2019 ANNUAL REPORT

BUILDING RELATIONSHIPS IS OUR BUSINESS.

BANK OF SOUTHERN CALIFORNIA

4 4 Star Safe & Sound® Rating by Bankrate.com

5 Five-Star Superior Performance Rating by Bauer Financial

18 Celebrating 18 years in business and growing strong

97 Dedicated, experienced and talented employees committed to the Bank's overall growth and success

830 Totaling $830M in assets and growing

Relationship-driven with a commitment to delivering an unparalleled customer experience

Strong workplace culture of highly engaged employees

CONTENTS

TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES:

As we reflect on the past year, it is important that we take time to address the current environment—a world transformed by the Coronavirus (COVID-19). As an essential service, Bank of Southern California continues to operate and support the banking needs of Southern California's business community. We remain focused on prioritizing the health and well-being of our employees, customers and local communities.

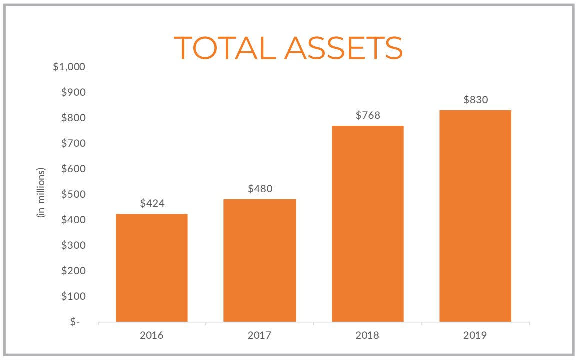
As we navigate these unusual circumstances, our commitment to the business community remains unaltered. With the passing of the CARES Act, we saw an opportunity to support local businesses and help get the economy back on track. Our employees worked around the clock, providing vital resources and financing to companies impacted by the Coronavirus. We opened our doors to both customers and non-customers and were able to help 938 small businesses secure Paycheck Protection Program (PPP) loans during the first phase of PPP.

We are proud of the dedication our employees have shown. As we look ahead, Bank of Southern California remains well positioned to help businesses weather the crisis.

2019 FINANCIAL RESULTS

2019 was another solid year for Bank of Southern California. We reported record asset growth, increased our meaningful loan and deposit relationships, maintained solid credit quality across our portfolio, and set the stage for strong earnings performance in 2020.

Our full year performance continued to exhibit foundational strength. In 2019, total assets grew to $830 million, a gain of 8.1%, from the prior year end. Total loans increased 6.7% to $677 million and total deposits increased 7.0% to $672 million. Earnings for the year expanded by 28.8%, for a record net income of $6.8 million and diluted earnings per share increased to $0.78 from $0.71 in 2018.



BANK OF SOUTHERN CALIFORNIA

FOCUSED ON DELIVERING UPON OUR STRATEGY

As we take a closer look on the past year, we have furthered our goal of becoming the bank of choice for Southern California businesses. More specifically, we have continued to make great progress in moving towards relationship-based banking, expanded our team of experienced bankers, and announced plans to further our investment in the Southern California region through the announcement of a definitive agreement to acquire CalWest Bancorp, the holding company for CalWest Bank.

- In early 2019, we deepened our business banking and branch banking groups with the hiring of several seasoned banking professionals with deep roots and a commitment to serving the business community.
- In August 2019, we demonstrated our dedication to employee growth and development with the formation of a training department—an important step in evolving the bank into a learning and development organization.
- With a focus on the employee and customer experience, we once again set a record for empowering and engaging our most valued employees, who in turn provide an unparalleled customer experience.
- On October 21, 2019, we entered into a definitive agreement to acquire CalWest Bank, which will ultimately provide us with an expanded footprint in Orange County, a presence in Redlands, an increased capacity to lend, enhanced services, realized efficiencies, and more.
- On December 16, 2019, we reported the successful completion of a capital raise of approximately $12 million through the issuance of common stock. Proceeds from the offering will be used to fund the all-cash acquisition, strengthen our balance sheet and support future expansion efforts.
- Concurrently, we disclosed plans to form a holding company, Southern California Bancorp, to facilitate the CalWest transaction and to support the Bank's future growth.
- Over the course of the year, we furthered our investment in the communities we serve by supporting 50 non-profit organizations with meaningful contributions in excess of $125,000.

> *"As we take a closer look on the past year, we have furthered our goal of becoming the bank of choice for Southern California businesses."*

HIGHLIGHTING OUR STRENGTHS

In 2019, we were once again recognized for our outstanding performance, strong infrastructure and dynamic workplace culture.

- For two years running, we were named a Best Place to Work by the San Diego Business Journal.
- We achieved a Super Premier Performing Bank ranking with The Findley Reports, Inc., a 5-star superior performance rating by Bauer Financial, and an A+ Health Rating by DepositAccounts by LendingTree.
- The San Diego Business Journal recognized our leadership team with multiple honors including being named a finalist for Most Admired CEO and CFO of the Year.

A SOLID FOUNDATION FOR THE FUTURE

Building on our commitment to support the communities we serve, we felt a distinct and fundamental responsibility to help local businesses affected by the Coronavirus obtain critical funding. Employees worked day and night to help companies representing various industries, markets and sizes obtain essential Paycheck Protection Program (PPP) loans. Together, we financed $355.5 million in PPP loans during phase one of the program. Our efforts, assisted 938 local businesses and provided jobs for more than 35,000 individuals.

938 PPP LOANS FUNDED	FOR A TOTAL OF MORE THAN $355.5M	PROVIDING JOBS FOR +35,000 SO. CAL. EMPLOYEES

As we look ahead to the remainder of 2020, we remain well positioned to continue a trajectory towards growth and profitability.

- We are continuing to support the business community through phase two of PPP funding.
- We are making a concentrated effort to establish full banking relationships with all of our clients, including our newest PPP loan customers.
- We remain focused on successfully completing and integrating CalWest Bank, anticipated to close in the second quarter of 2020. This strategic acquisition will provide us with the ability to serve clients of both organizations with increased lending capabilities, technology enhancements, and a larger branch network. It will also present the opportunity to realize operational synergies and efficiencies.

- Several exciting innovations and technological advancements are in development and will launch this year, for an even greater customer experience.
- We are starting to benefit from our investment in our business and branch banking teams and are well on our way to having two high-performing groups.
- To better meet the needs of our customers, we will be launching a Client Services Center this year equipped with knowledgeable, experienced and friendly employees.
- We continue to make strides in developing a culture of learning and development and are in the process of creating development plans for every employee within the organization.

IN CLOSING

We are proud of the direction the bank is headed and the significant role we have played as an essential service during these extraordinary times. We will continue to do our part to support our local businesses and communities, and we are excited about the future of our organization.

As we conclude, we would like to thank our team of commitment and dedicated employees who have helped us grow our footprint and expand our market share. We could not have done it without them. We would also like to express our gratitude to our customers and shareholders for their continued trust, support and investment in Bank of Southern California.

> “*We are proud of the direction the bank is headed and the significant role we have played as an essential service during these extraordinary times.*”

Please stay safe and healthy.

John Farkash
Chairman of the Board

Nathan L. Rogge
President and Chief Executive Officer

EideBailly

CPAs & BUSINESS ADVISORS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Bank of Southern California, N.A.
San Diego, California

Opinion on the Financial Statements

We have audited the accompanying statements of financial condition of Bank of Southern California, N.A. (the "Bank") as of December 31, 2019 and 2018, the related statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2019 and 2018, 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.

Basis for Opinion

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Bank Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Bank in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Bank's auditor since 2018.

Eide Bailly LLP

Laguna Hills, California
April 21, 2020

BANK OF SOUTHERN CALIFORNIA, N. A.
STATEMENTS OF FINANCIAL CONDITION
December 31, 2019 and 2018

ASSETS

	2019	2018
Cash and Due from Banks	$ 9,897,767	$ 13,526,228
Fed Funds and Interest Bearing Balances	80,950,002	53,140,000
TOTAL CASH AND CASH EQUIVALENTS	90,847,769	66,666,228
Debt Securities Available for Sale	16,343,747	24,937,552
Loans:		
Construction and Land Development	24,679,602	43,760,377
Real Estate - Other:		
1-4 Family Residential	85,085,585	58,717,764
Multifamily Residential	122,661,958	65,426,559
Commercial Real Estate and Other	318,691,858	354,963,054
Commercial and Industrial	122,969,242	107,890,828
Consumer	2,566,670	3,892,459
TOTAL LOANS	676,654,915	634,651,041
Allowance for Loan Losses	(5,363,361)	(4,372,643)
NET LOANS	671,291,554	630,278,398
Restricted Stock, at Cost	6,098,550	6,084,150
Premises and Equipment	5,362,001	5,006,150
Right of Use Asset	4,112,707	-
Goodwill and Other Intangibles	18,434,491	18,877,184
Bank Owned Life Insurance	11,113,559	9,358,140
Accrued Interest and Other Assets	6,581,980	6,740,320
TOTAL ASSETS	$ 830,186,358	$ 767,948,122

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

BANK OF SOUTHERN CALIFORNIA, N. A.
STATEMENTS OF FINANCIAL CONDITION
December 31, 2019 and 2018

LIABILITIES AND SHAREHOLDERS' EQUITY

	2019	2018
Deposits:		
Noninterest-Bearing Demand	$ 205,811,799	$ 169,172,749
Interest-Bearing NOW Accounts	54,180,961	55,353,606
Money Market and Savings Accounts	243,256,117	217,482,224
Time Deposits Under $250,000	102,927,485	118,342,737
Time Deposits $250,000 and Over	65,737,168	67,464,673
TOTAL DEPOSITS	671,913,530	627,815,989
Federal Home Loan Bank Advances	30,000,000	35,000,000
Operating Lease Liability	5,015,405	-
Accrued Interest and Other Liabilities	2,734,250	3,771,759
TOTAL LIABILITIES	709,663,185	666,587,748
Commitments and Contingencies - Notes E and L		
Shareholders' Equity:		
Preferred Stock - 10,000,000 Shares Authorized, No Par Value; No Shares Issued and Outstanding in 2019 and 2018	-	-
Common Stock - 20,000,000 Shares Authorized, $5.00 Par Value; Issued and Outstanding 9,405,190 in 2019 and 8,408,022 in 2018	47,025,950	42,040,110
Additional Paid-in Capital	56,223,070	49,172,955
Retained Earnings	16,971,445	10,198,433
Accumulated Other Comprehensive Income (Loss) - Net of Taxes	302,708	(51,124)
TOTAL SHAREHOLDERS' EQUITY	120,523,173	101,360,374
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 830,186,358	$ 767,948,122

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

BANK OF SOUTHERN CALIFORNIA, N.A.
STATEMENTS OF INCOME
For the Years Ended December 31, 2019 and 2018

	2019	2018
INTEREST INCOME		
Interest and Fees on Loans	$ 35,533,334	$ 26,706,751
Interest and Dividends on Investment Securities	994,508	990,731
Interest on Federal Funds Sold and Other Balances	1,168,803	916,574
TOTAL INTEREST INCOME	37,696,645	28,614,056
INTEREST EXPENSE		
Interest on NOW, Savings, and Money Market Accounts	2,599,868	1,337,844
Interest on Time Deposits	3,532,339	2,272,019
Interest on Other Borrowings	710,129	104,062
TOTAL INTEREST EXPENSE	6,842,336	3,713,925
NET INTEREST INCOME	30,854,309	24,900,131
Provision for Loan Losses	1,000,000	1,600,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	29,854,309	23,300,131
NONINTEREST INCOME		
Service Charges and Fees on Deposit Accounts	543,230	557,987
Servicing and Related Income on Loans	41,091	179,945
Interchange and ATM Income	400,783	364,730
Other Charges and Fees	344,859	304,497
Gain on Sale of Securities	180,362	-
Increase in Cash Surrender Value of Bank Owned Life Insurance	245,420	227,371
Unrealized Gain on Equity Securities	-	84,000
Gain on Sale of Loans	198,422	1,084,547
TOTAL NONINTEREST INCOME	1,954,167	2,803,077
NONINTEREST EXPENSE		
Salaries and Employee Benefits	12,726,318	9,671,459
Occupancy and Equipment Expenses	3,127,779	2,641,853
Other Expenses	6,271,367	6,257,889
TOTAL NONINTEREST EXPENSE	22,125,464	18,571,201
INCOME BEFORE INCOME TAXES	9,683,012	7,532,007
Income Tax Expense	2,910,000	2,274,000
NET INCOME	$ 6,773,012	$ 5,258,007
NET INCOME PER SHARE - BASIC	$ 0.80	$ 0.74
NET INCOME PER SHARE - DILUTED	$ 0.78	$ 0.71

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

BANK OF SOUTHERN CALIFORNIA, N.A.
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2019 and 2018

	2019	2018
Net Income	$ 6,773,012	$ 5,258,007
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized Gains (Losses) on Securities Available for Sale:		
Change in Net Unrealized (Loss) Gain	678,714	(54,130)
Reclassification of (Gain) Loss Recognized in Net Income	(180,362)	-
	498,352	(54,130)
Income Taxes (Benefit):		
Change in Net Unrealized (Loss) Gain	196,826	(15,697)
Reclassification of (Gain) Loss Recognized in Net Income	(52,305)	-
	144,521	(15,697)
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	353,832	(38,433)
TOTAL COMPREHENSIVE INCOME	$ 7,126,844	$ 5,219,574

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, 2019 and 2018

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2017	5,223,627	$ 26,118,135	$ 18,651,869	$ 4,940,426	$(12,691)	$ 49,697,739
Vested Restricted Share Award	2,430	12,150	(12,150)			-
Stock-Based Compensation			318,603			318,603
Issuance of Common Stock, net	1,765,623	8,828,115	16,139,146			24,967,261
Shares issued in purchase of Americas United Bank	1,394,342	6,971,710	14,013,137			20,984,847
Stock Options Exercised	22,000	110,000	62,350			172,350
Net Income				5,258,007		5,258,007
Other Comprehensive Loss					(38,433)	(38,433)
Balance at December 31, 2018	8,408,022	42,040,110	49,172,955	10,198,433	(51,124)	101,360,374
Stock-Based Compensation			600,740			600,740
Issuance of Common Stock, net	994,668	4,973,340	6,436,875			11,410,215
Stock Options Exercised	2,500	12,500	12,500			25,000
Net Income				6,773,012		6,773,012
Other Comprehensive Income					353,832	353,832
Balance at December 31, 2019	9,405,190	$ 47,025,950	$ 56,223,070	$ 16,971,445	$ 302,708	$ 120,523,173

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, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
Net Income	$ 6,773,012	$ 5,258,007
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,279,500	793,398
Gain on Sale of Loans	(198,422)	(1,084,547)
Provision for Loan Losses	1,000,000	1,600,000
Deferred Tax Benefits	(162,000)	(236,000)
Stock-Based Compensation	600,740	318,603
Increase in Cash Surrender Value of Bank Owned Life Insurance	(245,419)	(227,371)
Gain on Sale of Available for Sale Securities	(180,362)	-
Unrealized Gain on Equity Securities	-	(84,000)
Accretion of Acquired Loans, Net	(609,891)	(18,423)
Net Changes in Other Assets and Liabilities	117,456	1,109,967
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,374,614	7,429,634
INVESTING ACTIVITIES		
Cash Paid for Acquisition of Americas United Bank	-	(20,568,584)
Cash and Cash Equivalents Acquired from Americas United Bank	-	26,408,148
Purchase of BOLI	(1,510,000)	-
Proceeds from Sale of Available-for-Sale Securities	6,932,705	-
Proceeds from Maturities/Paydowns of Available-for-Sale Securities	2,339,815	2,263,204
Net Purchase of Stock Investments	(14,400)	(1,663,850)
Net (Funding) Repayment of Loans	(43,764,509)	(58,454,224)
Proceeds from Sale of Loans	2,499,135	14,219,217
Purchases of Premises and Equipment, net of Sales Proceeds	(1,208,575)	(654,074)
NET CASH (USED) BY INVESTING ACTIVITIES	(34,725,829)	(38,450,163)
FINANCING ACTIVITIES		
Net Increase in Deposits	44,097,541	17,669,263
Proceeds of Federal Home Loan Bank Advances	10,000,000	35,000,000
Repayment of Federal Home Loan Bank Advances	(15,000,000)	(20,000,000)
Proceeds from Common Stock Issued, net of Expenses	11,435,215	25,139,611
NET CASH PROVIDED BY FINANCING ACTIVITIES	50,532,756	57,808,874
INCREASE IN CASH AND CASH EQUIVALENTS	24,181,541	26,788,345
Cash and Cash Equivalents at Beginning of Year	66,666,228	39,877,883
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 90,847,769	$ 66,666,228
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	$ 6,973,995	$ 3,357,611
Taxes Paid	$ 3,450,000	$ 2,430,000
Lease Liability Arising from Obtaining ROU Assets	$ 190,363	$ -

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Bank of Southern California, N.A. (the "Bank") 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"). The Bank is organized as a single operating segment that operates ten full-service offices, including four offices in San Diego County, four in Los Angeles County, two in the Coachella Valley, and one in Orange County. Since December 2010, the Bank has acquired a total of six branches in the Coachella Valley in four separate transactions and has consolidated these into two remaining branches. In July 2018, the Bank acquired Americas United Bank adding the four branches in Los Angeles County. In 2019, the Bank raised $12 million in a common stock offering to support the announced acquisition of CalWest Bancorp headquartered in Orange County, which is expected to close in 2020 (see Note R – Subsequent Events). 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. A material estimate that is particularly susceptible to significant change in the near term is determination of the allowance for loan losses.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through April 21, 2020, the date the financial statements were available to be issued. Subsequent to year-end, the Bank expects to have loan customers who are negatively impacted by the effects of the world-wide coronavirus pandemic. The Bank is closely monitoring its loan portfolio, operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the Bank's financial position is not known.

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

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, 2019 and 2018 was $0.

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

Debt Securities

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

Debt securities 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. 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

Restricted Stock Investments

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. In addition, the Bank is a member of its regional Federal Reserve Bank ("FRB"). FHLB and FRB stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Equity Securities

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Bank elected the measurement alternative for measuring equity securities without readily determinable fair values at cost less impairment, plus or minus observable price changes in orderly transactions. The carrying amount of equity securities without readily determinable fair values is $144,000 as of December 31, 2019 and consist of investment in Pacific Coast Bankers' Bank ("PCBB"). During the year ended December 31, 2018, the Bank recognized unrealized gains of $84,000 on the PCBB stock. Adjustments to the carrying value of PCBB stock at adoption and during the year 2018 were based on observable activity in the stock.

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

Purchased Credit Impaired Loans

The Bank purchases groups of loans, some of which have shown evidence of credit deterioration since origination. These purchase credit impaired loans are recorded at the amount paid, such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses.

Such purchased credit impaired loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as credit score, loan type, and date of origination. The Bank estimates the amount and timing of expected cash flows for each loan or pool, and the expected cash flows in excess of amount paid are recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loan's or pool's contractual principal and interest over expected cash flows is not recorded (non-accretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded as a provision for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for Loan Losses - Continued

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. 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.

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.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Bank also maintains a separate allowance for off-balance sheet commitments. Management estimates anticipated losses using historical data and utilization assumptions. The allowance for off-balance sheet commitments totaled $120,000 at December 31, 2019 and December 31, 2018 and is included in other liabilities on the statements of financial condition.

Other Real Estate Owned

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis by a charge to the allowance for loan losses, if necessary. Subsequent to foreclosure, other real estate owned is carried at the lower of the Bank's carrying value of the property or its fair value, less estimated carrying costs and costs of disposition. Fair value is generally based on current appraisals, which are frequently adjusted by management to reflect current conditions and estimated selling costs. Write-downs are expensed and recognized as a valuation allowance.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Other Real Estate Owned - Continued

Operating expenses of such properties, net of related income, and gains and losses on their disposition are included in other operating expenses. There were no foreclosures in process of single-family residential property as of December 31, 2019.

Bank Owned Life Insurance

Bank owned life insurance is recorded at the amount that can be realized under insurance contracts at the date of the statement of financial condition, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Loan Sales and Servicing of Financial Assets - Continued

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

Land is carried at cost. 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 and equipment and fifty-five years for premises. 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.

Leases

The Bank determines if an arrangement contains a lease at contract inception and recognizes right-of-use ("ROU") assets and operating lease liabilities based on the present value of lease payments over the lease term. While operating leases may include options to extend the term, the Bank does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such options will be exercised. The present value of lease payments is determined based on the Bank's incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense is recognized on a straight-line basis over the lease term. The Bank has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to Recently Adopted Accounting Pronouncements below and Note E for further discussion on the Bank's leasing arrangements and related accounting.

Employee Benefit Plan

The Bank has a retirement savings 401(k) plan in which substantially all employees may participate. Pursuant to the Bank's safe harbor election, matching contributions up to 4.0% of salary are made to the plan. Total contribution expense for the plan was $263,897 in 2019 and $205,896 in 2018.

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 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.

Comprehensive Income

Changes in unrealized gains and losses on available-for-sale securities is the only component of accumulated other comprehensive income for the Bank. The amount reclassified out of other accumulated comprehensive income relating to realized gains on sales of securities was $180,362 for 2019 with a related tax effect of $52,305.

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. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 shareholders 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.

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 Bank has performed a qualitative assessment for potential impairment as of December 31, 2019 and 2018, and as a result of that assessment has determined that there has been no impairment to the goodwill that was recorded as a result of fair value accounting for business combinations.

Intangible Asset

As a result of three acquisitions completed in 2010 and 2014, each of which included branch offices in the Coachella Valley, the Bank has recorded core deposit intangibles totaling $1,126,902. In 2018, the Bank recorded $2,500,850 of core deposit intangibles for the branch offices located in the Los Angeles market as a result of the Americas United Bank acquisition. The core deposit intangibles are being amortized over periods of seven to ten years. Amortization expense for the periods ending December 31, 2019 and 2018 was $442,693 and $242,471, respectively. Accumulated amortization as of December 31, 2019 and 2018 was $1,412,885 and $970,190. Future estimated amortization expense for each of the next five years is as follows:

2020	$ 380,403
2021	$ 343,555
2022	$ 319,486
2023	$ 286,000
2024	$ 216,338

Loss Contingencies

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition – Noninterest Income

The Bank adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 and all subsequent ASUs that modified Topic 606. Results for reporting periods beginning after December 31, 2017 are presented under Topic 606, while prior period amounts have not been adjusted and continue to be reported in accordance with Topic 605. The Bank recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Bank performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Bank satisfies a performance obligation. The Bank only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligation and assesses whether each promised good or service is distinct. The Bank then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

The following is a discussion of key revenues within the scope of the new revenue guidance.

Service Charges and Fees on Deposit Accounts
The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interchange Fees
Interchange fees represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Revenue Recognition – Noninterest Income - Continued

Gains/Losses on OREO Sales
Gains/losses on the sale of OREO are included in non-interest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Bank's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period, on a straight-line basis. The Bank has elected to account for forfeitures of stock-based awards as they occur. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the income statement when incurred.

See Note M for additional information on the Bank's Stock option plan.

Fair Value Measurement

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs 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:

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.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Bank on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Bank's financial statements and related disclosures as the Bank's primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Bank's revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and gains/losses on the sale of loans, did not change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Bank elected to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption, however, periods prior to the date of adoption were not retrospectively revised as the impact of the ASU on uncompleted contracts at the date of adoption was not material.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments–Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. The new standard was effective for the Bank on January 1, 2018. Adoption of ASU 2016-01 did not have a material impact on the Bank's financial statements, but the Bank did record a gain of $84,000 on equity securities without a readily determinable market value upon adoption of the ASU. Changes made to the current measurement model primarily affect the accounting for equity securities with readily determinable fair values, where changes in fair value impact earnings instead of other comprehensive income. Equity securities without readily marketable fair values to be carried at amortized cost, less impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for an identical investment or similar investment of the same issuer.

The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. Additionally, the Bank refined the calculation used to determine the disclosed fair value of loans held for investment as part of adopting this standard reflecting an exit price notion instead of an entrance price. The refined calculation did not have a significant impact on fair value disclosures.

The Bank adopted ASU 2016-02, *Leases (Topic 842)* and ASU 2018-11, *Leases (Topic 842): Targeted Improvements,* referred to herein as Topic 842, effective January 1, 2019. The new guidance establishes the principles to report transparent and economically neutral information about the assets and liabilities that arise from leases. Entities are required to recognize right of use ("ROU") assets and lease liabilities that arise from leases on the statement of financial condition and to disclose qualitative and quantitative information about lease transactions, such as information about variable lease payments and options to renew and terminate leases. Under the amendments in ASU 2018-11, entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recently Adopted Accounting Pronouncements - Continued

ASU 2016-02, Leases (Topic 842), and related amendments were adopted on January 1, 2019, using the modified retrospective transition method whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Bank elected the transition package of practical expedients permitted under the new standard. In addition, the Bank elected the practical expedients related to accounting for lease and non-lease components as a single lease component and not to recognize a ROU asset and lease liability for short-term leases.

Recent Accounting Guidance Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326).* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2022 for all entities, other than SEC filers that do not qualify as a Smaller Reporting Company as defined by the SEC. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its financial statements and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment.* This guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation, and goodwill impairment will simply be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. All other goodwill impairment guidance will remain largely unchanged. Entities will continue to have the option to perform a qualitative assessment to determine if a quantitative impairment test is necessary. The amendments in this Update are required for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for the subsequent measurement of goodwill. ASU No. 2017-04 is effective for interim and annual reporting periods beginning after December 15, 2022 for public business entities who are not SEC filers and one year later for all other entities. The Bank is currently evaluating the effects of ASU 2017-04 on its financial statements and disclosures.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Recent Accounting Guidance Not Yet Effective - Continued

In August 2018, the FASB issued ASU No. 2018-13, *"Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement."* This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for all entities for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Bank's financial statements.

NOTE B - DEBT SECURITIES

Debt securities have been classified in the statements of financial condition according to management's intent. The carrying amount of debt 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, 2019				
U.S. Government and Agency:				
Mortgage-Backed Securities	$ 6,416,436	$ 191,248	$(12,515)	$ 6,595,169
Taxable Municipals	7,141,801	192,984	-	7,334,785
Tax Exempt Bank-Qualified Municipals	2,359,161	54,632	-	2,413,793
	$ 15,917,398	$ 438,864	$(12,515)	$ 16,343,747
December 31, 2018				
U.S. Government and Agency:				
Mortgage-Backed Securities	$ 7,899,691	$ 25,844	$(97,592)	$ 7,827,943
Collateralized Mortgage Obligations	2,871,029	16,169	(1,282)	2,885,916
Taxable Municipals	11,195,260	29,917	(18,654)	11,206,523
Tax Exempt Bank-Qualified Municipals	3,043,577	5,659	(32,066)	3,017,170
	$ 25,009,557	$ 77,589	$(149,594)	$ 24,937,552

NOTE B - DEBT SECURITIES - CONTINUED

The amortized cost and estimated fair value of all debt securities as of December 31, 2019 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	$ 1,619,563	$ 1,624,442
Due from One Year to Five Years	5,850,614	6,053,011
Due from Five to Ten Years	2,030,785	2,071,125
Due after Ten Years	-	-
Mortgage-Backed Securities	6,416,436	6,595,169
	$ 15,917,398	$ 16,343,747

The gross unrealized loss and related estimated fair value of debt securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2019 and 2018 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, 2019:						
Mortgage-Backed Securities	$ -	$ -	$(12,515)	$ 416,830	$(12,515)	$ 416,830
Taxable Municipals	-	-	-	-	-	-
Tax Exempt Bank-Qualified Municipals	-	-	-	-	-	-
	$ -	$ -	$(12,515)	$ 416,830	$(12,515)	$ 416,830
December 31, 2018:						
Mortgage-Backed Securities	$(1,565)	$ 131,511	$(96,027)	$ 4,475,627	$(97,592)	$ 4,607,138
Collateralized Mortgage Obligations	(1,282)	526,652	-	-	(1,282)	526,652
Taxable Municipals	(958)	1,227,811	(17,696)	4,373,263	(18,654)	5,601,074
Tax Exempt Bank-Qualified Municipals	-	-	(32,066)	2,338,264	(32,066)	2,338,264
	$(3,805)	$ 1,885,974	$(145,789)	$ 11,187,154	$(149,594)	$ 13,073,128

NOTE B - DEBT SECURITIES - CONTINUED

As of December 31, 2019, there was one debt security that had been in a continual loss position for over twelve months. At December 31, 2018, there were nineteen debt securities that had been in a continual loss position for over twelve months. Management evaluates debt 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 Bank 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, 2019, no unrealized losses are deemed to be other-than-temporary.

The Bank had gross gains of $195,709 and gross losses of $15,347 for sales of debt securities for the year ended 2019. There were no sales of debt securities for the year ended 2018.

The Bank may pledge debt securities to collateralize credit lines, secure public deposits, and for other purposes as permitted or required by law. Debt securities carried at approximately $4,029,000 and $5,428,000 at December 31, 2019 and 2018, respectively, were pledged to secure credit facilities at the Federal Home Loan Bank of San Francisco (“FHLB”).

NOTE C – RESTRICTED STOCK

As a member of the FRB System, the Bank must hold FRB stock in an amount equal to 3% of the Bank’s common stock and additional paid-in capital. An investment in the equity stock of the FHLB of San Francisco is required for membership; the amount of the required investment is a function of the Bank’s outstanding mortgage assets and outstanding advances from the FHLB.

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

	2019	2018
Federal Reserve Bank	$ 2,746,450	$ 2,732,050
Federal Home Loan Bank	3,352,100	3,352,100
	$ 6,098,550	$ 6,084,150

NOTE D - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within its markets of San Diego County, California; the Coachella Valley of California, and Los Angeles 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, 2019 was 81%.

The Bank has originated loans that it services for others, including loans partially guaranteed by the SBA, some of which have been sold in the secondary market, as well as commercial real estate loans for investors and other participating financial institutions. The portfolio of loans serviced for other parties was approximately $33,229,000 at December 31, 2019 and $50,219,000 at December 31, 2018.

The Bank has pledged loans with a carrying value of $280,382,000 to collateralize credit facilities at the FHLB of San Francisco and the FRB as of December 31, 2019.

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

	2019	2018
Beginning Balance	$ 4,372,643	$ 3,076,022
Provision for Loan Losses	1,000,000	1,600,000
Recoveries on Loans Charged Off	154,957	55,626
	5,527,600	4,731,648
Less Loans Charged Off	(164,239)	(359,005)
Ending Balance	$ 5,363,361	$ 4,372,643

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, 2019 and 2018 and for the years then ended follows:

	Construction and Land Development	Real Estate - Other	Commercial & Industrial	Consumer	Total
December 31, 2019					
Allowance for Loan Losses:					
Beginning of Year	$ 413,513	$ 2,881,885	$ 1,052,716	$ 24,529	$ 4,372,643
Provisions	(180,331)	859,775	342,029	(21,473)	1,000,000
Charge-offs	-	-	(164,239)	-	(164,239)
Recoveries	-	134,063	8,793	12,101	154,957
End of Year	$ 233,182	$ 3,875,723	$ 1,239,299	$ 15,157	$ 5,363,361
Specific Reserves	$ -	$ -	$ 131,149	$ -	$ 131,149
General Reserves	233,182	3,875,723	1,108,150	15,157	5,232,212
	$ 233,182	$ 3,875,723	$ 1,239,299	$ 15,157	$ 5,363,361
Loans Evaluated for Impairment:					
Individually	$ -	$ 161,164	$ 1,750,079	$ -	$ 1,911,243
Collectively	24,679,602	526,278,237	121,219,163	2,566,670	674,743,672
	$ 24,679,602	$ 526,439,401	$ 122,969,242	$ 2,566,670	$ 676,654,915
December 31, 2018					
Allowance for Loan Losses:					
Beginning of Year	$ 329,456	$ 2,130,210	$ 604,336	$ 12,020	$ 3,076,022
Provisions	84,057	719,679	806,166	(9,902)	1,600,000
Charge-offs	-	-	(358,705)	(300)	(359,005)
Recoveries	-	31,996	919	22,711	55,626
End of Year	$ 413,513	$ 2,881,885	$ 1,052,716	$ 24,529	$ 4,372,643
Specific Reserves	$ -	$ -	$ 39,020	$ -	$ 39,020
General Reserves	413,513	2,881,885	1,013,696	24,529	4,333,623
	$ 413,513	$ 2,881,885	$ 1,052,716	$ 24,529	$ 4,372,643
Loans Evaluated for Impairment:					
Individually	$ -	$ 1,380,151	$ 2,018,385	$ -	$ 3,398,536
Collectively	43,760,377	477,727,226	105,872,443	3,892,459	631,252,505
	$ 43,760,377	$ 479,107,377	$ 107,890,828	$ 3,892,459	$ 634,651,041

NOTE D - LOANS - CONTINUED

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 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. For purposes of risk classification, 1-4 Family Residential loans for investment purposes are evaluated with commercial real estate loans. 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. Additionally, all loans classified as troubled debt restructurings are considered impaired.

NOTE D - LOANS - CONTINUED

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2019 and 2018 follows:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2019					
Construction and Land Development	$ 24,648,386	$ -	$ 31,216	$ -	$ 24,679,602
Real Estate -Other:					
1-4 Family Residential	80,622,346	4,257,781	58,716	146,742	85,085,585
Multifamily Residential	122,661,958	-	-	-	122,661,958
Commercial Real Estate and Other	317,640,241	995,378	41,817	14,422	318,691,858
Commercial and Industrial	120,167,414	911,550	140,199	1,750,079	122,969,242
Consumer	2,566,670	-	-	-	2,566,670
	$ 668,307,015	$ 6,164,709	$ 271,948	$ 1,911,243	$ 676,654,915

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2018					
Construction and Land Development	$ 43,727,167	$ -	$ 33,210	-	$ 43,760,377
Real Estate -Other:					
1-4 Family Residential	58,483,527	-	62,457	171,780	58,717,764
Multifamily Residential	64,241,044	-	-	1,185,515	65,426,559
Commercial Real Estate and Other	353,116,640	1,779,305	44,253	22,856	354,963,054
Commercial and Industrial	105,023,902	698,285	150,256	2,018,385	107,890,828
Consumer	3,892,459	-	-	-	3,892,459
	$ 628,484,739	$ 2,477,590	$ 290,176	$ 3,398,536	$ 634,651,041

NOTE D - LOANS - CONTINUED

A summary of past due loans, loans still accruing over 90 days and nonaccrual loans as of December 31, 2019 and 2018 follows:

	Still Accruing		
	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
December 31, 2019			
Construction and Land Development	$ -	$ -	$ -
Real Estate:			
1-4 Family Residential	1,152,882	-	146,742
Multifamily Residential	1,140,675	-	-
Commercial Real Estate and Other	139,637	-	14,422
Commercial and Industrial	-	-	1,750,079
Consumer	-	-	-
	$ 2,433,194	$ -	$ 1,911,243
December 31, 2018			
Construction and Land Development	$ -	$ -	$ -
Real Estate:			
1-4 Family Residential	99,441	1,175,766	171,780
Multifamily Residential	-	-	1,185,515
Commercial Real Estate and Other	306,171	-	22,856
Commercial and Industrial	35,196	-	2,018,385
Consumer	-	-	-
	$ 440,808	$ 1,175,766	$ 3,398,536

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, 2019:

December 31, 2019	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	237,205	146,742	-	155,640	2,778
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	39,378	14,422	-	17,685	-
Commercial and Industrial	1,711,756	349,976	-	381,975	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	-	-	-	-	-
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	-	-	-	-	-
Commercial and Industrial	1,567,226	1,400,103	131,149	1,631,746	-
Consumer	-	-	-	-	-
	$ 3,555,565	$ 1,911,243	$131,149	$ 2,187,046	$ 2,778

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, 2018:

December 31, 2018	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	250,909	171,780	-	183,541	3,185
Multifamily Residential	1,281,499	1,185,515	-	493,965	-
Commercial Real Estate and Other	42,030	22,856	-	33,418	-
Commercial and Industrial	1,405,407	335,941	-	503,526	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	-	-	-	-	-
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	-	-	-	-	-
Commercial and Industrial	1,739,982	1,682,444	39,020	1,708,225	-
Consumer	-	-	-	-	-
	$ 4,719,827	$ 3,398,536	$ 39,020	$ 2,922,675	$ 3,185

No additional funds are committed to be advanced on impaired loans. The Bank received income recognized on a cash basis of $2,778 on impaired loans in 2019 and $3,185 in 2018. Interest foregone on impaired loans was $235,721 in 2019 and $207,649 in 2018. The principal balance of impaired loans that was guaranteed by the SBA was $919,704 and $1,372,762 at December 31, 2019 and 2018, respectively.

The Bank did not have any loans that have been modified in troubled debt restructurings as of December 31, 2019 and December 31, 2018. No loans were modified during 2019 and 2018 which resulted in a troubled debt restructuring.

The balance of unamortized loan origination costs and premiums, net of unamortized fees, included in total loans was $772,802 and $482,361 at December 31, 2019 and 2018, respectively. The unamortized purchase discount on loans acquired at fair value and included in total loans was $2,975,081 and $3,991,196 as of December 31, 2019 and 2018, respectively.

NOTE E - PREMISES AND EQUIPMENT

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

	2019	2018
Land & Building	$ 3,451,679	$ 3,451,679
Leasehold Improvements	2,672,610	2,216,110
Furniture & Fixtures	835,688	708,444
Computer & Other Equipment	2,253,104	1,921,860
	9,213,081	8,298,093
Less Accumulated Depreciation and Amortization	(3,851,080)	(3,291,943)
	$ 5,362,001	$ 5,006,150

Depreciation and amortization expense on premises and equipment was $836,807 and $550,927 for 2019 and 2018, respectively.

On December 31, 2018, the Bank closed and vacated its El Paseo branch in the Coachella Valley. As the contractual obligation for these premises continues through December 31, 2020, the Bank recorded a lease liability for the fair value of the remaining lease obligations, which was $180,000 as of December 31, 2019, and $348,000 as of December 31, 2018.

ASU 2016-02, *Leases (Topic 842),* and related amendments were adopted on January 1, 2019, using the modified retrospective transition method whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Bank elected the transition package of practical expedients permitted under the new standard. In addition, the Bank elected the practical expedients related to accounting for lease and non-lease components as a single lease component and not to recognize a ROU asset and lease liability for short-term leases.

Substantially all leases are operating leases for corporate offices and branch locations and loan production offices. The amount of the lease liability and ROU asset is impacted by the lease term and the discount rate applied to determine the present value of future lease payments. The remaining terms of operating leases range from 9 months to 5.5 years.

Most leases include one or more options to renew, with renewal terms that can extend the lease term by varying amounts. The exercise of renewal options is at the sole discretion of the Bank. Renewal option periods were not included in the measurement of ROU assets and lease liabilities as they are not considered reasonably certain of exercise.

NOTE E - PREMISES AND EQUIPMENT - CONTINUED

Upon adoption of this standard, ROU assets of $6.0 million and lease liabilities of $6.4 million were recognized. The statement of financial condition and supplemental information at December 31, 2019 are shown below.

Operating Lease ROU Assets	$ 4,112,707
Operating Lease Liability	$ 5,015,405
Weighted Average Remaining Lease Term, in Years	3.98
Weighted Average Discount Rate	5%

Variable lease cost primarily represents variable payments such as common area maintenance and utilities. The following table represents lease costs and other lease information for the year ended December 31, 2019:

Lease Costs:	
Operating Lease Cost	$ 1,375,869
Variable Lease Cost	236,063
Short-term Lease Cost	49,524
Total Lease Costs	$ 1,661,456
Other Information:	
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	$ 1,451,298
ROU Assets Obtained in Exchange for New Operating Lease Obligations	$ 190,363

Lease costs for the year ended December 31, 2018 amounted to $1,138,540.

NOTE E - PREMISES AND EQUIPMENT - CONTINUED

Maturities of lease liabilities for periods indicated:

Twelve Months Ended December 31:	
2020	$ 1,793,919
2021	1,174,276
2022	838,927
2023	852,731
2024	760,185
Thereafter	148,332
Total Future Minimum Lease Payments	5,568,370
Less: Imputed Interest	552,965
Present Value of Net Future Minimum Lease Payments	$ 5,015,405

NOTE F - DEPOSITS

At December 31, 2019, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	$ 124,795,841
Due from One to Three Years	37,829,529
Due over Three Years	6,039,283
Total Time Deposits	$ 168,664,653

NOTE G - BORROWING ARRANGEMENTS

The Bank has a credit facility with the Federal Home Loan Bank of San Francisco (‘FHLB”), under which the Bank may enter borrowing agreements under various terms and conditions, subject to pledging qualifying collateral, such as investment securities and loans. The Bank has investment securities with a carrying value of $4,029,000 and loans with a carrying value of approximately $269,083,000 pledged with the FHLB at December 31, 2019. The Bank had outstanding borrowings of $30,000,000 at December 31, 2019. The Bank has a $10,000,000 term borrowing at a fixed rate of 3.197% , which matures November 2023, a second term borrowing in the amount of $10,000,000 at a rate of 3.173% which matures May 2024, and a third term borrowing at a rate of 1.57% which matures August 2024. Available remaining borrowing capacity from the FHLB at December 31, 2019, based upon collateral pledged was approximately $131,018,000.

The Bank has a $5,000,000 overnight credit line on an unsecured basis from a correspondent bank. The line is subject to annual review. The Bank had no overnight borrowings under this correspondent line at December 31, 2019 or 2018.

NOTE G - BORROWING ARRANGEMENTS - CONTINUED

The Bank has credit availability at the Federal Reserve discount window to the extent of collateral pledged. The Bank has pledged loan collateral at December 31, 2019 with a book value of $11,299,000. The Bank had no discount window borrowings at December 31, 2019 or 2018.

NOTE H - INCOME TAXES

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

	2019	2018
Current Taxes Payable:		
Federal	$ 1,899,000	$ 1,584,145
State	1,173,000	925,855
	3,072,000	2,510,000
Deferred Taxes	(162,000)	(236,000)
Total Expense	$ 2,910,000	$ 2,274,000

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

	2019		2018	
	Amount	Rate	Amount	Rate
Federal Taxes	$ 2,033,000	21.0%	$ 1,582,000	21.0%
State Taxes	846,000	8.7%	661,000	8.8%
Employee Stock Based Comp	50,000	0.5%	12,000	0.2%
Tax Free Income	(65,000)	(0.6%)	(62,000)	(0.8%)
Merger Expenses	37,000	0.4%	65,000	0.9%
Other	9,000	0.1%	16,000	0.1%
	$ 2,910,000	30.1%	$ 2,274,000	30.2%

The Bank is subject to Federal and California franchise tax. Income tax returns for the years ending after December 31, 2015 are open to audit by the Federal authorities and income tax returns for the years ending after December 31, 2014 are open to audit by California authorities.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE H - INCOME TAXES - CONTINUED

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:

	2019	2018
Deferred Tax Assets:		
Allowance for Loan Losses	$ 1,387,000	$ 990,000
Stock-Based Compensation	251,000	142,000
Acquisition Basis Differences	1,041,000	808,000
California Franchise Tax	236,000	194,000
Deferred Expense Deductions	453,000	686,000
Deferred Lease Liabililty	1,483,000	-
Other	294,000	264,000
	5,145,000	3,084,000
Deferred Tax Liabilities:		
Deferred Loan Costs	(495,000)	(430,000)
Acquisition Basis Differences	(1,100,000)	(507,000)
Depreciation Differences	(74,000)	(56,000)
Deferred ROU Asset	(1,216,000)	-
Other	(223,000)	(71,000)
	(3,108,000)	(1,064,000)
Net Deferred Tax Assets	$ 2,037,000	$ 2,020,000

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE I - OTHER EXPENSES

Other expenses for the years ended December 31 are comprised of the following:

	2019	2018
Data Processing and Communications	$ 2,175,748	$ 1,593,758
Legal, Audit and Professional	459,463	435,588
Merger and Other Non-recurring Expenses	592,812	1,796,203
Regulatory Assessments	233,821	314,420
Marketing, Advertising and Public Relations	565,460	496,241
Travel, Training and Office	435,332	331,764
Deposit Administration and Online Banking	328,996	275,506
Core Deposit Intangible Amortization	442,693	242,471
Loan Administration	76,131	64,928
Loan Collections and OREO Expense	260,215	179,714
Insurance and Correspondent Charges	126,272	112,491
Director and Shareholder Expenses	520,744	350,925
Operating Losses and Other Expenses	53,680	63,880
	$ 6,271,367	$ 6,257,889

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:

	2019		2018	
	Income	Shares	Income	Shares
Net Income as Reported	$ 6,773,012		$ 5,258,007	
Weighted-Average Shares Outstanding		8,452,104		7,091,176
Used in Basic EPS	6,773,012	8,452,104	5,258,007	7,091,176
Dilutive Effect of Outstanding:				
Stock Options	-	179,321	-	271,185
Restricted Stock Grants	-	-	-	-
Used in Dilutive EPS	$ 6,773,012	8,631,425	$ 5,258,007	7,362,361

At December 31, 2019 and 2018, there were 222,500 and 15,000 stock options, respectively, that were potentially dilutive to 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.

The balance of these loans outstanding and activity in related party loans for the periods ended December 31, 2019 and 2018 follows:

	2019	2018
Balance at Beginning of Year	$ 3,178,963	$ 4,191,893
New Credit Granted	85,000	134,669
Credit Disbursements (Repayments)	1,752,865	(1,147,599)
	$ 5,016,828	$ 3,178,963

Deposits held by the Bank from directors and related interests at December 31, 2019 and 2018, amounted to approximately $4,503,000 and $6,692,000, respectively.

The Bank leases the Ramona branch office from a principal shareholder under an operating lease expiring in 2022 on terms considered to be prevailing in the market at the time of the lease. Total lease expense for each of 2019 and 2018 was $38,000 and future minimum lease payments under the lease were $87,000 as of December 31, 2019.

NOTE L - COMMITMENTS AND 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.

NOTE L - COMMITMENTS AND CONTINGENCIES - CONTINUED

As of December 31, 2019 and 2018, 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:

	2019	2018
Commitments to Extend Credit	$ 131,630,313	$ 86,451,216
Letters of Credit Issued to Customers	4,548,300	4,485,864
	$ 136,178,613	$ 90,937,080

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.

In 2016, the Bank entered into deferred compensation agreements with certain key officers. Under these agreements, the Bank is obligated to provide, upon retirement, a 10-year benefit to the officers. The annual benefits range from $8,873 to $175,000. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The expense incurred for these agreements in 2019 was $173,214 and $135,390 in 2018. The Bank is a beneficiary of life insurance policies that have been purchased as a method of financing the benefits under these agreements.

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 2001 Plan, officers and key employees were granted either nonqualified or incentive stock options and directors, who were not also an officer or employee, were granted nonqualified stock options. Under the 2001 Plan, stock options were granted at prices not less than 100% of the fair market value of the stock on the date of grant; options granted expired no later than ten years from the date of the grant; and option grants generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

NOTE M - STOCK-BASED COMPENSATION PLAN - CONTINUED

In November 2011, the board of directors adopted the Omnibus Equity Incentive Plan (the "2011 Omnibus Plan") providing for up to 544,907 shares of common stock that could be issued pursuant to awards of stock options, including incentive stock options, and restricted share awards. In 2016, shareholders approved increasing the number of shares authorized and remaining under the 2011 Omnibus Plan to 997,235. The 2011 Omnibus Plan provides that any director, employee or consultant of the Bank shall be eligible to be designated a participant in the 2011 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. Stock options expire no later than ten years from the date of the grant. The 2011 Omnibus Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

In June 2019, the board of directors adopted the 2019 Omnibus Equity Incentive Plan (the "2019 Omnibus Plan"), providing for up to 1,150,000 shares of common stock that could be issued pursuant to awards of options, including incentive stock options, and restricted share awards. Upon adoption of the 2019 Omnibus Plan, the 2011 Omnibus Plan was terminated; however, options previously granted under the 2011 Omnibus Plan remain valid in accordance with their terms. 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. Stock options expire no later than ten years from the date of the grant. The 2019 Omnibus Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

The Bank recognized stock-based compensation cost of $600,740 and $318,603 in 2019 and 2018, respectively. The Bank also recognized related tax benefits of approximately $108,000 in 2019 and $48,000 in 2018.

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 2019:

	2019
Expected Volatility	37.24%
Expected Term (Years)	6.5
Expected Dividends	None
Risk Free Rate	2.54%
Weighted-Average Grant Date Fair Value	$ 5.41

There were no stock options granted for the year ending December 31, 2018.

NOTE M - STOCK-BASED COMPENSATION - CONTINUED

A summary of changes in outstanding stock options during 2019 and options exercisable at December 31, 2019 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	660,600	$ 7.91		
Granted	242,500	$ 12.96		
Exercised	(2,500)	$ 10.00		
Expired	(1,000)	$ 9.67		
Forfeited	(36,500)	$ 12.82		
Outstanding at End of Year	863,100	$ 9.11	6.5 Years	$3,141,684
Options Exercisable	445,300	$ 7.50	5.3 Years	$2,337,825

The intrinsic value of stock options exercised in 2019 was approximately $8,000 and $150,000 in 2018.

During December 2011, the Bank granted 17,009 shares of restricted stock valued at $5.35 per share, of which 4,859 shares vested in 2013 and 2,430 shares vested each year from 2014 to 2018. The intrinsic value of the shares vested in the year ended December 31, 2018 was $32,781. Additionally, in 2019, the Bank granted 47,500 Restricted shares to vest over four years beginning in February 2020, with a weighted average grant date fair value of $12.96 per share.

As of December 31, 2019, there was $1,750,480 of total unrecognized compensation cost related to the outstanding stock options and restricted stock that will be recognized over a weighted-average period of approximately 1.63 years as shown below:

2020	$ 589,575
2021	483,117
2022	395,924
2023	239,780
2024	42,084
	$ 1,750,480

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.

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.

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules). The new rules, Basel III, became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer for 2019 is 2.50%. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

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, Tier 1 and CET1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019 and 2018, 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. There were no conditions or events since that notification that management believes have changed the Bank’s category.

NOTE N - REGULATORY MATTERS - CONTINUED

To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required: To be Adequately Capitalized		Amount of Capital Required: To be Well-Capitalized under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019:						
Total Capital (to Risk-Weighted Assets)	$108,167	16.2%	$ 53,327	8.0%	$ 66,658	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	102,684	15.4%	39,995	6.0%	53,327	8.0%
CET1 Capital (to Risk-Weighted Assets)	102,684	15.4%	29,996	4.5%	43,328	6.5%
Tier 1 Capital (to Average Assets)	102,684	12.8%	32,058	4.0%	40,073	5.0%
As of December 31, 2018:						
Total Capital (to Risk-Weighted Assets)	$ 87,808	14.4%	$ 48,662	8.0%	$ 60,828	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	83,315	13.7%	36,497	6.0%	48,662	8.0%
CET1 Capital (to Risk-Weighted Assets)	83,315	13.7%	27,372	4.5%	39,538	6.5%
Tier 1 Capital (to Average Assets)	83,315	11.5%	28,935	4.0%	36,168	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).

NOTE O – ACQUISITIONS

Effective close of business on July 31, 2018, the Bank acquired Americas United Bank of Glendale, California, which operated four branch offices in Los Angeles County: one each in Glendale, Commerce, Lancaster and Santa Fe Springs. As a result of the acquisition, the Bank assumed $202.7 million in deposit liabilities and $1 million of other liabilities, and acquired $190.6 million of loans, $5.8 million in bonds and $1.2 million of FHLB equity stock; $26.4 million in cash and cash equivalents, and $3.6 million in other assets. Under the terms of the agreement, Americas United Bank shareholders received $7.00 plus .4746 shares of Bank of Southern California Common Stock per share of Americas United Bank Common Stock, for a total consideration of $41.6 million. The acquisition of Americas United Bank provides the Bank with the opportunity to expand its footprint in Southern California.

As part of this transaction, the Bank purchased one loan which, at acquisition, showed evidence of deterioration of credit quality since origination and it was probable, at acquisition, that not all contractually required payments would be collected. The carrying amount of this loan was $1,185,515.

Income is not recognized on purchased credit impaired loans if the Bank cannot reasonably estimate cash flows expected to be collected.

The following table presents the amounts that compromise the fair value of loans acquired loans from Americas United Bank as of July 31, 2018:

Contractual amounts receivable	$	194,357,855
Contractual cash flows not expected to be collected		(2,148,683)
Expected Cash Flows, net		192,209,172
Interest Component of Expected Cash Flows		(1,655,002)
Fair Value of Acquired Loans	$	190,554,170

NOTE O – ACQUISITIONS - CONTINUED

The acquisition was accounted for using the purchase method of accounting. The following table represents the fair value of assets and liabilities acquired from Americas United Bank:

Cash and Cash Equivalents	$	26,408,148
FHLB Stock and Investment Securities		6,981,601
Loans		190,554,170
Premises and Equipment		357,231
Deferred Tax Assets, Prepaids and Other Assets		3,202,627
Core Deposit Intangible		2,500,850
Fair Value of Assets Acquired		230,004,627
Deposits		202,661,655
Other Liabilities		1,009,345
Fair Value of Liabilities Assumed		203,671,000
Total Consideration		41,553,431
Goodwill	$	15,219,804

As this was a non-taxable transaction, goodwill recorded is not deductible for tax purposes. The core deposit intangible will be amortized over the expected account retention period, which was originally estimated at approximately 10 years or 120 months. The core deposit intangible will be evaluated periodically to determine the reasonableness of the projected amortization period by comparing actual deposit retention to projected retention

The following supplemental pro forma information presents certain financial results for the years ended December 31, 2018 and 2017 as if the acquisition of Americas United Bank was effective as of January 1, 2017. The unaudited pro forma financial information included in the table below is based on various estimates and is presented for informational purposes only and does not indicate the financial condition or results of operations of the combined company that would have been achieved for the periods presented had the transactions been completed as of the date indicated or that may be achieved in the future.

	Year Ended December 31,			
	2018		2017	
	(in thousands)			
Net interest income and noninterest income	$	32,538	$	28,768
Net income	$	5,788	$	5,751
Net income per share:				
Basic	$	0.69	$	0.69
Diluted	$	0.67	$	0.68

The amount of revenue and earnings of Americas United Bank from the acquisition date to the end of 2018 is not disclosed as it is impractical to determine since a separate record of such revenues and earnings was not maintained by the Bank after acquisition.

NOTE P- FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

Financial Assets

The carrying amounts of cash, short term investments, due from customers on acceptances, and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits with banks. The determination of the fair value of investment securities is discussed in Note Q. The carrying amount of loans, net of the allowance for loan losses, is estimated to approximate fair value for purposes of this disclosure. The fair value of loans as estimated in this manner represents an exit price notion.

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.

NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

The estimated fair value hierarchy level and estimated fair value of financial instruments at December 31 is summarized as follows:

		2019		2018	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Cash and Due From Banks	Level 1	$ 9,897,767	$ 9,897,767	$ 13,526,228	$ 13,526,228
Fed Funds and Interest Bearing Balances	Level 1	80,950,002	80,950,002	53,140,000	53,140,000
Investment Securities Available for Sale	Level 2	16,343,747	16,343,747	24,937,552	24,937,552
Loans, net	Level 3	671,291,554	666,747,000	630,278,398	627,358,000
Restricted Stock	Level 2	6,098,550	6,098,550	6,084,150	6,084,150
Accrued Interest Receivable	Level 2	2,192,308	2,192,308	2,273,825	2,273,825
Financial Liabilities:					
Deposits	Level 2	671,913,530	672,716,000	627,815,989	626,580,000
FHLB Advances	Level 2	30,000,000	30,235,000	35,000,000	35,235,000
Accrued Interest Payable	Level 2	288,268	288,268	419,927	419,927

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).

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. The fair value of OREO is generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs (Level 3).

NOTE Q - FAIR VALUE MEASUREMENT - CONTINUED

Appraisals for other real estate owned and collateral dependent loans are performed by certified general appraisers whose qualifications and licenses have been reviewed and verified by the Bank. Once received, a member of the loan department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value. The Bank also determines what additional adjustments, if any, should be made to the appraisal values on any remaining other real estate owned to arrive at fair value. The Bank had no OREO as of December 31, 2019 or 2018.

The Bank has no liabilities measured and recorded at fair value as of December 31, 2019. The Bank had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2019.

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2019:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 16,343,747	$ -	$ 16,343,747

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2018:

	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis				
Securities Available for Sale	$ -	$ 24,937,552	$ -	$ 24,937,552

Bank had no non-recurring Level 3 fair value measurements at December 31, 2019 or December 31, 2018.

NOTE R - SUBSEQUENT EVENTS

On October 21, 2019, Bank of Southern California entered into a definitive agreement with CalWest Bancorp, which is expected to close in the first half of 2020, subject to customary closing conditions, including the receipt of all regulatory approvals and the approval of the shareholders of CalWest Bancorp and Bank of Southern California. The Bank has also announced plans to reorganize as a holding company, Southern California Bancorp, to facilitate the CalWest transaction and to support the Bank's future growth. Additionally, directors and executive officers of CalWest Bancorp and Bank for Southern California have entered into agreements committing to vote their shares in favor of the transaction. The Bank raised $11.4 million of common equity, net of expenses, in December 2019, to support the acquisition and assist in financing the all-cash consideration. The transaction is valued at approximately $32 million. CalWest Bancorp has total assets of over $230 million at December 31, 2019.

BOARD OF DIRECTORS

John Farkash | Chairman of the Board
Adriana Boeka| Principal, The Manex Group
Irwin L. Golds | CEO and Co-founder of Capitis Real Estate
Lester Machado, MD, DDS, FRCS (Ed) | Oral and Maxillofacial Surgeon
Joseph E. Matranga, C.P.A. | President and Founder of Matranga & Company, CPA's
Nathan L. Rogge | President and CEO, Bank of Southern California
David J. Volk | Principal, Castle Creek Advisors

EXECUTIVE MANAGEMENT

Nathan L. Rogge | President and Chief Executive Officer
James H. Burgess |Executive Vice President and Chief Financial Officer
Anthony J. DiVita | Executive Vice President and Chief Operating Officer
Pamela C. Isaacson | Executive Vice President and Chief Administrative Officer
Robert A. Marshall | Executive Vice President and Chief Credit Officer

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PROFESSIONAL CONSULTANTS

Eide Bailly, L.L.P. | Independent Auditor
Duane Morris, L.L.P. | Legal Counsel

COMMON STOCK INFORMATION

Stock Exchange Listing | The common stock trades on the OTC Marketplace (OTC Pink) under the symbol BCAL.
Computershare Investor Services | Transfer Agent

BANK OF
SOUTHERN
CALIFORNIA

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