California. Riverside is also the location of the Company's corporate office.

SCBAM was formed in 2012 and is a wholly-owned subsidiary of the Company. It was formed in 2012, and was incorporated on May 29, 2012. The primary purpose of SCBAM is the acquisition of workout assets from the Bank. SCBAM’s primary objective is to collect, restructure or otherwise resolve the acquired loans in an orderly manner.

Nature of Banking Activities

The Company provides a range of banking services to individual and corporate customers through the Bank. The Company has been authorized by the Federal Reserve Bank of San Francisco to engage in lending activities separate from the Bank but to date has not done so. As a State chartered bank, the Bank is subject to regulation by the California Department of Financial Institutions (DFI) and the Federal Deposit Insurance Corporation (FDIC).

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company, the Bank and SCBAM. All significant intercompany balances and transactions have been eliminated.

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. The allowance for loan and lease losses, deferred tax assets, and fair values of financial instruments are particularly subject to change.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash due from banks, deposits with other financial institutions and Federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds sold and purchased.

Investment Securities Available for Sale

Available for Sale securities primarily consist of U.S. Agencies, mortgage-backed securities, and collateralized mortgage obligations.

The Bank classifies its investments in securities as "held to maturity" securities, "trading" securities and "available for sale" securities, as applicable.

Securities designated as available for sale are recorded at fair value. Changes in the fair value of available for sale securities are reported as an amount in shareholders' equity net of related income taxes until realized. Gains and losses on the sale of available for sale securities are recorded on the trade date and determined using the specific-identification method. Premiums and discounts are recognized in interest income using the interest method over the securities' maturity.

The Bank had no securities classified as held to maturity or trading at December 31, 2012 and 2011.

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 issuers. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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, and an allowance for loan and lease losses.

Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan using the level-yield method without anticipating prepayments.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. For all 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 collectability. For all loans, that are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest received on such loans is accounted for on the cash-basis or cost – recovery method, until the loan qualifies for return to accrual.

Allowance for Loan and Lease Losses

The allowance for loan and lease losses is a valuation allowance for probable incurred credit losses. For all portfolio segments loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. For all portfolio segments 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. For all portfolio segments amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible.

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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. 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. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the underlying collateral. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Allowance for Loan and Lease Losses, Continued

A restructuring of a debt constitutes a troubled debt restructuring (TDR) if the Company for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Restructured workout loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above. For TDRs that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan and lease losses.

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.

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 using actual historical losses over the most recent eight quarters, 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.

The Company assigns a risk rating to all loans, and periodically performs detailed reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. The reviews are prepares on an on-going basis through the year. These risk ratings are also subject to examination by independent specialists engaged by the Company and the Company's regulators. During these internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which borrowers operate and the fair values of collateral securing these loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass — A pass loan is a strong credit with no existing or known potential weaknesses deserving of management's close attention.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Special Mention — A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Substandard — A substandard loan is not adequately protected by the current sound worth and paying capacity of the borrower or the value of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Well defined weaknesses include a project's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time or the project's failure to fulfill economic expectations. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful — Loans classified doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans. Doubtful classification is considered temporary and short term.

Loss — Loans classified as loss are considered uncollectible and charged off immediately.

The general reserve component of the allowance for loan losses also consists of reserve factors that are based on management's assessment of the following for each portfolio segment: (1) inherent credit risk, (2) historical losses and (3) other qualitative factors. Inherent credit risk and qualitative reserve factors are inherently subjective and are driven by the repayment risk associated with each class of loans described below.

Construction and Land Development - Land and construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within specified cost and time lines. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

Commercial Real Estate - Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for properties to produce sufficient cash flows to service debt obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Commercial and Industrial - Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments as these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Consumer - An installment loan portfolio is usually comprised of a large number of small loans scheduled to be amortized over a specific period. Most installment loans are made directly for consumer purchases, but business loans granted for the purchase of heavy equipment or industrial vehicles may also be included. Consumer loans included credit card and other open ended unsecured consumer receivables. Credit card receivables and open ended unsecured receivables generally have a higher rate of default than all other portfolio segments and are also impacted by weak economic conditions and trends. Credit card receivables and open ended unsecured receivables in homogeneous loan portfolio segments are not evaluated for specific impairment.

Although management believes the allowance for loan and lease losses to be adequate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the adequacy of the allowance for loan and lease losses, including consideration of the relative risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Company's primary regulators**,** the FDIC and California Department of Financial Institutions, as an integral part of their examination process, review the adequacy of the allowance for loan and lease losses. These regulatory agencies may require additions to the allowance for loan and lease losses based on their judgment about information available at the time of their examinations.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of fixtures and equipment utilizing estimated useful lives of three to seven years. Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Bank evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Restricted Stock

As a member of Federal Home Loan Bank (FHLB), the Bank is required to maintain a minimum investment in the stock of the entity. The minimum FHLB investment is calculated as a percentage of aggregate outstanding loans, FHLB advances and other factors. In addition, the Bank has a minimal investment in stock of its main correspondent banks, Pacific Coast Bankers' Bank (PCBB) and The Independent Bankers' Bank (TIB), and receives specialized pricing on certain products in return. As of December 31, 2012 and 2011, the Bank owned stock totaling $2,399,800 and $2,054,200, respectively, from these entities. The ownership of the FHLB, TIB, and PCBB stock is restricted, lacks a market, and can only be sold at its par value to the issuer. Both cash and stock dividends are reported as income. Management periodically evaluates restricted stock for impairment based on ultimate recovery of par value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investment in Limited Partnership

The Bank has invested funds in MIMS-1 Limited Partnership (the "Partnership"). The Partnership was organized under the Delaware Revised Uniform Limited Partnership Act on July 30, 2010 for the primary purpose of investing, reinvesting and trading in agency mortgage-backed and asset-backed securities issued by the United States GSEs. The investment objective of the partnership is to seek total return consisting of both current income and capital gains. The general partner is Manhattan Investment Management Services, Inc. (MIMS") The Partnership commenced operations on August 20, 2010. The Bank became a limited partner on August 1, 2012. The Partnership is recorded using the equity method of accounting.

Servicing Rights

When SBA loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses, which are not prevalent on the asset being serviced by the Company.

Servicing fee income, which is reported on the income statement as Other Income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of loan servicing rights is netted against loan servicing fee income. Servicing fees totaled $157,074 and $67,366 for the years ended December 31, 2012 and 2011, respectively. Late fees and ancillary fees related to loan servicing are not material.

Goodwill and Other Intangible Assets:

Goodwill resulting from a branch acquisition which occurred in 2012 is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non controlling interests in the acquired, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. There was no impairment identified during 2012. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet. Core deposits intangibles totaled $136,156 at December 31, 2012 and goodwill totaled $175,761 at December 31, 2012 and it is included in Other Assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Other intangible assets consist of core deposit and acquired customer relationship intangible assets arising from whole bank and branch acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years. Amortization expense totaled $15,844 for the year ended December 31, 2012.

Retirement Plans:

Employee 401(k) and profit sharing plan expense is the amount of matching contributions.

Income Taxes

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

The Company has adopted guidelines 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 the audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements.

Advertising Costs

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

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 12. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as separate components of equity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Earnings Per Common Share (EPS)

The basic earnings per common share ratio excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period. As of December 31, 2012, diluted earnings per common share reflects the potential dilution that could occur if securities 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. Earnings and dividends per common share are restated for all stock splits and stock dividends through the date of issuance of the financial statements.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Share-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. A Black-Scholes model is utilized to estimate the fair value of stock options. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 29, 2013, which is the date the financial statements were available to be issued.

Impact of New Financial Accounting Standards

Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU represents the converged guidance of the FASB and the International Accounting Standards Board (IASB) (the Boards) on fair value measurement. The collective efforts of the Boards and their staffs, reflected in ASU 2011-04, have resulted in common requirements for measuring fair value and for disclosing information about fair value measurements, including a consistent meaning of the term “fair value.” The Boards have concluded the common requirements will result in greater comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments to the FASB Accounting Standards Codification (Codification) in this ASU are to be applied prospectively. The additional disclosures are presented in Note 16: Fair Value Measurements. These new disclosure requirements did not have a material impact on the Company’s financial position, results of operations or cash flows.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Presentation of Comprehensive Income

In June 2011, FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU amends the FASB Accounting Standards Codification (Codification) to allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity. The amendments to the Codification in the ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. In October 2011, the FASB decided that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements will not be effective for public entities for fiscal years and interim periods within those years beginning after December 15, 2011. The remaining provisions of ASU 2011-05 are to be applied retrospectively. The Company adopted this standard on January 1, 2012. The Company elected to present comprehensive income as a separate statement of comprehensive income. Adoption of the standard did not have a material impact on the Company's financial position, results of operations, cash flows, or disclosures.

NOTE 2 - INVESTMENT SECURITIES

The available-for-sale investment securities amortized cost, estimated fair value, and related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) are as follows:

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available-for-Sale				
U.S. agency securities	$ 23,009,513	$ 46,991	$ (43,971)	$ 23,012,533
Collateralized mortgage obligations (*Residential*)	10,471,974	33,406	(16,827)	10,488,553
Corporate securities	1,045,411	25,225	-	1,070,636
Mortgage backed securities (*Residential*)	66,031,942	671,245	(81,449)	66,621,738
Small Business Administration securities	8,513,995	183,542	(5,889)	8,691,648
	$ 109,072,835	$ 960,409	$ (148,136)	$ 109,885,108

December 31, 2011				
Securities Available-for-Sale				
U.S. agency securities	$ 11,491,486	$ 54,994	$ -	$ 11,546,480
Collateralized mortgage obligations (*Residential*)	2,176,853	3,729	(4,185)	2,176,397
Mortgage backed securities (*Residential*)	32,711,612	102,941	(70,290)	32,744,263
Municipals Tax-exempt	500,000	27,990	-	527,990
Small Business Administration securities	7,665,150	74,264	(11,542)	7,727,872
	$ 54,545,101	$ 263,918	$ (86,017)	$ 54,723,002

The net unrealized gain on securities available-for-sale included in accumulated other comprehensive income (loss) net of tax during 2012 and 2011 was $479,242 and $104,961, respectively. The Bank had twenty five securities in a loss position as of December 31, 2012. The Bank had twenty nine securities in a loss position, as of December 31, 2011.

There were no gross unrealized losses on investment securities that have been in a continuous unrealized loss position for more than 12 months at December 31, 2012 and 2011.

U.S. Agency Securities: The unrealized losses during 2011 bonds were caused by market rate changes that occurred after these securities were purchased. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Mortgage-Backed Securities (all residential): These securities were issued by either FNMA, FHLMC, or GNMA and therefore the receipt of principal and interest as scheduled has not been an issue and is not projected to be an issue due to the implied guarantee from the government. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

NOTE 2 - INVESTMENT SECURITIES, Continued

Collateralized Mortgage Obligations (all residential): These securities were issued by either FNMA, FHLMC, or GNMA and therefore the receipt of principal and interest as scheduled has not been an issue and is not projected to be an issue due to the implied guarantee from the government. Because the Bank has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Small Business Administration (SBA) Securities: These securities were issued by the SBA and therefore the receipt of principal and interest as scheduled has not been an issue and is not projected to be an issue due to the implied guarantee from the government.

Proceeds and gross realized gains (losses) on investment securities for the years ended December 31, 2012 and 2011 are shown below.

	Years Ended December 31,	
	2012	2011
Available-for-Sale Securities		
Proceeds from sales and calls	$ 56,813,081	$ 35,631,810
Gross realized gains from sales or calls	$ 395,316	$ 311,851
Gross realized losses from sales or calls	$ (19,229)	$ -

The amortized cost and estimated fair value of debt securities by contractual maturity at December 31, 2012, are shown below. Expected maturities, primarily in the mortgage-backed investment securities will differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The original contractual maturity of the Bank's mortgage-backed security is between 10 to 30 years, which would differ from the remaining average life or duration that tend to be shorter because of the effect of pre-payments.

	Amortized Cost	Fair Value
Due within one year	$ 16,400,363	$ 16,526,781
Due after one year through five years	50,736,943	51,069,049
Due after five years through ten years	27,170,988	27,474,825
Due after ten years	14,764,541	14,814,453
	$ 109,072,835	$ 109,885,108

Investment securities with estimated fair values totaling approximately $8,904,420 and $9,978,768 were pledged to secure public deposits and other contracted obligations at December 31, 2012 and 2011.

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASES LOSSES

Major classifications of loans are summarized as follows:

	December 31,	
	2012	2011
Construction and Land development	$ 4,977,469	$ 5,627,590
Commercial Real Estate	174,977,943	120,900,133
Commercial and Industrial	112,111,955	142,276,693
Consumer	30,836,400	33,658,154
Loans, net of deferred loan origination fees and costs	$ 322,903,767	$ 302,462,570

At December 31, 2012 and 2011, loans originated under Small Business Administration (SBA) programs totaling $9,446,000 and $6,421,000, respectively, were included in the real estate and commercial categories.

Salaries and employee benefits totaling $561,000 and $588,000 have been deferred as loan origination costs for the years ended December 31, 2012 and 2011, respectively.

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASE LOSSES, Continued

The following tables present the activities in the allowance for loan and lease losses for the years ended December 31, 2012 and 2011:

December 31, 2012	Construction and Land Development	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 51,291	$ 1,269,896	$ 4,151,109	$ 286,206	$ 5,758,502
Provisions	8,309	16,164	3,294,131	980,396	4,299,000
Charge-offs	-	(100,085)	(5,064,951)	(250,908)	(5,415,944)
Recoveries	-	60,100	991,398	65,543	1,117,041
End of Year	$ 59,600	$ 1,246,075	$ 3,371,687	$ 1,081,237	$ 5,758,599
Reserves:					
Specific	$ -	$ -	$ 158,187	$ 694,874	$ 853,061
General	59,600	1,246,075	3,213,500	386,363	4,905,538
	$ 59,600	$ 1,246,075	$ 3,371,687	$ 1,081,237	$ 5,758,599
Loans Evaluated for Impairment:					
Individually	$ -	$ 2,921,817	$ 6,514,211	$ 694,874	$ 10,130,902
Collectively	4,977,469	172,056,126	105,597,744	30,141,526	312,772,865
	$ 4,977,469	$ 174,977,943	$ 112,111,955	$ 30,836,400	$ 322,903,767
December 31, 2011					
Allowance for Loan Losses:					
Beginning of Year	$ 50,637	$ 1,098,458	$ 4,131,010	$ 332,092	$ 5,612,197
Provisions	654	171,438	2,204,772	(164,864)	2,212,000
Charge-offs	-	-	(2,386,855)	(28,005)	(2,414,860)
Recoveries	-	-	202,182	146,983	349,165
End of Year	$ 51,291	$ 1,269,896	$ 4,151,109	$ 286,206	$ 5,758,502
Reserves:					
Specific	$ -	$ 434,114	$ 1,130,977	$ 124,328	$ 1,689,419
General	51,291	835,782	3,020,132	161,878	4,069,083
	$ 51,291	$ 1,269,896	$ 4,151,109	$ 286,206	$ 5,758,502
Loans Evaluated for Impairment:					
Individually	$ -	$ 4,666,137	$ 6,053,809	$ 256,390	$ 10,976,336
Collectively	5,627,590	116,233,996	136,222,884	33,401,764	291,486,234
	$ 5,627,590	$ 120,900,133	$ 142,276,693	$ 33,658,154	$ 302,462,570

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASE LOSSES, Continued

The following tables show an aging analysis of the loan portfolio by class and the time past due at December 31, 2012 and December 31, 2011:

	Still Accruing		
December 31, 2012	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Construction and Land development	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Commercial and Industrial	276,223	1,656,867	9,043,429
Consumer	694,874	-	-
	$ 971,097	$ 1,656,867	$ 9,043,429
December 31, 2011			
Construction and Land development	$ -	$ -	$ -
Commercial Real Estate	-	-	4,666,137
Commercial and Industrial	999,151	-	6,053,809
Consumer	-	-	256,390
	$ 999,151	$ -	$ 10,976,336

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASE LOSSES, Continued

The following present by class, information related to the average recorded investment and interest income recognized on impaired loans for the twelve months ended December 31, 2012 and 2011.

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded					
Construction and Land development	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	3,254,051	2,921,817	-	2,821,817	-
Commercial and Industrial	8,713,469	6,237,641	-	3,724,167	16,254
Consumer	-	-	-	-	-
	$ 11,967,520	$ 9,159,458	$ -	$ 6,545,984	$ 16,254

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an Allowance Recorded					
Construction and Land development	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	-	-	-	-	-
Commercial and Industrial	434,757	276,570	158,187	37,562	13,275
Consumer	1,389,748	694,874	694,874	231,625	19,054
	$ 1,824,505	$ 971,444	$ 853,061	$ 269,187	$ 32,329

December 31, 2011	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded					
Construction and Land development	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	325,000	325,000	-	55,205	38,997
Commercial and Industrial	470,000	470,000	-	470,000	1,953
Consumer	-	-	-	-	-
	$ 795,000	$ 795,000	$ -	$ 525,205	$ 40,950

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With an Allowance Recorded					
Construction and Land development	$ -	$ -	$ -	$ -	$ -
Commercial Real Estate	4,341,137	4,341,137	434,114	4,341,137	103,656
Commercial and Industrial	5,660,438	5,583,809	1,130,977	1,679,093	144,490
Consumer	256,390	256,390	124,328	182,921	2,567
	$ 10,257,965	$ 10,181,336	$ 1,689,419	$ 6,203,151	$ 250,713

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASE LOSSES, Continued

If interest on non-accruing loans had been recognized at interest rates stipulated in the respective loan agreements, interest income would have increased by $83,990 and $223,677 for the years ended December 31, 2012 and 2011, respectively.

The Bank monitors the credit quality of loans on a continuous basis using the regulatory and accounting classifications of pass, special mention, substandard, doubtful and loss to characterize and quantify the associated credit risk. Loans classified as "loss" are immediately charged off.

The risk category by class of loans was as follows as of December 31:

December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Construction and Land development	$ 4,977,469	$ -	$ -	$ -	$ 4,977,469
Commercial Real Estate	169,060,218	5,155,646	658,789	103,290	174,977,943
Commercial and Industrial	94,600,690	6,934,261	10,511,801	65,203	112,111,955
Consumer	29,394,296	747,230	694,874	-	30,836,400
	$ 298,032,673	$ 12,837,137	$ 11,865,464	$ 168,493	$ 322,903,767

December 31, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Construction and Land development	$ 5,627,590	$ -	$ -	$ -	$ 5,627,590
Commercial Real Estate	113,789,550	1,322,279	5,788,304	-	120,900,133
Commercial and Industrial	124,200,346	8,837,220	9,239,127	-	142,276,693
Consumer	33,401,764	-	256,390	-	33,658,154
	$ 277,019,250	$ 10,159,499	$ 15,283,821	$ -	$ 302,462,570

Interest income included above recognized on the cash basis amounted to $48,583 and $291,663 in 2012 and 2011, respectively.

The Bank has allocated $853,061 and $1,689,419 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2012 and 2011. The Bank has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2012 and 2011.

NOTE 3 - LOANS AND ALLOWANCES FOR LOAN AND LEASE LOSSES, Continued

For the years ended December 31, 2012 and 2011, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk. During the same period, there was no troubled debt restructurings in which the amount of principal or accrued interest owed from the borrower were forgiven.

The following table presents loans by class modified as trouble debt restructurings that occurred during the years ended December 31, 2012 and 2011:

December 31, 2012	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
TDR's			
Construction and Land development	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Commercial and Industrial	3	214,434	214,434
Consumer	-	-	-
	$ 3	$ 214,434	$ 214,434
December 31, 2011			
TDR's			
Construction and Land development	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Commercial and Industrial	-	-	-
Consumer	1	15,468	15,468
	$ 1	$ 15,468	$ 15,468

TDR's are considered to have defaulted when payments are over 90 days past due. During the years ended 2012 and 2011, there were no TDR’s that defaulted within 12 months of the restructuring.

There were four loans classified as troubled debt restructurings (TDR's) at December 31, 2012, amounting to $639,434, of which $425,000 was on nonaccrual status. There were four loans classified as TDR's and on nonaccrual at December 31, 2011 amounting to $3,557,955.

NOTE 4 - ACCRUED INTEREST RECEIVABLE AND OTHER ASSETS

Accrued interest receivable and other assets consist of the following at December 31, 2012 and 2011:

	2012	2011
Deferred tax asset	$ 1,662,000	$ 2,139,000
Prepaid FDIC assessments	87,602	436,860
Accrued interest receivable	1,517,205	1,311,716
Servicing Asset	504,145	439,722
Other assets	788,639	972,801
Total	$ 4,559,591	$ 5,300,099

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment at December 31, 2012 and 2011, are as follows:

	2012	2011
Leasehold improvements	$ 1,859,052	$ 1,794,070
Furniture, fixtures and equipment	1,055,669	955,910
Computer hardware and software	912,283	798,319
	3,827,004	3,548,299
Accumulated depreciation and amortization	(2,756,416)	(2,219,410)
	1,070,588	1,328,889
Construction in progress	95,846	60,594
	$ 1,166,434	$ 1,389,483

Depreciation and amortization expense on premises and equipment was $540,564 and $504,438 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 - DEPOSITS

Interest-bearing deposits at December 31, 2012 and 2011, consist of the following:

	2012	2011
NOW accounts	$ 15,781,993	$ 10,415,323
Savings and money market	121,248,401	101,216,902
Time certificate of deposit accounts under $100,000	13,891,601	11,888,641
Time certificate of deposit accounts $100,000 and over	83,358,485	74,760,114
	$ 234,280,480	$ 198,280,980

The maturity of time certificates of deposit at December 31, 2012 and 2011 is as follows:

	2012	2011
Due within one year	$ 95,159,843	$ 85,523,900
Due within one to two years	1,814,680	1,124,855
Due after two years	275,563	-
	$ 97,250,086	$ 86,648,755

Interest expense recognized on interest-bearing deposits consisted of the following:

	2012	2011
Savings	$ 25,849	$ 3,709
Money market	602,936	482,082
NOW accounts	18,440	18,886
Time certificates of deposit	710,781	810,416
	$ 1,358,006	$ 1,315,093

As of December 31, 2012 and 2011, all noninterest-bearing deposits are demand deposits.

NOTE 7 - INCOME TAXES

Income taxes for the years ended December 31, 2012 and 2011 consist of the following:

	2012	2011
Current Taxes:		
Federal	$ 696,000	$ 1,424,000
State	288,000	472,000
	984,000	1,896,000
Deferred Taxes:		
Federal	186,000	11,000
State	31,000	(8,000)
	217,000	3,000
Total Provision (Benefit)	$ 1,201,000	$ 1,899,000

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

The following is a summary of the components of the net deferred tax assets recognized in the accompanying consolidated balance sheets at December 31:

	2012	2011
Deferred Tax Assets:		
Organization costs and other expenses	$ 138,000	$ 156,000
Allowance for loan losses due to tax limitations	1,420,000	1,789,000
Stock based compensation	399,000	251,000
Depreciation differences	49,000	63,000
Nonaccrual loan interest	79,000	-
Other	204,000	307,000
	2,289,000	2,566,000
Deferred Tax Liabilities:		
Loan costs	(245,000)	(223,000)
Available for sale investment securities	(333,000)	(73,000)
Amortization difference	(22,000)	-
FHLB dividends	(5,000)	-
Other	(22,000)	(131,000)
	(627,000)	(427,000)
Net Deferred Tax Assets	$ 1,662,000	$ 2,139,000

NOTE 7 - INCOME TAXES, Continued

A comparison of the Federal statutory income tax rates to the Company's effective income tax rate is as follows:

	2012	2011
Federal tax rate	34.0 %	34.0 %
State taxes, net of Federal tax benefits	7.5 %	7.2 %
Other	0.8 %	3.4 %
Provision (Benefit) for income tax	42.3 %	44.6 %

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Bank will realize the benefits of these deductible differences at December 31, 2012 and 2011.

The Company is subject to Federal income tax and income tax of the state of California. The Federal income tax returns for the years ended December 31, 2009 through 2011, are open to audit by the Federal authorities and the California State tax returns for the years ended December 2008 through 2011, are also open to audit by the State authorities.

At December 31, 2012 and 2011, the Company does not have any unrecognized tax benefits recorded. The Company records interest and penalties related to uncertain tax positions as part of other operating expense. The Company recorded no interest expense as of December 31, 2012 and 2011. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease within the next twelve months.

NOTE 8 - EARNINGS PER COMMON SHARE (EPS)

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

Outstanding options and warrants of 730,316, and 731,916 were not factored into the calculation of dilutive stock options at December 31, 2012 and 2011, respectively, because they were anti-dilutive.

NOTE 8 - EARNINGS PER COMMON SHARE (EPS), Continued

A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations is as follows:

	2012		2011	
	Income	Shares	Income	Shares
Net income as reported	$ 1,636,666		$ 2,365,034	
Less: preferred stock dividends and discount amortization	(98,400)		(514,133)	
Shares outstanding at year end		5,663,276		5,638,156
Impact of weighting shares purchased during the year	-	(13,015)	-	(2,362)
Used in Basic EPS	1,538,266	5,650,261	1,850,901	5,635,794
Dilutive effect of outstanding stock options	-	-	-	-
Used in Diluted EPS	$ 1,538,266	5,650,261	$ 1,850,901	5,635,794

NOTE 9 - SHARE-BASED COMPENSATION

Stock Options

Under the 2005 Equity Incentive Plan (the Plan), directors, officers and key employees may be granted both nonqualified and incentive stock options and directors and other consultants, who are not also an officer or employee, may only be granted nonqualified stock options. At December 31, 2012, 730,316 options were outstanding and 45,720 options were available for granting. The exercise price of these options may not be less than the fair market value of the common stock on the date granted. Options expire no later than ten years from the date of grant and generally vest over three to five years. The Company recognized share-based compensation costs for stock options of $38,600 and $299,318 in 2012 and 2011, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. There were no options granted during 2012 and 2011.

The after-tax cost of these options cannot currently be predicted since the Company's ability to record the related income tax benefits depends on the amount and timing of future taxable income.

Future expense recognized related to stock option awards may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards after the adoption of this standard.

NOTE 9 - SHARE-BASED COMPENSATION, Continued

Stock Options, Continued

A summary of the activity in the Company stock option plan for the years ended December 31 are as follows:

	2012			2011		
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Balance, beginning of year	731,916	$ 12.16	$ -	731,916	$ 12.16	$ -
Options granted	-	-	-	-	-	-
Options exercised	-	-	-	-	-	-
Options cancelled	(1,600)	-	-	-	-	-
Outstanding, end of year	730,316	12.17	$ -	731,916	12.16	$ -
Options exercisable at year-end	727,936	$ 12.15	$ -	678,196	$ 11.86	$ -

The weighted-average remaining contractual life of options outstanding at December 31, 2012 and 2011 are 3.13 years and 4.13 years, respectively. The weighted average remaining contractual life of options currently exercisable at both December 31, 2012 and 2011 is 3.12 years and 4.04 years, respectively.

As of December 31, 2012, there was $2,281 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted-average period of 0.02 years.

Restricted Stock Awards

The Company may also grant restricted stock, as part of the 2005 Plan, to directors, officers, and key employees. At December 31, 2012, 69,989 non-vested restricted shares were outstanding. Restricted shares issued vest on their anniversary dates for a period of five years. The Bank recognized restricted stock award compensation costs of $146,044 in 2012.

NOTE 9 - SHARE-BASED COMPENSATION, Continued

A summary of the activity with respect to restricted share-based compensation for the period ended December 31, 2012:

	Shares	Weighted Average Gr Date Fair Value
Non-vested restricted shares at December 31, 2011	58,627	8.97
Granted	25,120	8.93
(Vested)	(13,758)	8.98
Non-vested restricted shares at December 31, 2012	69,989	8.95

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Cash and Due from Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank complied with the reserve requirements as of December 31, 2012 and 2011.

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

Premises Lease Rental Agreements

The Bank leases office facilities and equipment under operating leases which expires through 2014. Rental expense was $858,478 in 2012 and $713,584 in 2011. Future minimum rental payments under the operating leases as of December 31, 2012, are as follows:

Year Ending	Amount
2013	886,642
2014	244,311
2015	142,987
2016	144,762
2017	12,076
Total	$ 1,430,778

NOTE 11 - OTHER BORROWINGS

Federal Funds Arrangements with Commercial Banks

To manage liquidity, the Bank has unsecured Federal Funds purchased lines of credit outstanding with four correspondent banks. The terms and conditions of the credit facilities allow the Bank to borrow funds, for short periods of time, and are subject to the availability of funds from the correspondent banks. The combined maximum limits for the unsecured Federal Funds purchased lines of credit at December 31, 2012 and 2011, were $41,000,000 and $44,000,000, respectively.

Federal Home Loan Bank Lines of Credit

The Bank is also a member of the Federal Home Loan Bank (FHLB). FHLB has underwritten the Bank to allow for a maximum borrowing limit of 20 percent of assets with terms to 84 months, subject to certain terms and conditions and require sufficient collateral be pledged. Collateral pledged can be in the form of qualified loans or qualified investment securities. At December 31, 2012, the Bank's borrowing limit from the FHLB was $95,666,400 of which $-0- was outstanding at December 31, 2012. At December 31, 2011, the Bank's borrowing limit from the FHLB was $79,512,800 of which $-0- was outstanding at December 31, 2011. The average balance outstanding for short-term advances, defined as overnight borrowings plus term advances having a maturity of less than one year, was $156,238 in 2012. The average rate paid was 0.13 percent. The highest balance of short-term advances at any month-end during 2012 was $ -0-.

Federal Reserve Bank

As of December 31, 2012, the Bank had no unused borrowing capacity in investments pledged as collateral to the Federal Reserve Bank.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

The Bank's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

NOTE 12 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK, Continued

The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2012 and 2011:

	2012	2011
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 105,103,136	$ 102,126,581

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include marketable investment securities, accounts receivable, inventory, property, plant, and equipment, and real properties.

NOTE 13 - RELATED-PARTY TRANSACTIONS

As of December 31, 2012 and 2011, the Company's balance sheet included deposits from executive officers and directors totaling $22,670,652 and $25,012,428, respectively, and loans to officers and directors which are as follows:

	2012	2011
Outstanding balance, beginning of year	$ 7,187,998	$ 4,959,600
Credit granted, including renewals	115,000	3,565,646
Repayments	(1,618,814)	(1,337,248)
Outstanding balance, end of year	$ 5,684,184	$ 7,187,998
Undisbursed commitments, end of year	$ 825,812	$ 4,056,193

In management's opinion, the terms and conditions associated with these arrangements are comparable to those of transactions with unaffiliated parties.

NOTE 14 – 401K PLAN

401(k) Plan: A 401(k) benefit plan allows employee contributions up to 100% of their compensation, up to the limitations determined by the Internal Revenue Code. These, contributions which are matched equal to 100% of the first 6% of compensation and an additional 50% for contributions in excess of 3%, not to excess 5% of total compensation contributed. Expense for 2012 and 2011 were $143,480 and $166,588, respectively.

NOTE 15 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier 1 capital (primarily common stock and retained earnings less goodwill) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes that the Bank meets all capital adequacy requirements to which it is subject as of December 31, 2012.

NOTE 15 - REGULATORY MATTERS, Continued

As of December 31, 2012, the most recent notification from the FDIC 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 total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total capital (to risk-weighted assets)	$ 56,364,385	15.12%	$ 29,822,426	8.0%	$ 37,278,032	10.0%
Tier 1 capital (to risk-weighted assets)	51,687,623	13.86%	14,917,063	4.0%	22,375,594	6.0%
Tier 1 capital (to average assets)	51,587,623	10.63%	19,412,088	4.0%	24,265,110	5.0%

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Total capital (to risk-weighted assets)	$ 54,288,371	16.07%	$ 27,025,947	8.0%	$ 33,782,434	10.0%
Tier 1 capital (to risk-weighted assets)	50,045,652	14.82%	13,507,598	4.0%	20,261,398	6.0%
Tier 1 capital (to average assets)	50,045,652	12.24%	16,354,788	4.0%	20,443,485	5.0%

NOTE 16 - 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 and minimize the use of unobservable inputs when measuring fair value. That 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.

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

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 an entity's own assumptions about the factors that market participants would use in pricing an asset or liability.

The Bank used the following methods and significant assumptions to estimate fair value:

- Securities

The fair value of securities available for sale are determined by obtaining quoted prices on nationally recognized exchanges or matrix pricing which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather relying on the security's relationship to other benchmark quoted securities. At December 31, 2012 and 2011, the fair value of AFS investment securities was determined based on Level 2 inputs.

- Impaired Loans

The fair value of impaired loans with specific allocations of the allowance for loan and lease losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower’s financial statements, or aging reports, adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Appraisals for collateral-dependent impaired loans are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Appraisal Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On a quarterly basis, impaired loans are reviewed for correctness of the impairment valuation methodology. If collateral dependent in nature, appraisal valuations are reviewed. Should analysis reveal that there are material changes (i.e., economic conditions, decrease in rents, increased vacancy, etc.); the Company makes a determination if an updated appraisal is warranted.

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2012

Description:	Fair Value:	Valuation Technique:	Significant Unobservable Input:	Weighted Average:
Impaired Loans:				
Commercial Real Estate	$ 2,921,817	Sales Approach Method	Appraiser adjustments on sales comp data	0% - 9% (4%)
Commercial and Industrial	$ 1,891,279	Sales Approach Method	Appraiser adjustments on sales comp data	10% - 23% (22%)

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

The following table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and 2011, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value.

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
December 31, 2012				
Securities Available-for-Sale:				
U.S. agency securities	$ 23,012,533	$ -	$ 23,012,533	$ -
Collateralized mortgage obligations *(residential)*	10,488,553	-	10,488,553	-
Corporate securities	1,070,636	-	1,070,636	-
Mortgage backed securities *(residential)*	66,621,738	-	66,621,738	-
Small Business Administration securities	8,691,648	-	8,691,648	-
	$ 109,885,108	$ -	$ 109,885,108	$ -
December 31, 2011				
Securities Available-for-Sale:				
U.S. agency securities	$ 11,546,480	$ -	$ 11,546,480	$ -
Collateralized mortgage obligations *(residential)*	2,176,397	-	2,176,397	-
Mortgage backed securities *(residential)*	32,744,263	-	32,744,263	-
Municipals Tax-exempt	527,990	-	527,990	-
Small Business Administration securities	7,727,872	-	7,727,872	-
	$ 54,723,002	$ -	$ 54,723,002	$ -

There were no transfers between Level 1, Level 2 or Level 3 during 2012 or 2011.

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements Using:		
	Total at December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Construction and Land development	$ -	$ -	$ -	$ -
Commercial Real Estate:	2,921,817	-	-	2,921,817
Commercial and Industial	1,891,279	-	-	1,891,279
Consumer	-	-	-	-
	$ 4,813,096	$ -	$ -	$ 4,813,096

		Fair Value Measurements Using:		
	Total at December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Construction and Land development	$ -	$ -	$ -	$ -
Commercial Real Estate:	4,232,023	-	-	4,232,023
Commercial and Industial	4,922,832	-	-	4,922,832
Consumer	132,062	-	-	132,062
	$ 9,286,917	$ -	$ -	$ 9,286,917

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

In accordance with the provision of ASC 360-10, collateral dependent impaired loans with a carrying value of $10,130,902 were written down to their fair value of $9,277,841 resulting in an impairment charge of $853,861. The valuation allowance represents specific allocation for the allowance for credit loans for impaired loans. Impaired loans were determined to be collateral dependent and categorized as Level 3 due to ongoing real estate market conditions resulting in inactive market data, which in turn required the use of unobservable inputs and assumptions in fair value measurements. There were no changes in valuation techniques used during the year ended December 31, 2012.

There were no liabilities measured at fair value on a non-recurring basis at December 31, 2012 or December 31, 2011.

The carrying amounts and estimated fair values of financial instruments, at December 31, 2012 and December 31, 2011 are as follows:

		Fair Value Measurements at December 31, 2012 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and due from banks	$ 17,326,082	$ 17,326,082			$ 17,326,082
Federal funds sold	996,701	996,701			996,701
Deposits with other financial institutions	27,614,989	27,614,989			27,614,989
Securities available-for-sale	109,885,108		109,885,108		109,885,108
Restricted stock	2,399,800	N/A	N/A	N/A	N/A
Loans	317,145,168			312,718,000	312,718,000
Accrued interest receivable	1,517,206	13,413	395,993	1,107,800	1,517,206
Financial liabilities					
Deposits	$ 420,449,741	326,751,000	97,231,000		423,982,000
Accrued interest payable	30,511	513	29,998		30,511

	December 31, 2011	
	Carrying Amount	Fair Value
Financial assets		
Cash and due from banks	$ 29,008,356	$ 29,008,356
Deposits with other financial institutions	22,891,010	22,891,010
Securities available-for-sale	54,723,002	54,723,002
Restricted stock	2,054,200	N/A
Loans	296,704,068	300,001,000
Accrued interest receivable	1,311,716	1,311,716
Financial liabilities		
Deposits	347,819,244	358,574,000
Accrued interest payable	31,249	31,249

NOTE 16 - FAIR VALUE MEASUREMENT, Continued

The methods and assumptions, not previously presented, used to estimate fair values are described as follows:

(a) Cash, due from banks, Federal Funds Sold, and deposits with other financial institutions

The carrying amounts of cash and short-term instruments approximate fair values and are classified as either Level 1 or Level 2.

(b) Restricted Stocks

It is not practical to determine the fair value of restricted stocks due to restrictions placed on its transferability.

(c) Loans

Fair values of loans are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued at the lower of cost or fair value as described previously. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price.

(d) Deposits

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in either a Level 1 or Level 2 classification The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in either a Level 1 or Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

(e) Accrued Interest Receivable/Payable

The carrying amounts of accrued interest approximate the fair value of the related asset or liability.

(f) Off-balance Sheet Instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

NOTE 17 - ISSUANCE/REPURCHASE OF PREFERRED STOCK

On January 9, 2009, the Company, in connection with the Troubled Assets Relief Program (TARP) Capital Purchase Program, entered into a Securities Purchase Agreement with the United States Department of Treasury (the Treasury), pursuant to which the Company issued and sold 6,815 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A (Series A) and a warrant to purchase 341 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B (Series B) for an aggregate purchase price of $6,815,000 in cash. The Treasury immediately exercised the warrant, purchasing 341 shares of Series B at $0.01 per share. The Series A and Series B shares are redeemable at the price of $1,000 per share, plus any accrued but unpaid dividends. The discount of $341,000 was accreted against retained earnings over the estimated five year life of the Series B reducing the reported income available for common shareholders.

On September 15, 2011 the TARP was repurchased and was exchanged with the Small Business Lending Fund Program ("SBLF") of the US Department of the Treasury.

The TARP repurchase totaled $7,156,000, and consisted of $6,815,000 of Senior Preferred Shares Series A and $341,000 Preferred Shares Series B for the Warrants plus unpaid accrued interest of $30,953 or for total amount of $7,186,953.

The SBLF capital infusion was $7,200,000 and the Company issued Preferred Non-Cumulative Series C shares, and there are no Warrants. In September 2011, the SBLF capital infusion of $7,186,953 was down streamed as capital investment from the Company to Security Bank of California, its sole and wholly owned subsidiaries.

The Series C non-cumulative dividend rate is determined on the level of growth of the small business lending portfolio of the Company as defined in the SBLF program, the range of which is 1.00 percent to 7.00 percent.