

Where Business Banks





LETTER FROM THE CHAIRMAN OF THE BOARD

An Open Letter to our Shareholders, Clients and Community:

Bank of Santa Clarita is “Where Business Banks.” Businesses and consumers today, more than ever before, are looking for a sound bank that can provide a banking relationship to assist them in their efforts to navigate these challenging economic times.

Since its inception, seven years ago, the Bank has experienced both exciting and challenging economic times, and through it all, the Bank has held to its mission of serving the needs of its community’s small and middle size businesses, and local consumers. Bank of Santa Clarita is also committed to improving the quality of life and contributing to the social good of the communities which it serves, and we believe that through this commitment and dedication we have been able to build a loyal customer base.

We further believe our financial strength benefits each of our customers, and therefore stands as one of our guideposts. Bank of Santa Clarita maintained its profitability in 2011, posting a 130% growth in pre-tax earnings, increased its net interest margin, experienced no loan charge-offs for the year, which is representative of the Bank’s superior asset quality, and maintained its “well capitalized” designation. These strong operating results are reflective of Bank of Santa Clarita’s ability to successfully navigate the challenging economic environment that has plagued so many other financial institutions over the past few years.

I think we can all agree, as 2011 unfolded, the banking industry and the economy as a whole was facing yet another year of challenges, but as the year progressed we were encouraged by the steady improvement in the economy, the ability of our commercial clients to grow their businesses and in our efforts to continue building and strengthening the Bank.

In closing, we want to extend our appreciation to all of our clients for their trust, business and support, relationships that we truly value, and to you, our shareholders, for your continued commitment to Bank of Santa Clarita.



Frank D. Di Tomaso, Jr.
Chairman of the Board and Interim CEO

BANK OF SANTA CLARITA

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

DECEMBER 31, 2011 AND 2010

**BANK OF SANTA CLARITA
DECEMBER 31, 2011 AND 2010**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Bank of Santa Clarita
Santa Clarita, California

We have audited the accompanying balance sheets of Bank of Santa Clarita (the "Bank") as of December 31, 2011 and 2010, and the related statements of earnings, stockholders' equity, and cash flows for the years ended December 31, 2011 and 2010. 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 Santa Clarita as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years ended December 31, 2011 and 2010, in conformity with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
March 15, 2012

BANK OF SANTA CLARITA

BALANCE SHEETS
DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
ASSETS		
Cash and due from banks	\$ 26,961	\$ 23,891
Federal funds sold	1,855	2,237
Cash and Cash Equivalents	28,816	26,128
Investment securities available for sale	32,507	43,038
Investment securities held to maturity	250	250
Loans, net	135,480	128,312
Federal Home Loan Bank ("FHLB") stock and The Independent Bankers' Bank ("TIB") stock	1,891	1,784
Premises and equipment, net	7,126	6,215
Accrued interest receivable	614	742
Deferred tax asset	936	1,268
Other assets	866	1,236
Total Assets	\$ 208,486	\$ 208,973
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest bearing demand	\$ 43,308	\$ 40,346
Money market and savings	34,087	30,722
Interest bearing demand	7,493	6,999
Time deposits of \$100,000 or greater	27,312	26,620
Other time deposits	38,331	47,508
Total Deposits	150,531	152,195
Borrowings	36,500	35,750
Accrued interest payable	38	54
Other liabilities	660	773
Total Liabilities	187,729	188,772
Commitments and Contingencies (Notes 9 and 11)	-	-
Stockholders' Equity		
Preferred stock - no par value; 10,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock - no par value; 12,500,000 shares authorized; 2,219,509 shares issued at December 31, 2011 and 2010	21,712	21,712
Additional paid in capital	382	367
Accumulated deficit	(1,249)	(1,630)
Unrealized loss on available-for-sale securities, net of taxes	(88)	(248)
Total Stockholders' Equity	20,757	20,201
Total Liabilities and Stockholders' Equity	\$ 208,486	\$ 208,973

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

BANK OF SANTA CLARITA

STATEMENTS OF EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands except per share amounts)

	2011	2010
Interest Income		
Interest and fees on loans	\$ 7,664	\$ 7,322
Interest on Federal funds sold	2	4
Interest on investment securities	1,085	1,114
Interest on deposits at other financial institutions	73	98
Total Interest Income	8,824	8,538
Interest Expense on Deposits		
Money market and savings	206	223
Interest bearing demand	27	33
Time deposits of \$100,000 or greater	368	431
Time deposits less than \$100,000	937	1,202
Total Interest Expense on Deposits	1,538	1,889
Interest Expense on Borrowings	652	672
Total Interest Expense	2,190	2,561
Net Interest Income	6,634	5,977
Provision for Loan Losses	50	125
Net Interest Income After Provision for Loan Losses	6,584	5,852
Noninterest Income		
Service charges on deposit accounts	344	399
Gain on sale of investment securities	205	123
Customer fees and miscellaneous income	110	108
Total Noninterest Income	659	630
Noninterest Expenses		
Salaries and employee benefits	3,394	3,386
Occupancy and equipment	1,318	1,277
Marketing and business development	168	181
Data processing	348	258
Professional and legal	508	420
Insurance and regulatory assessments	279	313
Office supplies and communications	166	174
Other operating expenses	449	206
Total Noninterest Expenses	6,630	6,215
Earnings before income taxes	613	267
Income tax expense (benefit)	232	(302)
Net Earnings	\$ 381	\$ 569
Basic Earnings Per Share	\$ 0.17	\$ 0.26
Diluted Earnings Per Share	\$ 0.17	\$ 0.26

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

BANK OF SANTA CLARITA

**STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

(Dollar amounts in thousands)

	Number of Shares Outstanding	Common Stock	Additional Paid in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	2,219,509	\$ 21,712	\$ 345	\$ (2,199)	\$ -	\$ 19,858
Comprehensive income:						
Net earnings	-	-	-	569	-	569
Unrealized loss on available- for-sale securities, net of tax benefit of \$166	-	-	-	-	(248)	(248)
Total comprehensive income	-	-	-	-	-	321
Share-based compensation expense	-	-	22	-	-	22
Balance, December 31, 2010	2,219,509	21,712	367	(1,630)	(248)	20,201
Comprehensive income:						
Net earnings	-	-	-	381	-	381
Unrealized gain on available- for-sale securities, net of tax expense of \$114	-	-	-	-	283	283
Reclassification of net gains for investments included in earnings, net of tax benefit of \$82	-	-	-	-	(123)	(123)
Total comprehensive income	-	-	-	-	-	541
Share-based compensation expense	-	-	15	-	-	15
Balance, December 31, 2011	2,219,509	\$ 21,712	\$ 382	\$ (1,249)	\$ (88)	\$ 20,757

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

BANK OF SANTA CLARITA
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Dollar amounts in thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 381	\$ 569
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Provision for loan losses	50	125
Depreciation and amortization of premises and equipment	786	348
Amortization of premiums and discounts on investment securities, net	456	498
Amortization of deferred loan costs and fees, net	151	142
FHLB and TIB stock dividends	(1)	(1)
Gain on sale of investment securities	(205)	(123)
Share-based compensation	15	22
Net change in:		
Accrued interest receivable	128	1
Deferred tax asset	224	(302)
Other assets	371	(87)
Accrued interest payable	(16)	(27)
Other liabilities	(113)	117
Net Cash Provided by Operating Activities	2,227	1,282
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(26,043)	(54,433)
Principal repayments on securities	1,907	13,425
Proceeds from sale of investment securities	34,684	23,188
Loan originations and principal collections, net	(7,369)	(5,007)
FHLB and TIB stock purchases, net	(107)	(275)
Purchase of premises and equipment	(1,697)	(1,755)
Net Cash Provided by (Used in) Investing Activities	1,375	(24,857)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(1,664)	32,783
Net increase in borrowings	750	2,450
Net Cash (Used in) Provided by Financing Activities	(914)	35,233
Net Increase in Cash and Cash Equivalents	2,688	11,658
Cash and Cash Equivalents, Beginning of Year	26,128	14,470
Cash and Cash Equivalents, End of Year	\$ 28,816	\$ 26,128
SUPPLEMENTARY INFORMATION		
Interest paid	\$ 2,206	\$ 2,588
Income taxes paid	\$ 40	\$ 98
Transfer of investments from held to maturity to available for sale	\$ -	\$ 25,978
Change in unrealized gain (loss) on investment securities available for sale	\$ 267	\$ (414)

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

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Bank of Santa Clarita (the "Bank") 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 Operation

The Bank commenced operations in October 2004. The Bank operates as a community oriented commercial bank that offers a variety of banking services to individuals and small to medium sized businesses in Santa Clarita and surrounding communities. Banking services include real estate, Small Business Administration ("SBA"), commercial and consumer loans, consumer and business checking accounts, savings accounts, certificates of deposit, trade finance, money transfers and other services. The Bank operates from its corporate headquarters and banking offices located in Santa Clarita, California. The Bank is a state chartered depository institution, the deposits of which are insured by the Federal Deposit Insurance Corporation (the "FDIC"). As an insured depository institution, the Bank is subject to the regulations of certain Federal and State agencies and undergoes periodic examination by those regulatory authorities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the balance sheets, and the reported amounts of revenues and expenses during the reporting periods covered. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets and liabilities.

Reclassifications

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

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through March 15, 2012, which is the date the financial statements were available to be issued.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from correspondent banks and Federal funds sold on a daily basis.

All depository institutions are required by law to maintain reserves on transaction accounts and non-personal time deposits in the form of cash balances at the Federal Reserve Bank. Cash balances held at the Bank can offset a portion the reserve requirements. The Bank complied with the reserve requirements as of December 31, 2011 and 2010.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

The Bank classifies its investments in securities as Held-to-Maturity ("HTM") securities, "trading" securities and "available-for-sale" securities, as applicable. Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Any securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as Available-For-Sale ("AFS") securities and, for the Bank, consist of its investments in collateralized mortgage obligations.

Investments designated as AFS securities are recorded at fair value. Changes in the fair values of AFS securities are reported as an amount in stockholders' equity net of related income taxes until realized.

Purchase premiums and discounts on investment securities are recognized in interest income using a method which approximates the interest method, over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

Loans

The Bank grants real estate, construction, SBA, commercial, and consumer loans to borrowing customers. A substantial portion of the loan portfolio is represented by real estate loans in the Los Angeles metropolitan area. The ability of the Bank's borrowers to honor their contracts is dependent upon many factors, including the real estate market and general economic conditions in the Bank's area.

Loans that management has the intent and ability to hold for the foreseeable future, until maturity or until paid off are generally reported at their outstanding unpaid principal balances. These loans, as reported, have been reduced by unadvanced loan funds, net deferred loan fees, and the allowance for loan losses.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest income is accrued daily as earned on all loans. Interest is generally not accrued on loans that are 90 days or more past due. These loans are normally placed on non-accrual status unless they are well secured by collateral and in the process of collection. Interest income previously accrued on such loans is reversed against current period interest income. Interest income on non-accrual loans is generally recognized only to the extent of interest payments received. Discontinued interest accruals are resumed on loans only when they are brought fully current with respect to interest and principal payments due and when, in the judgment of management, the loans are determined to be fully collectable as to both principal and interest.

Loan origination fees and costs are deferred and amortized as an adjustment of the loan's yield over the life of the loan using the interest method for amortizing loans (generally resulting in a constant rate of return), and the straight-line method for interest-only loans.

Allowance for Loan Losses

The allowance for loan losses (the "ALL") is a valuation allowance for probable incurred credit losses. Loan losses are charged against the ALL when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the ALL. Management estimates the ALL 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 ALL may be made for specific loans, but the entire ALL 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 ALL 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 for which the terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties, are generally considered troubled debt restructurings and classified as impaired.

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.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Transfers of Financial Assets

Transfers of financial assets by the Bank 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 their maturity.

Bank Premises and Equipment

Bank premises and equipment are reported at cost less accumulated depreciation and amortization. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated effective service lives, which range from three years to fifteen years. Leasehold improvements are amortized over the term of the lease or the effective service lives of the improvements, whichever is shorter. Buildings owned (excluding land) are depreciated over various lives, based on the nature of the asset, for 25 through 40 years. The straight-line method of depreciation is followed for financial reporting purposes, while both accelerated and straight-line methods are followed for income tax purposes.

Leasehold improvements include amounts paid by the property owners as lease incentives, and offsetting deferred rental income amounts are included in other liabilities. Both amounts are amortized over the life of the respective lease.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share

Basic earnings per share represent income available to common stock divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from their assumed conversion. Potential common shares issued by the Bank relate to outstanding stock options, and are determined using the treasury stock method. The weighted average numbers of shares used to calculate basic and diluted earnings per share for 2011 and for 2010 were 2,219,509 for both years, and for both basic and diluted.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commitments under credit card advancements, foreign trade instruments, and standby letters of credit as described in Note 9. Such financial instruments are recorded in the financial statements when they become payable. The credit risk associated with these agreements and commitments is considered by management and, where appropriate, reserved for at a level deemed adequate to provide for known and inherent losses.

Derivative Financial Instruments

The Bank has also utilized derivative financial instruments consisting of interest rate swap agreements in limited instances to assist in managing its overall exposure to fluctuations in interest rates as described in Note 17. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. The Bank formally documents the nature and relationships between the hedging instruments and hedged items at inception, as well as its risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on AFS securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred income taxes are recognized for estimated future tax effects attributable to income tax carryforwards as well as temporary differences between financial reporting and income tax purposes. Valuation allowances are established when necessary to reduce the deferred tax asset to the amount expected to be realized. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

The Bank is subject to Federal income tax and income tax of the State of California. The Bank's Federal income tax returns for the years ended December 31, 2006 through 2010 have been filed, and the 2008, 2009 and 2010 returns are open to audit by the Internal Revenue Service. The Bank's California income tax returns for the years ended December 31, 2006 through 2010 have been filed, and the 2007, 2008, 2009 and 2010 returns are open to audit by the State of California.

The Bank has adopted guidance issued by the Financial Accounting Standards Board 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. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense; however, there was no penalty or interest expense recorded for the years ended December 31, 2011 and 2010.

Share-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options or other equity instruments based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, which is generally the vesting period. For additional information on the Bank's stock option plan see Note 10.

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

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

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

See Note 16 for more information and disclosures relating to the Bank's fair value measurements.

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. Although this statement addresses only disclosure and does not seek to change recognition or measurement, the disclosure represents a meaningful change in practice. The new disclosures are effective for annual reporting periods ending after December 15, 2011, and are included in these financial statements.

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

Newly Issued But Not Yet Effective Standards

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

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

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 2 - INTEREST BEARING DEPOSITS AT OTHER FINANCIAL INSTITUTIONS AND OTHER INVESTMENT SECURITIES

As of December 31, 2011 and 2010, the Bank had invested \$22.9 million and \$22.2 million, respectively, in money market deposit accounts ("MMDAs") at correspondent banking institutions. The Bank maintains balances in MMDAs that exceed federally insured limits and has not experienced any losses on such deposits. These MMDAs had no fixed maturity date, and at December 31, 2011 and 2010, had an average yield of approximately 0.33 percent and 0.37 percent, respectively.

The amortized cost and fair value of investment securities available for sale are as follow at December 31, 2011:

Available for Sale	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mortgaged-backed securities (the MBSs)	\$ 32,654	\$ 124	\$ 271	\$ 32,507

The MBSs in the preceding table were tranches of GNMA collateralized mortgage obligations (the "CMOs") which have the full faith and credit guarantee of the U.S. Government. At that date the MBSs had a weighted average yield of 2.65 percent, contractual maturity dates between 2032 and 2040 and an estimated effective life of approximately 5.2 years. At that date, there were 11 securities with an amortized cost basis of \$23.2 million which had aggregate fair values \$271 thousand below such cost basis. As a result of having fair values below their respective cost basis, these securities were considered temporarily impaired; these securities had all been in an impaired status for less than 12 months. All of the MBSs included in the table above were pledged as collateral for borrowings.

The amortized cost and fair value of investment securities available for sale are as follow at December 31, 2010:

Available for Sale	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Mortgaged-backed securities (MBSs)	\$ 43,452	\$ 96	\$ 510	\$ 43,038

The MBSs in the preceding table were CMOs as described above. At December 31, 2010, they had a weighted average yield of 2.78 percent, contractual maturity dates between 2019 and 2038, and an estimated effective life of approximately 3.6 years. At that date, there were 19 securities with an amortized cost basis of \$32.6 million which had aggregate fair values \$510 thousand below such cost basis. As a result of having fair values below their respective cost bases, these securities were considered temporarily impaired; these securities had been in an impaired status for less than 12 months. All of the MBSs included in the table above were pledged as collateral for borrowings, and the U.S. Treasury security described below was pledged as collateral for public agency certificates of deposit.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 2 - INTEREST BEARING DEPOSITS AT OTHER FINANCIAL INSTITUTIONS AND OTHER INVESTMENT SECURITIES (Continued)

The amortized cost and fair value of investment securities held to maturity were as follows at December 31, 2011 and 2010:

<u>December 31, 2011</u>	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Held to Maturity				
U.S. Treasury Securities	\$ 250	\$ -	\$ -	\$ 250
<hr/>				
<u>December 31, 2010</u>				
Held to Maturity				
U.S. Treasury Securities	\$ 250	\$ 1	\$ -	\$ 251

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The composition of the Bank's loan portfolio at December 31, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Real estate loans - secured property	\$ 101,122	\$ 94,181
Real estate loans - construction	523	290
Commercial loans	23,620	18,432
Installment loans - indirect	9,914	14,746
Installment loans - other	1,953	2,253
Total Gross Loans	<u>137,132</u>	<u>129,902</u>
Allowance for loan losses	(1,756)	(1,702)
Deferred loan costs and fees, net	104	112
Total Net Loans	<u>\$ 135,480</u>	<u>\$ 128,312</u>

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

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,702	\$ 1,639
Provision for loan losses	50	125
Charge-offs	-	(78)
Recoveries	4	16
Balance, end of year	<u>\$ 1,756</u>	<u>\$ 1,702</u>

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following table presents the activity in the allowance for loan losses for the year 2011, and the recorded investment in loans and impairment method as of December 31, 2011 and 2010, by portfolio segment:

December 31, 2011	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	\$ 1,127	\$ 67	\$ 329	\$ 179	\$ 1,702
Provisions	115	(12)	23	(76)	50
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	4	4
End of Year	\$ 1,242	\$ 55	\$ 352	\$ 107	\$ 1,756
Reserves:					
Specific	\$ 84	\$ -	\$ -	\$ -	\$ 84
General	1,158	55	352	107	1,672
	\$ 1,242	\$ 55	\$ 352	\$ 107	\$ 1,756
Loans Evaluated for Impairment:					
Individually	\$ 845	\$ -	\$ -	\$ -	\$ 845
Collectively	93,619	7,180	23,621	11,867	136,287
	\$ 94,464	\$ 7,180	\$ 23,621	\$ 11,867	\$ 137,132
December 31, 2010					
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	1,115	68	337	182	1,702
	\$ 1,115	\$ 68	\$ 337	\$ 182	\$ 1,702
Loans Evaluated for Impairment:					
Individually	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively	90,483	3,988	18,432	16,999	129,902
	\$ 90,483	\$ 3,988	\$ 18,432	\$ 16,999	\$ 129,902

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

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

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

Impaired – A loan is 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.

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

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

<u>December 31, 2011</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Impaired</u>	<u>Total</u>
Commercial Real Estate:					
Construction and land development	\$ 552	\$ -	\$ -	\$ 189	\$ 741
Multifamily	3,906	-	-	-	3,906
Other	3,274	-	-	-	3,274
Residential real estate	91,022	-	2,045	656	93,723
Commercial	22,183	1,423	15	-	23,621
Consumer	11,852	-	-	15	11,867
	<u>\$ 132,789</u>	<u>\$ 1,423</u>	<u>\$ 2,060</u>	<u>\$ 860</u>	<u>\$ 137,132</u>

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

<u>December 31, 2010</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Impaired</u>	<u>Total</u>
Commercial Real Estate:					
Construction and land development	\$ 2,698	\$ 190	\$ -	\$ -	\$ 2,888
Multifamily	4,278	-	-	-	4,278
Other	3,535	-	-	-	3,535
Residential real estate	81,876	1,048	851	-	83,775
Commercial	16,654	1,694	79	-	18,427
Consumer	16,967	-	-	32	16,999
	<u>\$ 126,008</u>	<u>\$ 2,932</u>	<u>\$ 930</u>	<u>\$ 32</u>	<u>\$ 129,902</u>

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

<u>December 31, 2011</u>	<u>Still Accruing</u>		<u>Nonaccrual</u>
	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
Commercial Real Estate:			
Multifamily	\$ 36	\$ -	\$ -
Commercial	371	-	-
Consumer	-	-	15
	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ 15</u>
<u>December 31, 2010</u>	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	<u>Nonaccrual</u>
Commercial Real Estate:			
Multifamily	\$ 19	\$ -	\$ -
Commercial	71	-	-
Consumer	23	-	32
	<u>\$ 113</u>	<u>\$ -</u>	<u>\$ 32</u>

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

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

<u>December 31, 2011</u>	<u>Unpaid Principal Balance</u>	<u>Recorded Investment</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
With a Related Allowance					
Recorded					
Commercial Real Estate:					
Construction and land development	\$ 189	\$ 190	\$ 25	\$ 190	\$ 15
Other	656	660	59	662	56
Consumer	15	15	1	15	-
	<u>\$ 860</u>	<u>\$ 865</u>	<u>\$ 85</u>	<u>\$ 867</u>	<u>\$ 71</u>
December 31, 2010					
With no Related Allowance					
Recorded					
Consumer	<u>\$ 32</u>	<u>\$ 32</u>	<u>\$ -</u>	<u>\$ 41</u>	<u>\$ -</u>

The Bank did not recognize any interest income on the cash basis during 2011 or 2010. 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, 2011 and 2010.

Loans sold and serviced for others, which are not included in the accompanying balance sheets, had unpaid principal balances totaling \$2.24 million and \$2.33 million at December 31, 2011 and 2010, respectively.

The Bank generally pledges all of its loans as potential collateral at either the Federal Home Loan Bank of San Francisco (the "FHLB") or the Federal Reserve Bank (the "FRB") in order to be able to obtain borrowings from those entities.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 4 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank grants loans to certain officers, directors and companies with which it is associated. All such loans and commitments to lend were made under terms that are consistent with the Bank's normal lending policies.

The outstanding balances of such loans at December 31, 2011 and 2010, were as follow:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 2,432	\$ 2,491
New loans and advances	-	200
Principal payments	57	259
Balance, end of year	<u>\$ 2,375</u>	<u>\$ 2,432</u>

The Bank does not have outstanding commitments to lend additional amounts to these officers, directors and their related companies.

As of December 31, 2011 and 2010, the Bank had \$1.51 million and \$0.99 million, respectively, in deposits from related parties.

NOTE 5 - PREMISES AND EQUIPMENT

Bank premises and equipment consisted of the following at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land and building owned	\$ 5,581	\$ 5,011
Equipment and furniture	2,762	1,852
Leasehold improvements	717	1,058
	9,060	7,921
Less accumulated depreciation and amortization	(1,934)	(1,706)
	<u>\$ 7,126</u>	<u>\$ 6,215</u>

Depreciation and amortization expense for the period ended December 31, 2011 and 2010, was \$786 thousand and \$348 thousand, respectively.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 6 - TIME DEPOSITS

As of December 31, 2011 and 2010, the schedule of maturities for time deposits was as follows:

	2011	2010
Due within one year	\$ 41,064	\$ 42,551
Due after one year through three years	14,140	18,369
Due after three years	10,439	13,208
	\$ 65,643	\$ 74,128

NOTE 7 - BORROWINGS

Borrowings as of December 31, 2011 and 2010, consisted of amounts borrowed from various sources including the FHLB at various rates and for various terms, as described below.

December 31, 2011	Balance	Average Rate	Maturity		Source
			Year	Date	
Overnight borrowings	\$ 16,000	0.07%	2012	Open	FHLB
Term borrowings	3,000	1.81%	2012	October 9	FHLB
	9,500	3.50%	2013	Various	FHLB
	3,000	0.91%	2014	October 7	FHLB
	5,000	4.12%	2015	Various	FHLB
	\$ 36,500	1.73%			

December 31, 2010	Balance	Average Rate	Maturity		Source
			Year	Date	
Overnight borrowings	\$ 2,500	0.17%	2011	1/3/2011	FHLB
Term borrowings	12,750	0.17%	2011	Open	FHLB
	3,000	1.21%	2011	October 7	FHLB
	3,000	1.81%	2012	October 9	FHLB
	9,500	3.50%	2013	Various	FHLB
	5,000	4.12%	2015	Various	FHLB
	\$ 35,750	1.83%			

The Bank owned FHLB stock totaling \$1.84 million and \$1.73 million as of December 31, 2011 and 2010, respectively, which, along with the majority of the Bank's loans, was utilized as collateral for the Bank's borrowings from the FHLB.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 8 - INCOME TAXES

The Bank had essentially no income tax expense or benefit through December 31, 2007, as net operating losses were incurred and deferred tax assets remained unrecorded, since their realization was dependent on future taxable income. Based on the earnings recorded by the Bank during the last two quarters of 2007, and the years 2008, 2009 and 2010, management determined that the income tax benefits deferred during 2004 through 2007 were likely to be realized, and has, therefore, recorded all deferred income tax benefits.

The components of the net deferred tax asset were as follows at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Deferred Tax Assets:		
Allowance for loan losses	\$ 696	\$ 676
Donations	73	61
Deferred rent expense	14	81
Unrealized gain on AFS investments	59	167
Non qualified stock options	56	56
Other	51	6
Unfunded commitment liability	7	13
Net operating loss carryforwards	601	576
Total Deferred Tax Assets	<u>1,557</u>	<u>1,636</u>
Valuation allowance	-	-
Deferred Tax Liabilities:		
Accumulated depreciation	(374)	(82)
Loan origination costs	(157)	(135)
FHLB dividends	(16)	(16)
Cash basis of reporting for tax purposes	(74)	(135)
Total Deferred Tax Liabilities	<u>(621)</u>	<u>(368)</u>
Net Deferred Tax Asset	<u>\$ 936</u>	<u>\$ 1,268</u>

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 8 - INCOME TAXES (Continued)

A comparison of the Federal statutory income tax rates to the Bank's effective income tax rate is as follows for the years indicated:

	2011	2010
Federal tax rate	33.9%	34.1%
State taxes, net of Federal tax benefits	7.2%	7.1%
Enterprise zone loan benefit	-4.1%	-9.4%
Stock-based compensation	0.8%	3.0%
Decrease in valuation allowance	0.0%	-157.9%
Other	-0.1%	-10.0%
Provision for Income Tax	37.7%	-133.1%

The income tax benefit for the years ended December 31, 2011 and 2010, consisted of the following components:

	2011	2010
Current Taxes:		
Federal	\$ 7	\$ -
State	1	-
	8	-
Deferred Taxes:		
Federal	252	119
State	(28)	(4)
Decrease in valuation allowance	-	(417)
	224	(302)
Net Income Tax Expense (Benefit)	\$ 232	\$ (302)

As of December 31, 2011, the Bank had net operating loss carryforwards of approximately \$1.4 million and \$1.7 million for Federal and State tax purposes, respectively, which are available to offset future taxable income. The Federal and State net operating loss carryforwards expire through the year 2021.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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NOTE 9 - OFF-BALANCE SHEET ACTIVITIES

Credit-Related Financial Instruments

The Bank is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers in the normal course of business. These financial instruments generally include commitments to grant loans, unadvanced lines of credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to potential credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for other lending activities.

At December 31, 2011 and 2010, the following lending commitments were outstanding whose contract amounts represent potential credit risk:

	<u>2011</u>	<u>2010</u>
Unadvanced lines of credit	\$ 5,794	\$ 11,805
Standby letters of credit	1,047	985

Commitments to grant loans are agreements to lend to customers as long as there is no default of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily 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 analysis. Collateral held varies but may include cash on deposit, accounts receivable, inventory, equipment, income-producing commercial properties, residential properties, and properties under construction.

Unadvanced lines of credit are commitments for possible future extensions of credit to existing borrowers. These lines of credit are sometimes unsecured and may not necessarily be drawn upon to the total extent to which the Bank is committed.

Standby and commercial letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. All letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is generally less than that involved in extending loans to existing Bank borrowers.

Requirements contained within accounting principles generally accepted in the United States of America ("GAAP") require a guarantor to recognize, at the inception of a guarantee, a liability equal to the fair value of the obligation undertaken in issuing the guarantee. Newly issued or modified guarantees that are not derivative contracts would be recorded on the Bank's balance sheet at their fair value at inception. The Bank considers standby letters of credit to be guarantees as defined within GAAP and, at December 31, 2011 and 2010, the amount of the liability related to guarantees was not considered to be material.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

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NOTE 10 - SHARE-BASED COMPENSATION

Under the October 2004 Stock Option Plan, the Bank may grant options to its directors, officers and employees for up to 30 percent of the number of shares of common stock outstanding at the time of grant. Both incentive stock options and non-qualified stock options may be granted under the plan. At December 31, 2011, 297,471 options were outstanding and 306,157 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 ten years after the date of grant and vest as determined by the Bank's Board of Directors; however, the options all carry provisions which provide that they become fully vested (exercisable) if a change in control of the Bank (as defined) were to occur. The Bank recognized share-based compensation costs of \$15 thousand and \$22 thousand in 2011 and 2010, 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 in 2011 or 2010.

Based on the share-based compensation awards outstanding as of December 31, 2011, the Bank expects to recognize additional pre-tax compensation costs as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2012	\$ 9
2013	4
2014	1
Total	<u>\$ 14</u>

The after-tax cost of these options cannot currently be predicted since the Bank'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.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 10 - SHARE-BASED COMPENSATION (Continued)

A summary of the activity in the Bank's stock option plan for the years ended December 31 is as follows:

	2011			2010		
	<u>Options</u>	<u>Weighted Average Exercise Price (in dollars)</u>	<u>Aggregate Intrinsic Value</u>	<u>Options</u>	<u>Weighted Average Exercise Price (in dollars)</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	297,596	\$ 8.34		308,065	\$ 8.33	
Granted	-	-		-	-	
Exercised	-	-		-	-	
Forfeited	(125)	8.00		(10,469)	8.00	
Outstanding at end of year	<u>297,471</u>	\$ 8.34	\$ -	<u>297,596</u>	\$ 8.34	\$ -
Options exercisable at year-end	<u>278,771</u>	\$ 8.27	\$ -	<u>278,791</u>	\$ 8.27	\$ -

The weighted average remaining contractual life of options outstanding at December 31, 2011 and 2010, were 3.2 years and 4.2 years, respectively, and the weighted average remaining contractual life of options currently exercisable at December 31, 2011 and 2010, was 3.1 years and 4.0 years, respectively.

There were no options exercised during the years ended December 31, 2011 or 2010. As of December 31, 2011, there was \$14 thousand of total unrecognized compensation cost related to the outstanding stock options that will be recognized over a weighted average period of 2.2 years.

NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments

The Bank leases its Golden Valley branch office under an operating lease through 2019, with an option to extend the lease term for two five-year periods.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

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NOTE 11 - OTHER COMMITMENTS AND CONTINGENCIES (Continued)

At December 31, 2011, future minimum rental payments under the lease described above were as follow:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 194
2013	194
2014	215
2015	217
2016	217
Thereafter	453
Total	<u><u>\$ 1,490</u></u>

For the years ended December 31, 2011 and 2010, total rental expense was \$527 thousand and \$648 thousand, respectively.

NOTE 12 - CONCENTRATION RISK

The Bank grants commercial, real estate, construction and installment loans to businesses and individuals primarily in Santa Clarita and surrounding communities. Most loans are secured by business assets, commercial real estate, and/or residential real estate. At December 31, 2011 and 2010, loans secured by real estate represented 74 percent and 73 percent, respectively, of the Bank's total gross loan balances.

At December 31, 2011 and 2010, the Bank had \$24.8 million and \$24.4 million, respectively, of MMDAs and Federal funds sold balances at commercial banks. It also had \$519 thousand and \$230 thousand on deposit with correspondent commercial banks at those respective dates, which balances were FDIC insured.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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NOTE 13 - EMPLOYEE BENEFIT PLANS

The Bank has established a Section 401(k) Plan for the benefit of eligible employees, whereby each employee who is at least 18 years of age may become a participant at specified intervals. Employees may contribute up to 50 percent of their annual compensation into the 401(k) Plan each year, subject to certain limits as established in Federal tax laws. The Bank matches employee contributions to the plan at a level determined from time to time, which level as of December 31, 2011, was two percent of eligible annual compensation as defined. Matching contributions for the years ended December 31, 2011 and 2010, totaled \$51 thousand and \$29 thousand, respectively.

The Bank established an Employee Stock Ownership Plan (the "ESOP"), a defined contribution plan, effective January 1, 2006. All employees completing an eligibility computation period are eligible to participate in the ESOP. Contributions shall be determined by the Bank's Board of Directors (the "Board") not to exceed the amounts allowable under law. Contributions may be paid in cash or shares of Bank stock as determined by the Board. Contributions totaling \$30 thousand and \$17 thousand were made into the ESOP during the years ended December 31, 2011 and 2010, respectively.

NOTE 14 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal banking regulators. 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 requirements that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The 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 capital ratios as set forth in the following table. Management believes that the Bank met all capital adequacy requirements to which it is subject as of December 31, 2011 and 2010.

As of December 31, 2011, 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 capital ratios as set forth in the following table and must not be operating under a Cease and Desist Order.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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NOTE 14 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

The Bank's actual capital amounts and ratios as of December 31, 2011 and 2010, are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2011						
Total capital to risk-weighted assets	\$ 22,618	15.15%	\$ 11,943	8.00%	\$ 14,929	10.00%
Tier 1 capital to risk-weighted assets	20,845	13.96%	5,973	4.00%	8,959	6.00%
Tier 1 capital to average assets	20,845	9.93%	8,397	4.00%	10,496	5.00%
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2010						
Total capital to risk-weighted assets	\$ 21,838	15.23%	\$ 11,471	8.00%	\$ 14,339	10.00%
Tier 1 capital to risk-weighted assets	20,104	14.02%	5,736	4.00%	8,604	6.00%
Tier 1 capital to average assets	20,104	10.04%	8,010	4.00%	10,012	5.00%

NOTE 15 - RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid to shareholders. The total amount of dividends that may be paid at any date is generally limited to the lesser of the Bank's retained earnings or net income for the last three years, subject to minimum capital requirements. As of December 31, 2011 and 2010, the Bank was restricted from paying dividends.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

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NOTE 16 - FAIR VALUE OF MEASUREMENT FINANCIAL INSTRUMENTS

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.

Fair Value Measurements

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, 2011, the fair value of AFS investment securities were determined based on Level 2 inputs.

- Impaired Loans

A loan is considered impaired when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement. Impairment is measured based on the fair value of the underlying collateral or the discounted expected future cash flows. The Bank measures impairment on all nonaccrual loans for which it has established specific reserves as part of the specific allocated allowance component of the ALL. As such, the Bank records impaired loans as non-recurring Level 2 when the fair value of the underlying collateral is based on an observable market price or current appraised value. When current market prices are not available or the Bank determines that the fair value of the underlying collateral is further impaired below appraised values, the Bank records impaired loans as non-recurring Level 3. At December 31, 2011 and 2010, the fair value of impaired loans was determined based on Level 3 inputs.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

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(Dollar amounts in thousands)

NOTE 16 - FAIR VALUE OF MEASUREMENT FINANCIAL INSTRUMENTS (Continued)

The following table presents information about the Bank's financial instruments measured at fair value on a recurring basis as of December 31, 2011, and indicates the fair value hierarchy of the valuation techniques utilized by the Bank to determine such fair value. In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access. Fair values determined by Level 2 inputs utilize information other than the quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the fair value hierarchy within which the fair value measurement, in its entirety, falls has been determined based on the lowest level input that is significant to the fair value measurement. The Bank's assessment of the significance of a particular input to the fair value measurement, in its entirety, requires judgment and considers factors specific to the asset or liability.

	Fair Value	Fair Value Measurements at December 31, Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2011:				
Assets measured on a recurring basis:				
Securities available-for-sale	\$ 32,507	\$ -	\$ 32,507	\$ -
Assets measured on a nonrecurring basis:				
Impaired loans	\$ 775	\$ -	\$ -	\$ 775
As of December 31, 2010:				
Assets measured on a recurring basis:				
Securities available-for-sale	\$ 43,038	\$ -	\$ 43,038	\$ -
Assets measured on a nonrecurring basis:				
Impaired loans	\$ 32	\$ -	\$ -	\$ 32

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 16 - FAIR VALUE OF MEASUREMENT FINANCIAL INSTRUMENTS (Continued)

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

Cash and Cash Equivalents and Interest-Bearing Deposits at Other Financial Institutions: The carrying values reported in the balances sheets approximate fair values due to the short-term nature of the assets.

Investment Securities: The fair values of securities are determined by obtaining quoted prices on nationally recognized securities exchanges.

Loans: Fair value is estimated by discounting expected future cash flows at a market rate of interest for loans of similar credit risk and maturity.

FHLB and TIB Stock: The carrying amount approximates fair market value, as the stock may be sold back to the FHLB and TIB at carrying value and no other market exists for the sale of this stock.

Accrued Interest Receivable and Payable: The recorded carrying value approximates the estimated fair value due to the short-term nature of these assets and liabilities.

Deposits: The fair values of time deposits are estimated by discounting the expected cash flows at current rates for instruments with similar maturities. The carrying values of demand, money market and savings deposits are assumed to be fair value since they have no stated maturities.

Borrowings: The fair values of FHLB advances with maturities greater than one week are estimated by discounting the expected cash flows at current rates for FHLB advances with similar maturities. Borrowings with maturities of less than one week are assumed to be at fair value due to the short-term nature of those liabilities.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 16 - FAIR VALUE OF MEASUREMENT FINANCIAL INSTRUMENTS (Continued)

The carrying amounts and estimated fair values of the Bank's financial instruments are as follows at year-end:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	\$ 28,816	\$ 28,816	\$ 26,128	\$ 26,128
Investment securities and MBSs held to maturity	250	250	250	251
MBSs available-for-sale	32,507	32,507	43,038	43,038
Loans, net	135,480	138,711	128,312	129,927
FHLB and TIB stock	1,891	1,891	1,784	1,784
Accrued interest receivable	614	614	742	742
Financial Liabilities:				
Demand, money market and savings deposits	\$ 84,888	\$ 84,888	\$ 78,067	\$ 78,067
Time deposits	65,643	66,981	74,128	76,382
Borrowings	36,500	37,243	35,750	36,200
Accrued interest payable	38	38	54	54

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS

During 2008, the Bank entered into certain derivative financial instrument transactions for the purpose of hedging the interest rate risk associated with specific, identified loan transactions. As of December 31, 2011 and 2010, the notional balance of these financial instruments was approximately \$9.2 million and \$9.4 million, respectively. In general, the types of risks hedged in these transactions are those relating to the variability of future earnings and cash flows caused by movements in interest rates. In these transactions the Bank, in the normal course of business, holds interest rate swaps (the "Swaps") which hedge the interest rate risk associated with specific long-term, fixed-rate commercial real estate loans. These Swaps are held solely for the purpose of hedging such interest rate risk, and not for speculation.

BANK OF SANTA CLARITA

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(Dollar amounts in thousands)

NOTE 17 - DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The Bank entered into these Swaps (which are designated as fair value hedges) in order to manage the risk associated with the interest rates on the associated loans. The loans and associated Swaps have fixed interest rates ranging from 6.0 percent to 6.85 percent, and the floating rates on the Swaps are determined each month based on the One-Month LIBOR index plus a fixed margin ranging from 1.39 percent to 2.42 percent.

There is expected to be no ineffectiveness as to cash flows or values with respect to each specific loan and the associated Swap with which it has been hedged, due to the following factors present in each hedging transaction:

1. The current and forecasted principal balances on both instruments are identical,
2. The fixed interest rates on both instruments are identical,
3. The maturity dates on both instruments are identical, and
4. The embedded optionality inherent in each transaction is identical (e.g. the loan's prepayment penalty provision is essentially identical to the associated Swap's early termination provision).

The Bank accounts for these Swaps as fair value hedges using the short-cut method pursuant to the rules contained within GAAP; therefore, the Bank does not record any ineffectiveness within its accompanying financial statements.

Corporate Officers



EXECUTIVE OFFICE

Frank D. Di Tomaso, Jr.
Chairman of the Board and Interim CEO

ADMINISTRATIVE OFFICE

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Walter Purdy
Senior Vice President
Chief Financial Officer

Stephanie M. Stephens
First Vice President
Controller

Risk Management

John Vescovo
Senior Vice President
Director of Enterprise Risk Management

Centralized Operations Department

Carol Morrissey
First Vice President
Centralized Operations Manager

Information Technology

Eric R. Jensen
First Vice President
Manager of Information Services

LENDING DEPARTMENT

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Chief Credit Officer

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Vice President
Commercial Loan Officer

William A. McCloskey
First Vice President
Commercial Real Estate Officer

Donna Reller
Assistant Vice President
Commercial Loan Officer

SBA Loans

Craig S. Conner
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SBA Manager

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Barbara Andriuzzo
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Consumer Loan Manager

Note Department

Mary Hernandez
First Vice President
Note Department Manager

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Brenda Neilson
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Rick Granieri
Chief Financial Officer,
MemorialCare Health System

Dwight D. Ham
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Stock Listing

Bank of Santa Clarita's common stock is
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