BANK OF SOUTHERN CALIFORNIA N.A.

2011 Annual Report

www.banksocal.com

To Our Shareholders:

We are pleased to report our 2011 operational and financial results. In many ways 2011 was a milestone year for us. We earned a profit of nearly $1.1mm at year end 2011, and also successfully raised an additional $3.1mm in new capital through a private placement offering. This addition to our capital continues to make the bank one of the best-capitalized banks in the region. It also presents an opportunity for us to continue to grow the bank through lending and potential acquisitions.

John Farkash
Chairman of the Board

Nathan L. Rogge
President & CEO

Although it was a year of many accomplishments and progress, the economy continued to create challenges that had an impact on our growth. While the economy is still volatile, we believe there has been improvement over the past year, but will likely result in still softer loan growth for us this year. But without doubt, the source of our strong performance is our employees who have proven that they have the ability to successfully implement our strategic business plan to grow the bank and build strong customer relationships. To underscore this point, the majority of our new business is a result of referrals from satisfied clients.

Other notable events in 2011 include the acquisition of a $17mm deposit portfolio from Mizuho Corporate Bank of California this past August, and the addition of a few key management and SBA employees to our team. As an SBA Preferred Lender, we took steps to emphasize the value of these government guaranteed programs and as a result, we have been recognized as one of the top ten SBA lenders in our region. We also recognized full value of the acquisition of the Palm Springs and La Quinta branches that we acquired from Palm Desert National Bank in December 2010. This acquisition was immediately accretive to earnings which contributed to our profitability. Lastly, we celebrated our ten year anniversary of the bank in 2011 which was formally known as First Business Bank and originally known as Ramona National Bank.

While we know the economy will continue to present challenges, we believe Bank of Southern California is well positioned to continue as a leading business bank in the Southern California market. More importantly, the customer relationships we have already developed serve as a solid foundation as we continue to build our bank.

Thank you for your continued trust and support.

John Farkash
Chairman of the Board

Nathan L. Rogge
President and Chief Executive Officer

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

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bank of Southern California, N.A.
12265 El Camino Real, Suite 100
San Diego, California 92130

We have audited the accompanying statements of financial condition of Bank of Southern California N.A. as of December 31, 2011 and 2010, and the related statements of operations, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank'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 financial statements referred to above present fairly, in all material respects, the financial position of Bank of Southern California N.A. 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.

Vavrinek, Trine, Day + Co., LLP

Laguna Hills, California
March 21, 2012

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BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF FINANCIAL CONDITION
December 31, 2011 and 2010

ASSETS

	2011	2010
Cash and Due from Banks	$ 7,251,826	$ 7,119,749
Excess Reserves at Federal Reserve Bank	17,740,000	8,415,000
TOTAL CASH AND CASH EQUIVALENTS	24,991,826	15,534,749
Investment Securities Available for Sale	13,010,499	7,611,943
Loans:		
Construction and Land Development	5,722,475	4,179,110
Real Estate - Other	109,700,483	117,950,307
Commercial and Industrial	27,726,268	28,748,081
Consumer	3,801,324	3,714,642
TOTAL LOANS	146,950,550	154,592,140
Allowance for Loan Losses	(2,731,854)	(2,456,628)
NET LOANS	144,218,696	152,135,512
Stock Investments, at Cost	1,591,500	1,135,300
Premises and Equipment	962,053	1,149,239
Goodwill and Other Intangibles	1,120,598	1,200,854
Other Real Estate Owned, net	475,552	-
Accrued Interest and Other Assets	1,601,103	1,181,865
TOTAL ASSETS	$ 187,971,827	$ 179,949,462

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF FINANCIAL CONDITION
December 31, 2011 and 2010

LIABILITIES AND SHAREHOLDERS' EQUITY

	2011	2010
Deposits:		
Noninterest-Bearing Demand	$ 49,883,800	$ 48,097,714
Interest-Bearing NOW, Money Market and Savings Accounts	75,941,782	74,923,399
Time Deposits Under $100,000	13,059,104	13,886,575
Time Deposits $100,000 and Over	23,548,731	18,595,570
TOTAL DEPOSITS	162,433,417	155,503,258
Federal Home Loan Bank Advances	1,000,000	4,000,000
Accrued Interest and Other Liabilities	1,191,564	1,092,434
TOTAL LIABILITIES	164,624,981	160,595,692
Commitments and Contingencies - Note E and K	-	-
Shareholders' Equity:		
Preferred Stock - Authorized 10,000,000 shares, No Par Value; 4,354 Shares Issued and Outstanding in 2011 and 2010	4,277,774	4,246,197
Common Stock - 10,000,000 Shares Authorized, $5.00 Par Value; Issued and Outstanding 3,263,534 in 2011 and 2,643,534 in 2010	16,317,670	13,217,670
Additional Paid-in Capital	13,083,112	13,271,574
Accumulated Deficit	(10,336,398)	(11,396,334)
Accumulated Other Comprehensive Income - Net of Taxes	4,688	14,663
TOTAL SHAREHOLDERS' EQUITY	23,346,846	19,353,770
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 187,971,827	$ 179,949,462

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011 and 2010

	2011	2010
INTEREST INCOME		
Interest and Fees on Loans	$ 9,121,496	$ 6,397,229
Interest and Dividends on Investment Securities	285,978	254,132
Interest on Federal Funds Sold and Other Balances	35,375	24,715
TOTAL INTEREST INCOME	9,442,849	6,676,076
INTEREST EXPENSE		
Interest on Savings, NOW and Money Market Accounts	416,537	511,706
Interest on Time Deposits	677,075	711,252
Interest on Other Borrowings	48,614	58,856
TOTAL INTEREST EXPENSE	1,142,226	1,281,814
NET INTEREST INCOME	8,300,623	5,394,262
Provision for Loan Losses	800,000	1,135,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,500,623	4,259,262
NONINTEREST INCOME		
Service Charges, Fees and Other	514,091	398,740
Gain on Sale of Securities	39,831	93,570
Gain on Sale of Loans	90,748	70,833
Gain on Sale of Other Real Estate Owned	-	30,936
	644,670	594,079
NONINTEREST EXPENSE		
Salaries and Employee Benefits	4,050,864	2,918,156
Occupancy and Equipment Expenses	1,244,781	845,550
Other Expenses	2,111,335	1,767,336
	7,406,980	5,531,042
INCOME (LOSS) BEFORE INCOME TAXES	738,313	(677,701)
Income Taxes (Benefit)	(353,200)	800
NET INCOME (LOSS)	$ 1,091,513	$(678,501)
NET INCOME (LOSS) PER SHARE - BASIC	$ 0.36	$(0.27)
NET INCOME (LOSS) PER SHARE - DILUTED	$ 0.36	$(0.27)

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

BANK OF SOUTHERN CALIFORNIA, N.A.
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2011 and 2010

	Preferred Stock		Common Stock		Additional Paid-in	Comprehensive	Accumulated	Accumulated Other Comprehensive
	Shares	Amount	Shares	Amount	Capital	Income	Deficit	(Loss) Income
Balance at December 31, 2009	4,354	$ 4,214,715	2,643,534	$ 13,217,670	$ 13,410,193		$ (10,685,612)	$ 25,392
Accretion of Redemption Value		32,221					(32,221)	
Dividends Paid					(214,802)			
Stock-Based Compensation					76,183			
Issuance costs on preferred stock		(739)						
Comprehensive Income (Loss):								
Net Income (Loss)						$ (678,501)	(678,501)	
Change in unrealized gain on investment securities available for sale, net of tax effects						44,477		44,477
Reclass for gain recognized in earnings, net of tax effects						(55,206)		(55,206)
Total Comprehensive Loss						$ (689,230)		
Balance at December 31, 2010	4,354	4,246,197	2,643,534	13,217,670	13,271,574		(11,396,334)	14,663
Accretion of Redemption Value		31,577					(31,577)	
Issuance of common shares, net of expenses			620,000	3,100,000	(24,037)			
Dividends Paid					(222,140)			
Stock-Based Compensation					57,715			
Comprehensive Income:								
Net Income						$ 1,091,513	1,091,513	
Change in unrealized gain on investment securities available for sale, net of tax effects						13,525		13,525
Reclass for gain recognized in earnings, net of tax effects						(23,500)		(23,500)
Total Comprehensive Income						$ 1,081,538		
Balance at December 31, 2011	4,354	$ 4,277,774	3,263,534	$ 16,317,670	$ 13,083,112		$ (10,336,398)	$ 4,688

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011 and 2010

	2011	2010
OPERATING ACTIVITIES		
Net Income (Loss)	$ 1,091,513	$(678,501)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	469,274	245,614
Gain on Sale of Loans	(90,748)	(70,833)
Provision for Loan Losses	800,000	1,135,000
Deferred Tax Benefits	(493,000)	
Gain on Sale of Other Real Estate Owned	-	(30,936)
Stock-Based Compensation	57,715	76,183
Gain on Sale of Available for Sale Securities	(39,831)	(93,570)
Net Changes in Other Assets and Liabilities	179,868	8,455
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,974,791	591,412
INVESTING ACTIVITIES		
Purchase of Available-for-Sale Securities	(7,460,732)	(7,213,677)
Proceeds from Sale of Available-for-Sale Securities	474,105	2,956,240
Proceeds from Maturities of Available-for-Sale Securities	1,555,272	1,345,885
Net Purchase of Federal Home Loan and Federal Reserve Bank Stock	(456,200)	(51,750)
Cash Acquired and Received in Branch Acquisition	-	3,749,805
Net (Funding) Repayment of Loans	2,806,625	(29,544,007)
Proceeds from Sale of Loans	3,925,387	903,945
Proceeds from Sale of Other Real Estate Owned	-	1,486,694
Purchases of Premises and Equipment, net of Sales Proceeds	(146,153)	(410,603)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	698,304	(26,777,468)
FINANCING ACTIVITIES		
Net Increase in Deposits	6,930,159	23,358,026
Net Repayment in Federal Home Loan Bank Advances	(3,000,000)	-
Proceeds from Preferred Stock Offering, Net of Expenses	-	(739)
Proceeds from Common Stock Offering, Net of Expenses	3,075,963	-
Dividends on Preferred Stock	(222,140)	(214,802)
NET CASH PROVIDED BY FINANCING ACTIVITIES	6,783,982	23,142,485
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,457,077	(3,043,571)
Cash and Cash Equivalents at Beginning of Year	15,534,749	18,578,320
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 24,991,826	$ 15,534,749
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 1,148,949	$ 1,334,965
Taxes Paid	$ 25,800	$ 800
Loans Transferred to Other Real Estate Owned	$ 475,552	$ 1,455,758
Loans to Facilitate Other Real Estate Owned Sale	$ -	$ 1,159,092

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of Southern California, N.A. began business operations in December 2001 under the name Ramona National Bank. The name was changed to First Business Bank, N.A. in 2006 and to Bank of Southern California, N.A. in 2010. The Bank operates under a federal charter and its primary regulator is the Office of the Comptroller of the Currency ("OCC"). Bank of Southern California is organized as a single operating segment that operates six full-service offices, including two in San Diego, as well as Carlsbad, Ramona, Palm Springs, and La Quinta, California. The acquisition of two branches in Palm Springs and La Quinta from Palm Desert National Bank took place in December 2010. The Bank's primary source of revenue is interest earned on loans to clients, who are predominately small and middle-market businesses and individuals. Client deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum legal limit and the Bank is a member of the Federal Reserve Bank ("FRB").

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.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 21, 2012, the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the 2010 financial statements have been reclassified to conform to the 2011 presentation. The reclassifications have no material effect on shareholders' equity, or net loss, as previously reported.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, excess reserves at the Federal Reserve Bank, and federal funds sold. Excess reserves at the Federal Reserve Bank earn interest, vary in amount every day, and are considered an alternative to federal funds sold. Generally, federal funds are sold for one-day periods.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Due from Banks - Continued

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank's reserve requirement at December 31, 2011 was $1,690,000, which was met by the Bank.

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

Investment Securities

Investment securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Investments classified as held-to-maturity securities are carried at amortized cost.

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. The related write-downs are included in earnings as realized losses. In estimating OTTI losses, management considers: the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Stock Investments

Stock investments primarily consist of Federal Reserve Bank stock and Federal Home Loan Bank stock and are carried at cost. Under certain conditions, these stocks may be sold back to the issuing institution at par value or book value. All stock investments are evaluated for impairment based on an estimate of the ultimate recoverability of cost.

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 and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is generally discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or earlier when, in the opinion of management, there is reasonable doubt as to collectability. On a case by case basis, loans past due 90 days may remain on accrual, if the loan is well collateralized, actively in process of collection and, in the opinion of management, likely to be paid current within the next payment cycle. When loans are placed on nonaccrual status, all interest previously accrued but not collected is generally 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 collectable as to all principal and interest.

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 Bank determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due, principal and interest, 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 net realizable value of the collateral. 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 as described above.

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.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Bank determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for Loan Losses – Continued

The Bank reviews the historical loss rates for each portfolio segment and utilizes peer loss rates when the Bank does not have sufficient historical experience or otherwise feels historical experience is not indicative of the current loan portfolio. 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; the existence and effect of any concentrations of credit; the effect of other external factors such as competition and legal and regulatory requirements; the quality and effectiveness of the risk rating system; and the quality of regulatory and other external credit reviews.

Portfolio segments identified by the Bank include construction and land development, real estate, commercial and industrial and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt to income ratios or debt service coverage, credit scores, collateral type and loan-to-value ratios and financial performance.

Other Real Estate Owned

Real estate acquired through foreclosure is reclassified from the loan portfolio when legal title is transferred. The real estate owned is reclassified at the lower of the recorded investment in the loan or the net realizable value of the property. Net realizable value is measured as the expected sales price, less the expected expense associated with the sale. Write downs to net realizable value when title is acquired are charged against the allowance for loan loss. Subsequent declines in the net realizable value after title is acquired are recorded as a valuation allowance against the property and charged to expense. Major improvements to the property may be capitalized to the basis in the property, provided the increase to the recorded investment does not exceed the net realizable value. At December 31, 2011, the Bank had $475,552 in other real estate owned and none at December 31, 2010.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when; (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before maturity.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loan Sales and Servicing of Financial Assets

The Bank originates SBA loans that may be sold in the secondary market. Servicing rights are recognized separately when they are acquired through sale of loans. Servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. The valuation model uses assumptions that market participants would use in estimating cash flows from servicing assets, such as the cost to service, discount rates and prepayment speeds. The Bank compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. Servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being services. A valuation allowance is recorded where the fair value is below the carrying amount of the asset. If the Bank later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase in income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayments speeds and changes in the discount rates.

Servicing fee income, which is reported on the income statement with service charges, fees and other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and recorded as income when earned. The amortization of servicing rights and changes in the valuation allowance are netted against loan servicing income.

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 seven years for furniture, equipment and computer equipment. 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.

Advertising Costs

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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 carryforwards depend on having sufficient taxable income of an appropriate character within the carryforward periods.

The Bank 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 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. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Preferred Stock

On April 10, 2009 in connection with the Troubled Assets Relief Program ("TARP"), the Bank received $2,211,000 from the U.S. Treasury in exchange for the issuance 2,211 shares of the Bank's Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A and a related warrant for 111 shares of the Bank's Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, which represents 5% of the Series A Preferred Stock. The aggregate redemption price of the Series A and Series B Preferred Stock together will be $2,322,000. The difference between the aggregate redemption price and the issuance proceeds, net of issuance costs, of $141,135 is accreted against retained earnings over the estimated five-year life of the Preferred Stock reducing the reported income available for common shareholders.

The Preferred Stock, Series A pays non-cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Preferred Stock, Series B pays non-cumulative dividends at a rate of 9% per year. The Series A Preferred Stock may be redeemed by the Bank subject to application and approval to do so by the U. S. Treasury. The Series B Preferred Stock may be redeemed after all of the Series A Preferred Stock has been redeemed.

On December 11, 2009, the Bank received $2,032,000 from the U.S. Treasury in exchange for the issuance of 2,032 shares of the Bank's Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C. The Series C redemption price is $2,032,000. The issuance cost of $18,832 is accreted against retained earnings over the estimated five-year life of the Preferred Stock reducing the reported income available for common shareholders. The Series C Preferred Stock pays non-cumulative dividends at a rate of 5% per year and may be redeemed by the Bank subject to application and approval to do so by the U. S. Treasury, independent of the redemption of the Series A and B. Additional disclosures about the dividends on Preferred Stock are made in Note M.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Comprehensive Income

Changes in the unrealized gain or loss on available-for-sale securities are the only components of accumulated other comprehensive income for the Bank.

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 K. The Bank is a contingent obligor under a letter of credit issued on its behalf to secure certain lease obligations. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Disclosure about Fair Value of Financial Instruments

The Bank's estimated fair value amounts have been determined using available market information and appropriate valuation methods. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Bank could have realized in a current market exchange. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amounts. The estimated fair value of the Bank's financial instruments is presented in Note O.

Earnings Per Share ("EPS")

Earnings per share present the net income or loss per common share, after consideration of the preferred shareholders interest in the net income or loss. 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 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. The Bank had no dilutive securities as of December 31, 2011 and 2010 and therefore only reports basic EPS.

Goodwill

Goodwill is the excess purchase price over the fair value of all identifiable assets and liabilities acquired. Current accounting standards require that goodwill be reviewed for impairment at least annually. The Company has only one reporting unit; therefore, the carrying value of the Company is compared to the fair value of the Company to determine if there is any impairment. Goodwill was tested for impairment as of December 31, 2011. Due to the results of that valuation, no impairment adjustment was deemed necessary.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible Asset

A core deposit intangible of $508,287 resulted from the purchase of two branches from Palm Desert National Bank during 2010, and is being amortized over a period of five years. Amortization expense for the periods ended December 31, 2011 and 2010 was $80,256 and $6,688, respectively. Future amortization expense is approximately $80,256 each year. Accumulated amortization as of December 31, 2011 and 2010 was $86,944 and $6,688, respectively. Intangible assets subject to amortization are evaluated periodically to determine recoverability of their carrying value when economic conditions indicate impairment may exist. These conditions would include an ongoing negative performance history and a forecast of anticipated performance that is significantly below management's initial expectation for the acquired entity. Intangible assets are evaluated for impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the projected undiscounted cash flows is less than the carrying amount of the assets, the assets will be written down to the estimated fair value in the period the determination is made. As of December 31, 2011, management believes that no impairment of the intangible assets exists.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options and restricted stock grants, 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 L for additional information on the Bank's stock-based compensation plans.

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. The guidance describes three levels of inputs that may be used to measure fair value (see Note P for more information and disclosures relating to the Bank's fair value measurements):

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

In September 2011, the FASB amended guidance on the annual goodwill impairment test performed by the Bank. Under the amended guidance, the Bank has the option to first assess qualitative factors to determine whether it is necessary to perform a two-step impairment test. If the Bank believes, as a result of the qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than the carrying value, the quantitative impairment test is required. If the Bank believes the fair value of a reporting unit is greater than the carrying value, no further testing is required. The Bank adopted this amended guidance in 2011 and there was no significant impact on the Bank's goodwill impairment test as a result.

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 interim and 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 shareholder's 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 interim and 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 shareholder's equity.

NOTE B - INVESTMENT SECURITIES

Investment securities have been classified in the statements of condition according to management's intent. The carrying amount of investment securities available for sale and their approximate fair values at December 31 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2011				
Asset-backed securities				
Federal Family Education Loans	$ 3,791,778	$ -	$(33,384)	$ 3,758,394
U.S. Government and Agency				
Mortgage-Backed Securities	5,609,221	69,101	(8,390)	5,669,932
Municipal Securities	488,390	-	(5,255)	483,135
Taxable Municipals	3,113,142	2,235	(16,339)	3,099,038
	$ 13,002,531	$ 71,336	$(63,368)	$ 13,010,499
December 31, 2010				
SBA Participation Certificates	$ 501,863	$ 35,161	$ -	$ 537,024
U.S. Government and Agency				
Mortgage-Backed Securities	7,085,162	32,254	(42,497)	7,074,919
	$ 7,587,025	$ 67,415	$(42,497)	$ 7,611,943

The amortized cost and estimated fair value of all investment securities as of December 31, 2011 by contractual maturities are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale	
	Amortized Cost	Fair Value
Due in One Year or Less	$ 1,433,359	$ 1,455,551
Due from One Year to Five Years	2,648,855	2,681,459
Due from Five to Ten Years	6,728,057	6,684,156
Due after Ten Years	2,192,260	2,189,333
	$ 13,002,531	$ 13,010,499

NOTE B - INVESTMENT SECURITIES - CONTINUED

The Bank may pledge investment securities to collateralize credit lines, secure public deposits, and for other purposes as permitted or required by law. Investment securities carried at $5,608,075 and $7,074,926 at December 31, 2011 and 2010, respectively, were pledged to secure credit facilities at the Federal Home Loan Bank of San Francisco ("FHLB") and at the Federal Reserve ("FRB") discount window.

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, 2011 and 2010 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2011:						
Asset-backed securities	$(33,384)	$ 3,758,394			$(33,384)	$ 3,758,394
Mortgage-Backed Securities	-	-	(8,390)	1,338,832	(8,390)	1,338,832
Municipal securities	(5,255)	483,135			(5,255)	483,135
Taxable municipals	(16,339)	1,972,608			(16,339)	1,972,608
	$(54,978)	$ 6,214,137	$(8,390)	$ 1,338,832	$(63,368)	$ 7,552,969
December 31, 2010:						
Mortgage-Backed Securities	$(42,497)	$ 3,517,951	$ -	$ -	$(42,497)	$ 3,517,951

As of December 31, 2011, there were two investment securities that had been in a continuous loss position for over twelve months, whereby estimated fair value had declined by 0.62% from the Bank's amortized cost, as compared to no investment securities in a similar loss position as of December 31, 2010. Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the Company has the intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2011, no declines in value are deemed to be other-than-temporary.

The Bank had gross gains on sales of investment securities of $39,831 and $93,570 for the years ended December 31, 2011 and 2010, respectively.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE C - STOCK INVESTMENTS, at COST

As a member of the FRB System, the Bank must hold FRB stock in an amount equal to 6% of the Bank's common stock and additional paid-in capital, less accumulated deficit. An investment in the equity stock of the FHLB of San Francisco is required for membership; the required investment is a function of the Bank's outstanding mortgage assets and outstanding advances from the FHLB. The Bank had $1,000,000 and $4,000,000 in FHLB advances outstanding at December 31, 2011 and 2010.

The table below summarizes the Bank's stock investments at December 31:

	2011	2010
Federal Reserve Bank	$ 684,100	$ 601,300
Federal Home Loan Bank	847,400	474,000
Pacific Coast Bankers Bank	60,000	60,000
	$ 1,591,500	$ 1,135,300

NOTE D - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within San Diego County, California. Although the Bank 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 Bank's market area. The Bank's loan portfolio concentration in real estate secured credit at December 31, 2011 was 79%.

The Bank has pledged loans with a carrying value of $56,396,494 to collateralize credit lines at the FHLB of San Francisco and the FRB as of December 31, 2011.

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

	2011	2010
Beginning Balance	$ 2,456,628	$ 2,204,530
Additions to the Allowance Charged to Expense	800,000	1,135,000
Recoveries on Loans Charged Off	137,797	250,879
	3,394,425	3,590,409
Less Loans Charged Off	(662,571)	(1,133,781)
Ending Balance	$ 2,731,854	$ 2,456,628

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE D – LOANS – CONTINUED

A summary of allowance of loan losses and loan balance disclosed by portfolio segment and also by loans individually evaluated and loans collectively evaluated for impairment as of December 31, 2011 follows:

December 31, 2011	Construction and Land Development	Real Estate - Other	Commercial & Industrial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 84,704	$ 1,302,914	$ 988,835	$ 80,175	$ 2,456,628
Provisions	99,300	431,913	103,169	165,618	800,000
Charge-offs	-	(311,332)	(233,747)	(117,492)	(662,571)
Recoveries	-	93,634	39,934	4,229	137,797
End of Year	$ 184,004	$ 1,517,129	$ 898,191	$ 132,530	$ 2,731,854
Reserves:					
Specific	$ 30,221	$ 205,151	$ 148,840	$ -	$ 384,212
General	153,783	1,311,978	749,351	132,530	2,347,642
	$ 184,004	$ 1,517,129	$ 898,191	$ 132,530	$ 2,731,854
Loans Evaluated for Impairment:					
Individually	$ 100,738	$ 3,800,590	$ 679,456	$ -	$ 4,580,784
Collectively	5,621,737	105,899,893	27,046,812	3,801,324	142,369,766
	$ 5,722,475	$109,700,483	$ 27,726,268	$3,801,324	$ 146,950,550
December 31, 2010					
Reserves:					
Specific	$ 17,121	$ 173,992	$ 103,318	$ -	$ 294,431
General	67,583	1,128,922	885,517	80,175	2,162,197
	$ 84,704	$ 1,302,914	$ 988,835	$ 80,175	$ 2,456,628
Loans Evaluated for Impairment:					
Individually	$ 114,140	$ 4,306,050	$ 562,754	$ -	$ 4,982,944
Collectively	4,064,970	113,644,257	28,185,327	3,714,642	149,609,196
	$ 4,179,110	$117,950,307	$ 28,748,081	$3,714,642	$ 154,592,140

The Bank's methodology for estimating the allowance for loan losses results in a range of potential reserves, including an estimate primarily based on the Bank's historical loss factors for collective impairment and also a high and low range based on analysis of peer data for collective impairment factors. The unallocated reserve represents the amount reserved above the midpoint reserve level.

NOTE D – LOANS – CONTINUED

The Bank categorizes loans using risk ratings 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. Larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans are analyzed individually for risk rating assessment. This analysis is performed on an ongoing basis as new information is obtained. The Bank 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 Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement.

NOTE D – LOANS – CONTINUED

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2011 and 2010 follows:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2011					
Construction and Land Development	$ 5,621,737	$ -	$ -	$ 100,738	$ 5,722,475
Real Estate -Other:					
1-4 Family Residential	20,483,719	-	15,589	1,010,295	21,509,603
Multifamily Residential	8,170,635	-	72,228	-	8,242,863
Commercial Real Estate and Other	72,702,124	375,862	4,079,736	2,790,295	79,948,017
Commercial and Industrial	26,322,537	-	724,275	679,456	27,726,268
Consumer	3,801,324	-	-	-	3,801,324
	$ 137,102,076	$ 375,862	$ 4,891,828	$ 4,580,784	$ 146,950,550
December 31, 2010					
Construction and Land Development	$ 4,064,970	$ -	$ -	$ 114,140	$ 4,179,110
Real Estate-Other:					
1-4 Family Residential	14,137,258	-	102,475	-	14,239,733
Multifamily Residential	9,224,691	-	72,642	-	9,297,333
Commercial Real Estate and Other	81,555,420	5,589,968	2,961,803	4,306,050	94,413,241
Commercial and Industrial	26,781,022	179,795	1,224,510	562,754	28,748,081
Consumer	3,609,765	104,877	-	-	3,714,642
	$ 139,373,126	$ 5,874,640	$ 4,361,430	$ 4,982,944	$ 154,592,140

BANK OF SOUTHERN CALIFORNIA, N.A.
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December 31, 2011 and 2010

NOTE D – LOANS – CONTINUED

A summary of past due loans, loans still accruing over 90 days and nonaccrual loans as of December 31, 2011:

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
December 31, 2011			
Construction and Land Development	$ -	$ -	$ 100,738
Real Estate:			
1-4 Family Residential	-	-	1,010,295
Multifamily Residential	-	-	-
Commercial Real Estate and Other	-	-	2,790,295
Commercial and Industrial	-	-	679,456
Consumer	-	-	-
	$ -	$ -	$ 4,580,784
December 31, 2010			
Construction and Land Development	$ -	$ -	$ 114,140
Real Estate:			
1-4 Family Residential	-	-	-
Multifamily Residential	-	-	-
Commercial Real Estate and Other	52,227	-	4,306,050
Commercial and Industrial	1,614,739	-	562,754
Consumer	-	-	-
	$ 1,666,966	$ -	$ 4,982,944

NOTE D – LOANS – CONTINUED

Below is a summary of the Bank's recorded investment in impaired loans disclosed by loan type outstanding at December 31, 2011:

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	$ -	$ -	$ -	$ -	$ -
Real Estate:					
1-4 Family Residential	54,256	41,215	-	8,244	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,657,452	1,586,652	-	1,467,745	51,745
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	100,738	100,738	30,221	109,334	-
Real Estate:					
1-4 Family Residential	969,080	969,080	141,972	303,458	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,284,909	1,203,643	63,179	488,039	-
Commercial and Industrial	679,456	679,456	148,840	506,595	-
Consumer	-	-	-	-	-
	$ 4,745,891	$ 4,580,784	$ 384,212	$ 2,883,415	$ 51,745

NOTE D – LOANS – CONTINUED

Below is a summary of the Bank's recorded investment in impaired loans disclosed by loan type outstanding at December 31, 2010:

December 31, 2010	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no Related Allowance Recorded					
Construction and Land Development	$ -	$ -	$ -	$ -	$ -
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,244,554	823,517	-	411,740	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	114,140	114,140	17,121	28,535	1,137
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	3,482,533	3,482,533	173,992	982,308	-
Commercial and Industrial	562,754	562,754	103,318	204,742	23,423
Consumer	-	-	-	-	-
	$ 5,403,981	$ 4,982,944	$ 294,431	$ 1,627,325	$ 24,560

No additional funds are committed to be advanced on impaired loans. The Bank received cash payments and recognized $51,745 of interest income on impaired loans in 2011 and $24,560 in 2010. Interest foregone on impaired loans was $147,387 in 2011 and $92,780 in 2010. At December 31, 2011, $782,362 of the principal balance of impaired loans was guaranteed by the SBA, and $244,803 in principal balance of impaired loans was guaranteed by the SBA at December 31, 2010.

In addition to servicing sold SBA guaranteed loans, the Bank also services commercial real estate loans for investors and participating financial institutions. The portfolio of these loans serviced for other parties was $5,962,827 at December 31, 2011 and $7,510,423 at December 31, 2010.

The Bank had no loans identified as Troubled Debt Restructures during 2011 and 2010.

NOTE E - PREMISES AND EQUIPMENT

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

	2011	2010
Leasehold Improvements	$ 1,232,472	$ 1,130,466
Furniture, Fixtures, and Equipment	884,430	850,450
Computer Equipment	385,704	375,536
	2,502,606	2,356,452
Less Accumulated Depreciation and Amortization	(1,540,553)	(1,207,213)
	$ 962,053	$ 1,149,239

The Bank leases its Ramona banking premises from its principal shareholder, under an operating lease expiring on August 31, 2015, with one five-year renewal option. The Bank obtained three independent appraisals regarding the fair market rent, which supports its determination that the terms of the lease are no less favorable to the Bank than could have been obtained from unaffiliated third parties. Monthly lease payments are adjusted annually based on changes in the Consumer Price Index (CPI).

The Bank has a ten-year lease for its main banking office and corporate headquarters in Del Mar Heights, California, with an independent landlord. The Bank is responsible for common area maintenance, taxes and insurance to the extent they exceed the 2008 base year amounts. The lease expires on December 31, 2017 and the Bank has one renewal option for a period of five years. Monthly lease payments are subject to a fixed 3.5% increase on an annual basis. A third party correspondent bank issued a performance letter of credit for $775,000 to the landlord on behalf of the Bank to support the Bank's obligations under the lease.

The Bank opened a deposit production office in Carlsbad, California in September 2008 which was expanded to a full service branch in February 2009. The Bank is responsible for common area operating expenses. The lease term for this branch is six months and has been renewed three times with the current expiration in March 2012.

The Bank acquired two branches located in Palm Springs, and La Quinta, California from Palm Desert National Bank in December 2010. Three year leases were signed for both Palm Springs and La Quinta premises which commenced in January 2011 and December 2010, respectively.

NOTE E - PREMISES AND EQUIPMENT - CONTINUED

At December 31, 2011, the future lease rentals payable under non-cancellable operating lease commitments to related parties and others are as follows:

	Related Party	Others
2012	63,828	530,221
2013	63,828	517,349
2014	63,828	381,694
2015	42,552	394,882
2016	-	408,847
Thereafter	-	422,811
Total	$ 234,036	$ 2,655,804

The minimum rental payments shown above are given for the existing lease obligation and are not a forecast of future rental expense. Total rental expense was $590,897 and $448,321 for the years ended December 31, 2011 and 2010, respectively.

NOTE F - DEPOSITS

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

Due in One Year or Less	$ 22,320,476
Due from One to Three Years	12,830,094
Due over Three Years	1,457,265
Total Time Deposits	$ 36,607,835

NOTE G - BORROWING ARRANGEMENTS

The Bank may also borrow from the Federal Home Loan Bank („FHLB") of San Francisco, collateralized by investment securities and loans. The Bank had investment securities with a carrying value of $5,153,000 and loans with a carrying value of $53,096,000 pledged with the FHLB at December 31, 2011.

At December 31, 2011, the Bank had one variable rate advance for $1,000,000 outstanding with the FHLB that bears interest at the prime rate minus 1.70%, which was 1.55% at December 31, 2011, and matures December 31, 2013. Unused financing available from the FHLB at December 31, 2011, was $28,524,000.

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December 31, 2011 and 2010

NOTE G - BORROWING ARRANGEMENTS – CONTINUED

Bank of Southern California has a $2,000,000 overnight credit line on an unsecured basis from a correspondent bank. The line is subject to annual review. The Bank had no overnight borrowings at December 31, 2011 or 2010.

The Bank has credit availability at the Federal Reserve discount window to the extent of collateral pledged. The Bank had pledged collateral at December 31, 2011 with a book value of $4,188,000. The Bank had no discount window borrowings at either December 31, 2011 or 2010.

NOTE H - INCOME TAXES

The net tax benefit for the year ended December 31, 2011 was $353,200. For the year ended 2010, the income tax expense was the minimum franchise tax for the State of California. The tax benefits related to the operating loss incurred during the year ended December 31, 2010 were not recognized, as realization of the benefits is dependent upon future income.

The Bank is subject to Federal and California franchise tax. Income tax returns for the years ended December 31, 2010, 2009 and 2008 are open to audit by the federal authorities and income tax returns for the years ended December 31, 2010, 2009, 2008, and 2007 are open to audit by California authorities.

The income tax (benefit) expense for the years ended December 31, is comprised of the following:

Current Taxes:	2011	2010
Federal	$ 16,798	$ -
State	123,002	800
	139,800	800
Deferred	(493,000)	-
Total (Benefit) Expense	$ (353,200)	$ 800

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE H - INCOME TAXES – CONTINUED

A comparison of the federal statutory income tax rates to the Bank's effective income tax rates at December 31 follows:

	2011		2010	
	Amount	Rate	Amount	Rate
Federal Tax rate	$ 251,000	34.0%	$ (230,000)	-33.9%
State Taxes	55,000	7.4%	(45,000)	-6.6%
Valuation Allowance	(663,000)	-89.7%	260,000	38.3%
Employee stock-based compensation	4,000	0.5%	10,000	1.5%
Other	(200)	0.0%	5,800	0.9%
Current	$ (353,200)	-47.8%	$ 800	0.2%

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 asset accounts recognized in the accompanying statements of financial condition at December 31:

	2011	2010
Deferred Tax Assets:		
Depreciation Differences	$ -	$ -
Allowance for Loan Losses Due to Tax Limitations	647,000	474,000
Reserve for Off-Balance Sheet Credit Exposure	41,000	41,000
Stock-Based Compensation	96,000	77,000
Operating Loss Carryforwards	3,486,000	3,839,000
Deferred Rent Expense	61,000	53,000
Other	269,000	217,000
	4,600,000	4,701,000
Valuation Allowance	(3,875,000)	(4,538,000)
Deferred Tax Liabilities:		
Deferred Loan Costs	(133,000)	(61,000)
Depreciation Differences	(37,000)	(52,000)
Unrealized Gain on Available for Sale Securities	(3,000)	(10,255)
Other	(62,000)	(50,000)
	(235,000)	(173,255)
Net Deferred Tax Liabilities	$ 490,000	$(10,255)

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE H - INCOME TAXES – CONTINUED

The valuation allowance was established because the Bank has not reported earnings sufficient enough to support the full recognition of the deferred tax assets. The Bank has net operating loss carry-forwards of approximately $8,355,000 for federal income and $9,025,000 for California franchise tax purposes. Federal net operating loss carry-forwards, to the extent not used will expire in 2030. California net operating loss carry-forwards, to the extent not used will expire in 2030.

NOTE I - OTHER EXPENSES

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

	2011	2010
Data Processing	$ 625,615	$ 434,607
Marketing and Public Relations	97,537	155,029
Professional Fees	254,208	267,104
Office Expenses	182,068	175,443
Insurance	32,489	32,618
Deposit Administration and Online Banking	241,974	204,896
Loan Administration	76,910	34,644
Loan Collections and OREO Expense	125,927	107,398
Regulatory Assessments	267,576	192,055
Other Expenses	207,031	163,542
	$ 2,111,335	$ 1,767,336

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE J – EARNINGS PER SHARE (“EPS”)

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

	2011		2010	
	Income	Shares	Income	Shares
Net Income as Reported	$ 1,091,513		$ (678,501)	
Accretion of Preferred Stock	(31,577)		(32,221)	
Weighted Average Shares Outstanding		2,977,417		2,643,534
Used in Basic EPS	$ 1,059,936	2,977,417	$ (710,722)	2,643,534
Dilutive Effect of Outstanding:				
Stock Options	-	-	-	-
Restricted Stock Grants	-	-	-	-
Used in Dilutive EPS	$ 1,059,936	2,977,417	$ (710,722)	2,643,534

At December 31, 2011 and 2010 there were 270,977 and 254,827 stock options, respectively, that could potentially dilute earnings per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE K - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to certain directors and their related interests with which they are associated. In the Bank’s opinion, all loans and loan commitments to such parties are made on substantially the same terms including interest rates, and collateral, as those prevailing at the time for comparable transactions with unrelated clients.

NOTE K - RELATED PARTY TRANSACTIONS - CONTINUED

The balance of these loans outstanding and activity in related party loans for the periods ended December 31, 2011 and 2010 follows:

	2011	2010
Balance at Beginning of Year	$ 2,898,725	$ 416,867
Credit Granted, Including Renewals	20,000	2,493,782
Repayments	(2,296,676)	(11,924)
	$ 622,049	$ 2,898,725

In addition to active loans and lines to related parties, standby letters of credit in the amount of $3,000,000 and $1,000,000 were outstanding to a related party at December 31, 2011 and 2010, respectively. Deposits held by the Bank from directors and their related interests at December 31, 2011 and 2010, amounted to $2,371,563 and $2,363,675, respectively.

NOTE L – COMMITMENTS & CONTINGENCIES

In the ordinary course of business, the Bank 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 Bank’s financial statements.

Commitments to extend credit are agreements to lend to a client 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 Bank evaluates each client's credit worthiness on a case-by-case basis. Collateral may or may not be required based on management's credit evaluation of the customer. The majority of the Bank's commitments to extend credit and standby letters of credit are secured by real estate.

The Bank'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 Bank 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 Bank had the following outstanding financial commitments whose contractual amount represents potential credit risk to the Bank, and potential financial obligations of the Bank:

	2011	2010
Commitments to Extend Credit	$ 28,997,000	$ 31,844,000
Letters of Credit issued to Clients	1,830,000	2,019,000
	$ 30,827,000	$ 33,863,000

NOTE L – COMMITMENTS & CONTINGENCIES – CONTINUED

The Bank carries a reserve for off-balance sheet credit risk in other liabilities for potential losses on commitments to extend credit and potential recourse on sold loans. The balance of the reserve was $100,000 at December 31, 2011 and December 31, 2010.

The Bank evaluates the loss exposure for unfunded commitments to extend credit following the same principles used for the allowance for loan losses, with consideration for experienced utilization rates on client credit lines and the inherently lower risk of unfunded commitments relative to disbursed commitments.

NOTE M – STOCK-BASED COMPENSATION PLAN

Under the Bank's 2001 Stock Option Plan (the "2001 Plan"), as amended, stock options were granted to eligible employees and directors. The 2001 Plan terminated November 8, 2011, in accordance with its term; however stock options previously granted under the Plan remain valid in accordance with their terms. Under the terms of the Plan, officers and key employees may be granted either nonqualified or incentive stock options. Directors, who were not also an officer or employee, were granted nonqualified stock options. Stock options are generally granted at a price not less than 100% of the fair market value of the stock on the date of grant. Stock options expire no later than ten years from the date of the grant and generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. Shares issued for the exercise of stock options are made from available authorized but unissued shares. The Bank recognized stock-based compensation cost of $57,716 and $76,183 in 2011 and 2010, respectively.

In November 2011, the board of directors adopted the Omnibus Equity Incentive Plan ("Omnibus Plan"). The Omnibus Plan provides that any director, employee or consultant of the Bank shall be eligible to be designated a participant in the Omnibus Plan for purposes of receiving awards. The Board has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each award, the vesting and exercisability of the awards and the form of consideration payable upon exercise. The Plan provides for the grant of stock options, including incentive stock options and restricted share awards. Stock options expire no later than ten years from the date of the grant.

Subject to adjustment in certain circumstances, the aggregate number of shares of the Company's common stock that may be issued pursuant to awards granted under the Omnibus Plan is 544,907. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. Shares issued for the exercise of stock options are made from available authorized but unissued shares.

NOTE M – STOCK-BASED COMPENSATION – CONTINUED

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The following table provides the weighted average assumptions used in the pricing model, and the weighted average grant date fair value, for option grants made in 2011 and 2010:

	2011	2010
Expected Volatility	44.75%	43.68%
Expected Term (Years)	6.5	6.5
Expected Dividends	None	None
Risk Free Rate	0.90%	2.38%
Weighted-Average Grant Date Fair Value	$ 2.39	$ 4.60

Since the Bank has very limited historical stock trade volume, the expected volatility is based on an index of the historical volatility of similar banks that have a longer trading history at higher volumes. The expected term represents the estimated average period of time that the options remain outstanding. Since the Bank does not have sufficient historical data on the exercise of stock options, the expected term is based on the "simplified" method that measures the expected term as the average of the vesting period and the contractual term. The risk free rate of return reflects the grant date yield on U.S. Treasury bonds with maturities comparable to the expected term of the options.

A summary of changes in outstanding stock options of the Bank for the year ended December 31, 2011 and changes during 2011 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	254,827	$ 10.00		
Granted	77,500	$ 5.33		
Exercised	-	$ -		
Forfeited or Expired	(61,350)	$ 10.00		
Outstanding at End of Year	270,977	$ 8.66	7.0 Years	None
Options Exercisable	159,542	$ 10.00	5.5 Years	None

NOTE M – STOCK-BASED COMPENSATION – CONTINUED

As of December 31, 2011, there was $343,020 of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of approximately 2.75 years as shown below:

2012	$ 118,680
2013	74,908
2014	66,046
2015	52,527
2016	30,859
	$ 343,020

Future levels of compensation cost recognized related to stock-based compensation awards may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards. Under the terms of the Plan, vested options generally expire ninety days after the director or employee terminates the service affiliation with the Bank.

In addition to the above, during December 2011, the Bank granted 17,009 shares of restricted stock valued at $5.35 per share. This restricted share award vests over seven years and will result in annual stock-based compensation expense of $13,000 per year through 2019.

NOTE N- 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 (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).

As of December 31, 2011, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as “well capitalized” under the regulatory framework for prompt corrective action. As of December 31, 2011, the Bank’s capital level and ratios indicate that it is “well capitalized” under the regulatory framework for prompt corrective action, (“PCA”).

NOTE N- REGULATORY MATTERS – CONTINUED

To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. Management believes, as of December 31, 2011, that the Bank meets all capital adequacy requirements to which it is subject. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required: To be Adequately Capitalized under PCA Provisions		Amount of Capital Required: To be Well-Capitalized under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2011:						
Total Capital (to Risk-Weighted Assets)	$23,767	18.2%	$ 10,473	8.0%	$13,091	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$22,116	16.9%	$ 5,236	4.0%	$7,854	6.0%
Tier 1 Capital (to Average Assets)	$22,116	11.5%	$ 7,663	4.0%	$9,579	5.0%
As of December 31, 2010:						
Total Capital (to Risk-Weighted Assets)	$19,983	13.6%	$ 11,755	8.0%	$14,694	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$18,137	12.3%	$ 5,878	4.0%	$8,816	6.0%
Tier 1 Capital (to Average Assets)	$18,137	12.4%	$ 5,870	4.0%	$7,337	5.0%

Under federal law, a national bank generally may not pay cash dividends in excess of the bank's net profits, if it would impair the bank's capital, if the bank is in default on the payment of any assessment due to the FDIC, or if the bank has not paid all cumulative dividends on outstanding preferred stock. In addition, unless and until a bank's additional paid in capital account is equal to its common stock account, no dividend can be declared until the bank has carried to its additional paid-in capital account not less than one-tenth of its net profits for the preceding two consecutive half-years (in the case of annual dividends). The Bank cannot legally pay dividends on common stock at this time and the Bank intends to follow a policy of retaining earnings, if any, for the purpose of increasing its net worth and reserves. Accordingly, the Bank does not anticipate that cash dividends will be declared on common shares for the foreseeable future.

In 2009 the Bank issued three series of preferred stock to the U. S. Treasury for a combined par value of $4,354,000. All three series pay non-cumulative dividends. The Bank has no legal capacity to pay dividends and therefore has made specific applications to the Office of the Comptroller of the Currency for permission to pay dividends on the preferred stock when due. Permission was received from the OCC to pay dividends as a reduction of capital surplus. Dividends declared and paid have been charged against additional paid-in capital. The dividends are considered a distribution of permanent capital and do not reduce earnings available to the common shares.

BANK OF SOUTHERN CALIFORNIA, N.A.
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December 31, 2011 and 2010

NOTE O– BRANCH ACQUISITION-RELATED ACTIVITY

Effective December 3, 2010, the Bank acquired two branches of Palm Desert National Bank. The two full-service branch offices are located in Palm Springs and La Quinta, California. The Bank assumed $46.1 million in deposit liabilities and received $40.6 million in pass-grade loans, $3.8 million in cash and $200 thousand of other net assets in the form of furniture, fixtures and net accrued interest receivable.

The acquisition was accounted for using the purchase method of accounting. The fair value of the assets and liabilities acquired is summarized below:

Cash and Cash Equivalents	$ 3,749,805
Loans	40,881,016
Accrued Interest Receivable	138,570
Fixed Assets	158,242
Core Deposit Intangible	508,287
Prepaid Expenses	32,991
Fair Value of Assets Acquired	45,468,911
Deposits	46,156,767
Accrued Interest Payable	8,516
Fair Value of Liabilities Assumed	46,165,283
Goodwill	$ 696,372

Goodwill recorded in this transaction is deductible for income tax purposes. The core deposit intangible will be amortized over the expected account retention period, which was originally estimated at approximately 76 months. The core deposit intangible is evaluated periodically to determine the reasonableness of the projected amortization period by comparing actual deposit retention to projected retention. The Bank's core deposit intangible amortization expense is estimated at $80,256 for each of the next five years.

NOTE P– FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

NOTE P – FAIR VALUE OF FINANCIAL INSTRUMENTS – CONTINUED

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, deposits due from banks, and interest bearing deposits with banks, including excess reserves at the Federal Reserve Bank, are considered to approximate fair value. The fair values of investment securities are based on quoted market prices for similar securities. The fair value of loans are estimated by discounting estimated future cash flows at an appropriate market rate given the term of the related loans.

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand 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 is summarized as follows:

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Due From Banks	$ 7,251,826	$ 7,251,826	$ 7,119,749	$ 7,119,749
Excess Reserves at the Federal Reserve Bank	17,740,000	17,740,000	8,415,000	8,415,000
Investment Securities Available for Sale	13,010,499	13,010,499	7,611,943	7,611,943
Loans, net	144,218,696	145,117,000	152,135,512	151,972,000
FHLB, FRB and Banker's Bank Stock	1,591,500	1,591,500	1,135,300	1,135,300
Accrued Interest Receivable	584,560	584,560	584,560	584,560
Financial Liabilities:				
Deposits	162,433,417	162,639,000	155,503,258	156,030,000
FHLB Advances	1,000,000	1,000,000	4,000,000	4,049,000
Accrued Interest and Other Liabilities	1,191,564	1,191,564	1,092,434	1,092,434

NOTE Q – FAIR VALUE MEASUREMENT

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 Bank 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. In these cases, fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third party consultants (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 the carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property,

NOTE P – FAIR VALUE MEASUREMENT - CONTINUED

resulting in a level 3 classification. In cases where the carrying amount exceeds the fair value, less cost to sell, an impairment loss is recognized.

The Bank has no liabilities measured and recorded at fair value as of December 31, 2011. The Bank had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2011.

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2011:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Assets:				
Securities Available for Sale	$ -	$ 13,010,499	$ -	$ 13,010,499
Assets measured at fair value on a non-recurring basis				
Foreclosed assets (OREO)	$ -	$ -	$ 475,552	$ 475,552
Collateral-Dependent Impaired Loans, Net of Specific Reserves	$ -	$ -	$ 1,025,083	$ 1,025,083

Collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying value of $1,132,228 and a specific reserve of $107,145 at December 31, 2011.

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2010:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Assets:				
Securities Available for Sale	$ -	$ 7,611,943	$ -	$ 7,611,943
Assets measured at fair value on a non-recurring basis				
Loan Servicing Rights	$ -	$ -	$ 7,928	$ 7,928
Collateral-Dependent Impaired Loans, Net of Specific Reserves	$ -	$ -	$ 4,688,513	$ 4,688,513

Collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying value of $4,982,944 and a specific reserve of $294,431 at December 31, 2010.

Board of Directors

John Farkash | Chairman of the Board
Thomas H. Blair, Jr. | Columnist San Diego Union Tribune
William V. Ehlen | Investor and Retired Banker
Lester Machado, MD, DDS, FRCS (Ed) | Oral and Maxillofacial Surgeon
Joseph E. Matranga, C.P.A. | President and Founder of Matranga and Riley CPA's
Michael A. Persall, C.P.A. | President of Persall Group
Nathan L. Rogge | President and CEO of Bank of Southern California

Executive and Senior Management

Nathan L. Rogge | President and Chief Executive Officer
Pamela C. Isaacson | Executive Vice President and Chief Administrative Officer
James H. Burgess |Executive Vice President and Chief Financial Officer
Tony DiVita | Senior Vice President and Director of Sales and Marketing
Gerry Widasky | Senior Vice President and Credit Administrator

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Manager: Reynaldo Nieto

Professional Consultants

Vavrinek Trine Day & Co., LLP | Independent Accountants
Horgan, Rosen, Beckham & Coren, L.L.P. | Legal Counsel

Additional Information

Stock Exchange Listing | The common stock is listed on Over the Counter ("OTC") trading as FBBN
Market Maker | Western Financial Services, Richard Levinson