

SOUTHERN  
CALIFORNIA  
BANCORP

BANK OF  
SOUTHERN  
CALIFORNIA



# Growing Relationships.

MORE THAN A HANDSHAKE.

**2020 ANNUAL REPORT**  
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

# What is the value of a relationship?

Since 2001, Bank of Southern California has been guided by our belief that when we forge deep and meaningful relationships with our clients, colleagues, and the community we achieve a business model that meets the needs of the communities we serve, while consistently delivering long-term growth and value for our shareholders.

This year, we're honored to share five stories of relationships with valued clients that exemplify our beliefs and how those relationships have enabled growth for these Southern California companies.

As we look back on a year of unprecedented challenges, we are heartened to see how our beliefs, and our relationships have sustained us and positioned us for further growth in the year ahead.

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## 2020 HIGHLIGHTS

Executed aggressive  
**expansion plan**  
in the  
Los Angeles market

Maintain status as  
**well-capitalized**  
the highest  
regulatory category

Origination of  
**\$558 Million**  
in Paycheck Protection  
Program (PPP) loans

Record annual revenue  
**\$48.2 Million**  
in 2020

★★★★★  
Safe & Sound® Rating by Bankrate.com

★★★★★  
Superior Performance Rating by Bauer Financial

**A+**

Health Rating by Deposit Accounts  
by LendingTree

Celebrating 19 years  
in business with  
**\$1.6 Billion**  
in assets and growing

Named one of the  
**Best Places  
to Work**  
by the San Diego  
Business Journal in  
2018, 2019, 2020

## Putting our principles into practice.

**\$558**

MILLION  
IN PPP LOANS  
IN 2020

**\$1.2**

BILLION IN  
DEPOSITS  
AT END  
OF 2020

### 2020 WAS A TOUGH YEAR, AND NOT JUST IN FINANCE AND BUSINESS.

The COVID pandemic placed strains on communities and families no one could have predicted in 2019. Hundreds of our business customers across Southern California watched their hard work begin to crumble. Many struggled to pay their staff and some even struggled to keep their doors open.

As events unfolded, Bank of Southern California responded quickly and decisively.

In 2020, we provided over \$558 million in PPP loans to local small businesses. These funds kept over 900 businesses going during the darkest days of shuttered business and supported over 35,000 jobs. As a bank and as a member of our community, we were proud to stick to our vision of finance built on trust, and banking built on relationships.

Today, local businesses are finally beginning to turn a corner and are getting back on a road to profitability. Many customers who deferred loan repayment in 2020 have returned to paying status and a total of \$162 million in loans have now been reinstated.

Despite the challenges of a tough year, we've seen some remarkable growth. Our total loans increased to \$1.2 billion in 2020, representing an 82 percent increase from 2019. Deposits increased by \$523 million from 2019 and now total \$1.2 billion. We're excited to see that close to 45 percent of these deposits are non-interest bearing, suggesting that customers are banking with us out of loyalty—and a recognition that our values are an important part of what makes Bank of Southern California different.

“DEPOSITS INCREASED BY  
**\$523 MILLION** FROM 2019 AND  
NOW TOTAL **\$1.2 BILLION**.”



## The sweet smell of success. And reinvention.

**RAUL PORTO IS THE CEO OF PORTO'S BAKERY.** The company first opened for business in 1976. But the idea for Porto's Bakery began much earlier. Raul's mother, Rosa, started baking from her home in Cuba back in the Sixties. Times were tough. It was a way to survive.

"My mother's cooking was something special. She was always making new dishes and trying new things," Raul remembers.

Raul's family arrived in the US with \$50. But potential and talent are priceless. When they set up a small home business, word of Rosa's gift for baking spread quickly. They grew! Today, Porto's Bakery has over two thousand employees and five locations in Southern California. Despite its growth, the company takes pride in being a family business.

When COVID hit Southern California, business suffered. "We had to be imaginative. We had to think differently," Raul remembers. "We decided to make our food available online for delivery. It was a huge success. Our customers love it! Just heat it up, and your house smells like a bakery."

Raul credits Bank of Southern California as a critical ally in adapting to change. The bank helped Porto's Bakery pivot swiftly to meet customers' changing demands.

"Larger banks give loans based on certain criteria. If you don't fit, you're out of luck. Bank of Southern California knew us. They were local, so they understood our history and were willing to support us."

Porto's Bakery is continuing to grow. With their new Bake at Home service, the bakery breathed new life into Rosa's creative legacy. And they kept hordes of customers happy in the process.

"When we started the bakery, my mother sold cakes exclusively to friends and family. And as crazy as it sounds, I feel like even after how much we've grown, we've been able to maintain some of that family touch. Bank of Southern California has helped us move from where we were to where we wanted to go."



## Growth and transformation.

**BANK OF SOUTHERN CALIFORNIA ALSO SAW EXCITING OPPORTUNITIES FOR GROWTH AND TRANSFORMATION.** Our acquisition of CalWest Bank gave us the opportunity to expand our horizons in Orange County, a key region in Southern California that is filled with businesses seeking better banking services.

To give you a glimpse of the potential, Los Angeles and Orange County are home to roughly 600,000 small and middle-market businesses. Our typical customer here will have revenues between ten million and sixty million dollars per year, and average yearly loan commitments range from one million to five

million dollars. It's also a region that has seen a steady decline in banking services. In the past 20 years, banks headquartered in this region have decreased by close to 60 percent, even though median assets held by banks in the area increased by over 450 percent during the same period.



Bank of Southern California is therefore situated perfectly to meet the unmet demand of a rich pool of small to medium-sized businesses seeking high touch, customer service focused banking.

Far from resting on our laurels, the bank will keep growing and will continue to foster confidence among our investors. Our assets increased to \$1.6 billion in 2020, representing an increase of \$749 million from 2019. Building on that success, we were proud to announce the successful completion of a capital raise of \$42 million in December of last year. The investment community's vigorous support will continue to drive our expansion in 2021.

“BANK OF SOUTHERN CALIFORNIA CONTINUES TO **POSITION ITSELF** IN KEY SOUTHERN CALIFORNIA MARKETS TO **MEET THE NEEDS** OF SOUTHERN CALIFORNIA BUSINESSES.”



## Realizing this dream created beef that's a cut above.

**ERIC BRANDT IS THE CEO OF ONE WORLD BEEF.** He comes from a third-generation cattle ranching family. His dad was one of the original ranchers who brought the beef industry to his hometown of Brawley. Today, One World Beef is a multifaceted company involved in beef processing, commercial real estate, and an expanding range of consumer products.

They're in a strong position now. But in 2014, the Brawley beef industry was on the ropes. Over 1,500 people lost their jobs when the town's beef plant went under. In a small town, losses this size can echo across a whole community.

"Our vision was to bring the plant back, but in a sustainable way. We felt one way to do that was to give customers more choices. With wine, you can choose from Cabernet, Pinot Noir, Zinfandel. Why not elevate beef the same way?"

The odds were stacked against Brawley. Bringing the beef industry back in a new way wouldn't merely call for financial resources. It'd demand a new way of thinking. Eric knew he saw a way forward, but he also knew the company couldn't realize that vision on its own.

They needed a bank that was open to thinking differently about growth. "We needed to move fast," Eric recalls. "And our relationships with Bank of Southern California helped us do that. In a capital-intensive industry, they were responsive to our needs."

Today, a passion for the perfect cut of beef is driving One World Beef to new heights. They've employed close to 800 Brawley workers, and that number is growing every month. Eric had a great idea, and Bank of Southern California listened. Together, they found a way for One World Beef to flourish. "It's been a dream come true to be able to bring this plant that my dad envisioned 20 years ago back to life. Bank of Southern California helped us revive our community. And we're confident now that we can keep growing."



## Strong relationships. Smart solutions.

**SINCE 2001, BANK OF SOUTHERN CALIFORNIA'S VISION HAS BEEN TO GROW** alongside our clients and the communities we serve. Meaningful relationships built on trust have guided us through two decades of consistent growth and proven shareholder value.

In 2021, we'll continue to pursue that vision. This begins with our continued support for customers struggling to adapt to the COVID-19 pandemic and its economic fallout. We'll keep offering creative financing solutions for those businesses searching for new ways to thrive, and the customer stories in this annual report offer just a few windows into how we're making that happen.

Bank of Southern California will also continue to help the communities we serve by supporting important charity work. We donated over \$60,000 to more than 40 charitable organizations last year, many of which were struggling to keep their programs active and viable during the pandemic.

Another way we're growing relationships is through our energy for finding smart solutions. Last year, we hired a team of local banking executives to support our expansion into Los Angeles county. These financial experts have decades of combined experience working with local communities, and they understand the challenges and the opportunities that lie ahead. Combined with our current management team, we'll continue to earn our reputation as a bank with answers to those questions that keep our customers awake at night.

Our vision for beyond 2021 is to become the region's dominant commercial bank. With more experienced people and critical infrastructure in play, we're poised to make that vision a reality.

TOTAL  
DEPOSITS  
INCREASED  
**78%**  
OVER 2019

**\$60**  
THOUSAND  
DONATED TO  
MORE THAN 40  
ORGANIZATIONS

“**LOAN SUPPORT** DURING A TOUGH TIME  
WILL SET US APART AS A **SECURE**  
**AND TRUSTED** FINANCIAL PARTNER.”



## Building relationships that last a lifetime takes work. And understanding.

### **PROMISES2KIDS IS A LEADING SAN DIEGO NONPROFIT**

**ORGANIZATION.** For 40 years, Promises2Kids has worked to give foster children a brighter future. The organization started out funding emergency shelters for kids. Today, they've grown to offer a wide range of support services to the 3,000 San Diego children living in foster care.

"Our vision is to give foster youth a way to change their lives," CEO Tonya Torosian explains. "We give kids the tools, opportunities, and guidance they need to grow into healthy and successful adults."

Promises2Kids works closely with children to meet their unique needs. Recently, the organization reintroduced two brothers living in separate foster care facilities. They hadn't seen each other for six years. Promises2Kids reunited these brothers and rekindled their sense of family and personal belonging.

Work like this takes patience, commitment, and time. It also requires a skilled team, significant resources, and uninterrupted funding.

"We wanted to work with a bank that understands our organization and the kids we work with. That was really important to us. We didn't just want to be added to a bank's list of clients. We were looking for a banking relationship that would be community-focused. We wanted a partnership."

2020 was a challenging year, and the organization needed a loan to sustain its work. Other small businesses and nonprofits were having to let go of staff. Bank of Southern California worked with Promises2Kids to keep their programs going uninterrupted.

"When I sat down with Bank of Southern California at that first meeting, they were interested in more than our business model. They wanted to know about our mission and our work. They were coming up with ways they could support our youth through events, sponsoring, or volunteering. I walked out of there knowing I wanted them to be our bank."



## The future is bright.

**LOOKING AHEAD, THE SAME VALUES THAT GOT US HERE WILL CONTINUE TO GUIDE OUR FUTURE.** We'll nurture our relationships, and we'll continue to support our clients with creative financial solutions. With Bank of Southern California's acquisition of CalWest Bank, we have access to an additional \$1 trillion GDP across a diverse cross-section of middle-market industries. Collectively, our newly expanded geographic footprint encompasses San Diego County, Los Angeles County, Orange County, San Bernardino County, and the Coachella Valley in Riverside County. And with those expanded horizons come many new opportunities.

We'll keep growing deep roots in the communities we serve—with the inclusion of local business and civic leaders, as well as our continued active involvement in the good work of local nonprofit organizations.

We'll also stay committed to building a diverse team that can deftly manage change. We understand Southern California, and our executive management team has a proven track record in strategic growth. Whatever the future holds, we have the people, skills, and experience to not just grow, but thrive.

At Bank of Southern California, we're optimistic about our future. And we're confident we can build long-term value for you, our shareholders.

“BANK OF SOUTHERN CALIFORNIA IS NOW  
**UNIQUELY POSITIONED** TO MEET  
A VAST POOL OF **UNMET DEMAND.**”



## Vision. Integrity. Attention to detail. Success today, requires even more.

**ROBERT SCHLESIER STARTED A SMALL PROPERTY MANAGEMENT COMPANY WITH HIS BROTHER IN 1994.** Through the years, the brothers have pursued a vision to set a new bar for reliability and integrity. The company has always had a reputation for attention to detail. They're known for going the extra mile for tenants and property owners alike.

The company's story is also one of rapid expansion. Today, Utopia Management has 17 offices across California. They're one of the largest property management companies in San Diego. At the beginning of their journey, the Schlesier brothers worked with a large bank. But expansion proved difficult.

"The path wasn't as clear when we worked with the larger banks," Robert recalls of those early days. They didn't have a personalized approach. They knew who we were by account size, but they didn't know us. They didn't understand our business."

Utopia Management shifted to Bank of Southern California in 2014. Using a customized financing solution, Utopia Management navigated a series of successful acquisitions. Utopia Management has also thrived on banking flexibility.

"Banking hours would start at 10 am. We'd show up at 9 am, and the manager would open the door and help us take care of whatever we needed. That's invaluable. And that's not going to happen in most banks."

Utopia Management built a business around quality, high-end work for owners and clients. They take pride in offering a service that puts clients first. The brothers looked for a bank that offered the same quality-focused approach.

"When we've needed financing to help us grow, Bank of Southern California is there. If we needed clarity on anything, they know our account and what's going on. We don't have to worry about that side, and that allows us to focus on our business."





## Even automation can benefit from a personal touch.

**SPREAD ACROSS THREE SOUTHERN CALIFORNIA LOCATIONS,** Vista Professional Outdoor Lighting takes up a lot of space. Seventy thousand square feet of it, to be precise. It's a fact made more startling by company CFO Tony Rolando's reminder that the business started out from a garage way back in the 1980s. The founder, Daniel Cuñado, was an electrician by trade. In those early days, he built simple outdoor lighting setups for local homeowners. But realizing he was onto something, Daniel started quietly acquiring the equipment and contacts he needed to grow his business.

"When Daniel's wife, Martha, told him she wanted the family garage back, he knew it was time to scale up his operation!" Tony recalls.

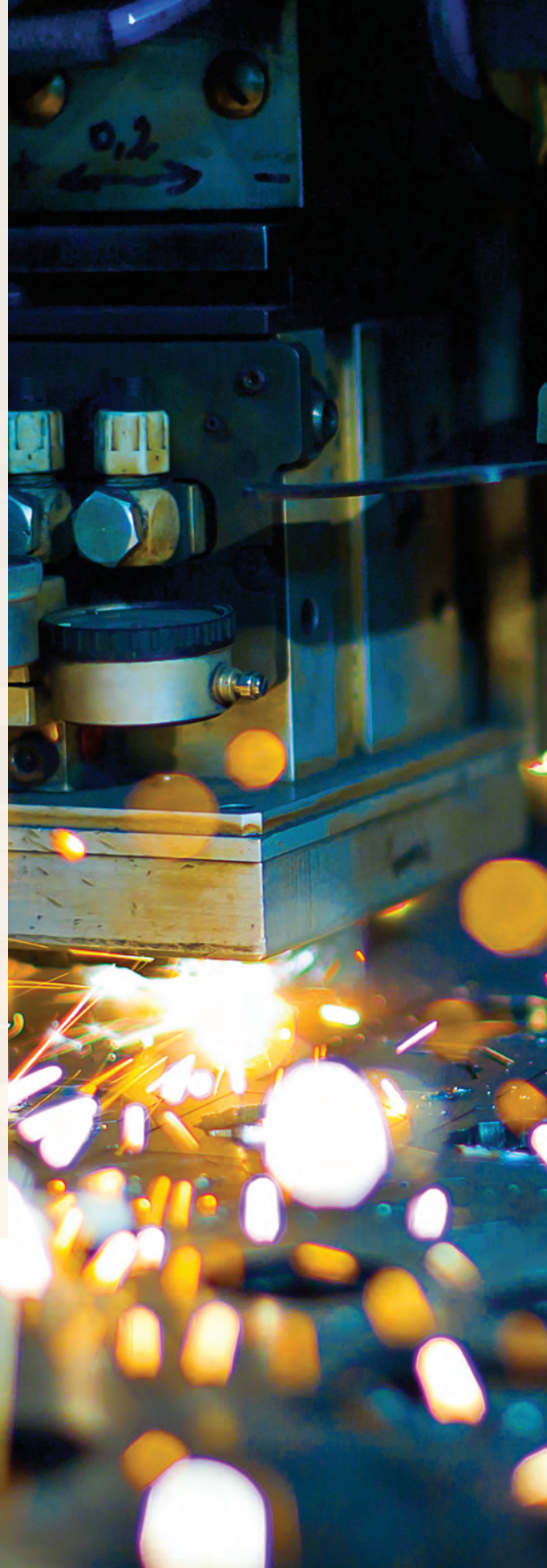
In recent years, Vista needed to invest in improved equipment. Intense competition and growing demand placed new pressures on the company. It was time to automate some key aspects of their production process.

Vista turned to Bank of Southern California for help.

"We needed eight new machines to help our business grow. I picked up the phone and talked to the bank about why automation is important to us. I explained it was the only way to stay competitive. They just said, 'sure, what do you need?' I had the papers on my desk in a few days."

Being around as long as it has, Vista Professional Outdoor Lighting has had its ups and downs. Part of Vista's resilience over the years boils down to resourcefulness.

"The founder of the company has always been that guy that found ways to make something work. He always says, 'hey, there's a problem; let me see if I can find a solution!' Bank of Southern California is that bank for us. If something comes up that challenges our future, it's reassuring to know we're with a bank that'll help us ride it out."







## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders  
Southern California Bancorp and Subsidiary  
San Diego, California

### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated statements of financial condition of Southern California Bancorp and Subsidiary (the "Company") as of December 31, 2020 and 2019, the related consolidated 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 "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company 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 consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company 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 Company'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 consolidated 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 consolidated 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.

**What inspires you, inspires us. | [eidebailly.com](http://eidebailly.com)**

## Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

### *Allowance for Loan Losses*

As discussed in Note D to the Company's consolidated financial statements, the Company has a gross loan portfolio of \$1.2 billion and related allowance for loan losses of \$10.3 million as of December 31, 2020. The Company's allowance for loan losses is a material and complex estimate requiring significant management judgment in the evaluation of the credit quality and the estimation of inherent losses within the loan portfolio. The allowance for loan losses includes a general reserve which is determined based on the results of a quantitative and a qualitative analysis of all loans not measured for impairment at the reporting date.

The Company's general reserves cover non-impaired loans and is based on historical loss rates for each portfolio. In calculating the allowance for loan losses, the Company considers relevant credit quality indicators for each loan segment, stratifies loans by risk rating, and estimates losses for each loan type based upon their nature and risk profile. This process requires significant management judgment in the review of the loan portfolio and assignment of risk ratings based upon the characteristics of loans. In addition, estimation of losses inherent within the portfolio requires significant management judgment, particularly where the Company has not incurred sufficient historical losses and has utilized industry data in forming its estimate.

Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Gaining an understanding of the design and implementation of controls relating to management's timely identification of problem loans, appropriate application of loan rating policy, consistency of application of accounting policies and appropriateness of assumptions used in the allowance for loan losses calculation.
- Evaluating the reasonableness of assumptions and sources of data used by management in forming historical loss factors by performing a retrospective review of loan loss experience and analyzing the historical data used in developing the assumptions.
- Evaluating the appropriateness of inputs and factors that the Company used in forming the qualitative loss factors and assessing whether such inputs and factors were relevant, reliable, and reasonable for the purpose used. We also evaluated the period-to-period consistency with which qualitative loss factors are determined and applied.
- Testing the mathematical accuracy and computation of the allowance for loan losses.



### *Accounting for Acquisitions*

As described in Note O to the Company's consolidated financial statements, the Company had a significant acquisition during the year ended December 31, 2020: the acquisition of CalWest Bancorp for a purchase price of \$25.9 million. As a result of this acquisition, management was required to determine estimated fair values of the assets and liabilities at the acquisition date.

The Company's determination of fair values of certain identifiable tangible and intangible assets is complex and included the following areas of management's judgments: (i) application of accounting guidance related to business combinations, (ii) significant unobservable inputs and assumptions utilized by management in determining the fair values of certain identifiable tangible and intangible assets, and (iii) changes in certain assumptions that could have a significant impact on the fair values of the identifiable tangible and intangible assets acquired.

Auditing these elements involved especially challenging auditor judgment due to the nature and extent of audit effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

- Gaining an understanding of the design and implementation of controls related to management's identification of assets and liabilities acquired in the acquisition transaction and management's consideration of the methodologies and related significant inputs and assumptions used in the determination of estimated fair values of assets and liabilities acquired.
- Assessing management's application of accounting guidance related to business combinations.
- Assessing the reasonableness of significant underlying assumptions by evaluating whether or not the information used by the Company: (i) was reasonably available at the time of the analysis; (ii) was the best information available under the circumstances; and (iii) gave consideration to observable market prices.
- Utilizing internal valuation specialists to assist in assessing the methodology utilized by management, including complex assumptions used, in the determination of fair values as of the acquisition date.



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

Laguna Hills, California  
April 29, 2021

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**December 31, 2020 and 2019**

**ASSETS**

	<u>2020</u>	<u>2019</u>
Cash and Due from Banks	\$ 11,950,639	\$ 9,897,767
Federal Funds and Interest Bearing Balances	<u>238,866,116</u>	<u>80,950,002</u>
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	250,816,755	90,847,769
Debt Securities Available for Sale	24,702,467	16,343,747
Loans	1,233,881,306	676,654,915
Allowance for Loan Losses	<u>( 10,255,005)</u>	<u>( 5,363,361)</u>
<b>NET LOANS</b>	1,223,626,301	671,291,554
Restricted Stock, at Cost	8,584,900	6,098,550
Premises and Equipment	6,517,144	5,362,001
Right of Use Asset	8,534,343	4,112,707
Goodwill and Other Intangibles	21,599,001	18,434,491
Bank Owned Life Insurance	17,990,765	11,113,559
Accrued Interest and Other Assets	<u>16,676,640</u>	<u>6,581,980</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 1,579,048,316</u></u>	<u><u>\$ 830,186,358</u></u>

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



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**December 31, 2020 and 2019**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<u>2020</u>	<u>2019</u>
Deposits:		
Noninterest-Bearing Demand	\$ 533,923,009	\$ 205,811,799
Interest-Bearing NOW Accounts	83,566,875	54,180,961
Money Market and Savings Accounts	458,529,872	243,256,117
Time Deposits Under \$250,000	67,158,098	102,927,485
Time Deposits \$250,000 and Over	51,561,436	65,737,168
<b>TOTAL DEPOSITS</b>	<u>1,194,739,290</u>	<u>671,913,530</u>
 Borrowings	 199,648,070	 30,000,000
Operating Lease Liability	9,397,488	5,015,405
Accrued Interest and Other Liabilities	6,378,428	2,734,250
<b>TOTAL LIABILITIES</b>	<u>1,410,163,276</u>	<u>709,663,185</u>
 Commitments and Contingencies - Notes E and L		
 Shareholders' Equity:		
Preferred Stock - 50,000,000 Shares Authorized, No Par Value; No Shares Issued and Outstanding in 2020 and 2019	 -	 -
Common Stock - 50,000,000 Shares Authorized, No Par Value; Issued and Outstanding 13,267,380 in 2020 and 9,405,190 in 2019	 146,895,943	 103,249,020
Retained Earnings	21,693,933	16,971,445
Accumulated Other Comprehensive Income - Net of Taxes	295,164	302,708
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>168,885,040</u>	<u>120,523,173</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>\$ 1,579,048,316</u></u>	<u><u>\$ 830,186,358</u></u>

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

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>INTEREST AND DIVIDEND INCOME</b>		
Interest and Fees on Loans	\$ 50,476,782	\$ 35,533,334
Interest on Debt Securities	421,958	590,470
Interest and Dividends on Federal Funds and Other Balances	916,228	1,572,841
<b>TOTAL INTEREST AND DIVIDEND INCOME</b>	<u>51,814,968</u>	<u>37,696,645</u>
<b>INTEREST EXPENSE</b>		
Interest on NOW, Savings, and Money Market Accounts	1,646,434	2,599,868
Interest on Time Deposits	2,233,699	3,532,339
Interest on Borrowings	1,989,988	710,129
<b>TOTAL INTEREST EXPENSE</b>	<u>5,870,121</u>	<u>6,842,336</u>
<b>NET INTEREST INCOME</b>	45,944,847	30,854,309
Provision for Loan Losses	4,552,000	1,000,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	41,392,847	29,854,309
<b>NONINTEREST INCOME</b>		
Service Charges and Fees on Deposit Accounts	563,296	543,230
Interchange and ATM Income	476,443	400,783
Other Charges and Fees	276,734	344,860
Increase in Cash Surrender Value of Bank Owned Life Insurance	360,780	245,419
Servicing and Related Income on Loans	138,440	41,091
Gain on Sale of Debt Securities	573,872	180,362
Loss on Sale, Disposal of Fixed Assets	( 92,857)	-
Gain on Sale of Loans	-	198,422
<b>TOTAL NONINTEREST INCOME</b>	<u>2,296,708</u>	<u>1,954,167</u>
<b>NONINTEREST EXPENSE</b>		
Salaries and Employee Benefits	21,690,611	12,726,318
Occupancy and Equipment Expenses	3,784,946	3,127,779
Other Expenses	11,445,756	6,271,367
<b>TOTAL NONINTEREST EXPENSE</b>	<u>36,921,313</u>	<u>22,125,464</u>
<b>INCOME BEFORE INCOME TAXES</b>	6,768,242	9,683,012
Income Tax Expense	2,045,754	2,910,000
<b>NET INCOME</b>	<u>\$ 4,722,488</u>	<u>\$ 6,773,012</u>
<b>NET INCOME PER SHARE - BASIC</b>	<u>\$ 0.50</u>	<u>\$ 0.80</u>
<b>NET INCOME PER SHARE - DILUTED</b>	<u>\$ 0.49</u>	<u>\$ 0.78</u>

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

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Net Income	\$ 4,722,488	\$ 6,773,012
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>		
Unrealized Gains (Losses) on Securities Available for Sale:		
Change in Net Unrealized Gain	563,247	678,714
Reclassification of Gain Recognized in Net Income	<u>( 573,872)</u>	<u>( 180,362)</u>
	( 10,625)	498,352
Income Taxes (Benefit):		
Change in Net Unrealized Gain	163,342	196,826
Reclassification of Gain Recognized in Net Income	<u>( 166,423)</u>	<u>( 52,305)</u>
	( 3,081)	144,521
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS)</b>	<u>( 7,544)</u>	<u>353,832</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u><u>\$ 4,714,944</u></u>	<u><u>\$ 7,126,844</u></u>

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



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**For the Years Ended December 31, 2020 and 2019**

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Shareholders' Equity</u>
<b>Balance at December 31, 2018</b>	8,408,022	\$ 91,213,065	\$ 10,198,433	\$( 51,124)	\$ 101,360,374
Stock-Based Compensation		600,740			600,740
Issuance of Common Stock, net	994,668	11,410,215			11,410,215
Stock Options Exercised	2,500	25,000			25,000
Net Income			6,773,012		6,773,012
Other Comprehensive Income				353,832	353,832
<b>Balance at December 31, 2019</b>	9,405,190	103,249,020	16,971,445	302,708	120,523,173
Stock-Based Compensation		2,653,241			2,653,241
Issuance of Common Stock, net	3,615,345	40,624,357			40,624,357
Stock Options Exercised	58,500	369,325			369,325
Restricted Share Awards Vested	188,345				-
Net Income			4,722,488		4,722,488
Other Comprehensive Loss				(7,544)	(7,544)
<b>Balance at December 31, 2020</b>	13,267,380	\$ 146,895,943	\$ 21,693,933	\$ 295,164	\$ 168,885,040

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

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2020 and 2019**

	2020	2019
<b>OPERATING ACTIVITIES</b>		
Net Income	\$ 4,722,488	\$ 6,773,012
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	1,453,400	1,279,500
Gain on Sale of Loans	-	( 198,422)
Provision for Loan Losses	4,552,000	1,000,000
Deferred Tax Benefits	( 2,091,000)	( 162,000)
Stock-Based Compensation	2,653,241	600,740
Increase in Cash Surrender Value of Bank Owned Life Insurance	( 360,780)	( 245,419)
Gain on Sale of Debt Securities	( 573,872)	( 180,362)
Accretion of Acquired Loans, Net	861,684	( 609,891)
Net Changes in Other Assets and Liabilities	1,142,315	117,456
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>12,359,476</b>	<b>8,374,614</b>
<b>INVESTING ACTIVITIES</b>		
Cash Paid for Acquisition of CalWest Bank	( 25,912,777)	-
Cash and Cash Equivalents Acquired from CalWest Bank	62,877,638	-
Purchase of BOLI	-	( 1,510,000)
Proceeds from Sale of Available-for-Sale Securities	10,008,843	6,932,705
Proceeds from Maturities/Paydowns of Available-for-Sale Securities	4,791,126	2,339,815
Purchases of Available-for-Sale Securities	( 13,667,616)	
Net Purchase of Stock Investments	( 705,400)	( 14,400)
Net (Funding) Repayment of Loans	( 337,316,130)	( 43,764,509)
Proceeds from Sale of Loans	-	2,499,135
Purchases of Premises and Equipment	( 1,766,916)	( 1,208,575)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>	<b>( 301,691,232)</b>	<b>( 34,725,829)</b>
<b>FINANCING ACTIVITIES</b>		
Net Increase in Deposits	281,815,536	44,097,541
Proceeds of Federal Home Loan Bank Advances	55,000,000	10,000,000
Repayment of Federal Home Loan Bank Advances	( 85,000,000)	( 15,000,000)
Proceeds of Other Borrowings	250,743,490	-
Repayment of Other Borrowings	( 94,251,966)	-
Proceeds from Common Stock Issued, net of Expenses	40,993,682	11,435,215
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>449,300,742</b>	<b>50,532,756</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>159,968,986</b>	<b>24,181,541</b>
Cash and Cash Equivalents at Beginning of Year	90,847,769	66,666,228
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>\$ 250,816,755</b>	<b>\$ 90,847,769</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 5,704,607	\$ 6,973,995
Taxes Paid	\$ 5,507,800	\$ 3,450,000
Lease Liability Arising from Obtaining ROU Assets	\$ 2,223,786	\$ 190,363

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

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

On May 15, 2020, Southern California Bancorp (the “Company”) acquired 100% of the outstanding shares of common stock of Bank of Southern California, N.A. (the “Bank”) which were converted into an equal number of shares of common stock of Southern California Bancorp. There was no cash involved in the transaction. The reorganization was accounted for as a pooling of interests and the consolidated financial statements contained herein have been restated to give full effect to this transaction.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company is a California corporation incorporated on October 2, 2019 and is registered with the Board of Governors of the Federal Reserve System as a bank holding company under the Bank Holding Company Act of 1956, as amended. The Bank is a wholly owned bank subsidiary of the Company and 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 and operates full-service banking offices in San Diego County, Los Angeles County, Orange County, and the Coachella Valley in Riverside County. Many of the banking offices have been acquired through a number of acquisitions completed since December 2010. In 2019, the Bank raised \$12 million in a common stock offering to support the acquisition of CalWest Bancorp (“CWB”) headquartered in Orange County, which closed in May 2020. 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”).

The Company completed the acquisition of CWB on May 31, 2020. The acquisition has been accounted for using the acquisition method of accounting and, accordingly, the operating results of CWB have been included in the consolidated financial statements from June 1, 2020 through December 31, 2020. Refer to Note O - Acquisitions, for more information about the CWB acquisition.

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.



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through April 29, 2021, the date the financial statements were available to be issued.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash 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.

Cash and Due From Banks

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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**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. 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

The Bank measures 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 \$288,000 and \$144,000 as of December 31, 2020 and 2019, respectively, and consists of an investment in a banker's bank 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.

A loan is classified as a TDR when the Company grants a concession to a borrower experiencing financial difficulties that it otherwise would not consider under our normal lending policies. These concessions may include a reduction of the interest rate, principal or accrued interest, extension of the maturity date or other actions intended to minimize potential losses. All modifications of criticized loans are evaluated to determine whether such modifications are TDR as outlined under ASC Subtopic 310-40, *Troubled Debt Restructurings by Creditors*. Loans restructured with an interest rate equal to or greater than that of a new loan with comparable market risk at the time the loan is modified may be excluded from certain restructured loan disclosures in years subsequent to the restructuring if the loans are in compliance with their modified terms.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

A loan that has been placed on nonaccrual status that is subsequently restructured will usually remain on nonaccrual status until the borrower is able to demonstrate repayment performance in compliance with the restructured terms for a sustained period of time, typically for six months. A restructured loan may return to accrual status sooner based on other significant events or mitigating circumstances. A loan that has not been placed on nonaccrual status may be restructured and such loan may remain on accrual status after such restructuring. In these circumstances, the borrower has made payments before and after the restructuring. Generally, this restructuring involves maturity extensions, a reduction in the loan interest rate and/or a change to interest-only payments for a period of time. The restructured loan is considered impaired despite the accrual status and a specific reserve is calculated based on the present value of expected cash flows discounted at the loan's original effective interest rate or based on the fair value of the collateral if the loan is collateral dependent.

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

Guidance on non-TDR loan modifications due to COVID-19

Section 4013 of the CARES Act, entitled "Temporary Relief from Troubled Debt Restructurings," provides banks with the option to temporarily suspend certain requirements under GAAP related to TDRs for the period beginning March 1, 2020 and ending on the earlier of December 31, 2020 or the date that is 60 days following the termination of the federal emergency declaration relating to the COVID-19 pandemic. On December 27, 2020, the President signed into law the 2021 Consolidated Appropriation Act that extended this guidance until the earlier of January 1, 2022 or 60 days after the date on which the national emergency declared as a result of COVID-19 is terminated.

On April 7, 2020, the federal banking agencies issued a revised joint statement, entitled "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised)". The Revised Statement clarifies the accounting treatment of loan modifications under Section 4013 of the CARES Act or in accordance with ASC Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors ("ASC Subtopic 310-40"). To be an eligible loan under section 4013, a loan modification must be (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date of termination of the National Emergency or (B) December 31, 2020 (applicable period). Financial institutions that account for loans under Section 4013 are not required to apply ASC Subtopic 310-40 to these loans for the term of the loan modification and will not have to report these loans as TDRs in regulatory reports.

In addition, the joint interagency statement encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of the COVID-19 pandemic. Pursuant to the interagency statement, loan modifications that do not meet the conditions of Section 4013 of the CARES Act may still qualify as a modification that does not need to be accounted for as a TDR. Specifically, the agencies confirmed with the staff of the Financial Accounting Standards Board (FASB) that short-term modifications made in good faith in response to the pandemic to borrowers who were current prior to any relief are not TDRs under GAAP. This includes short-term (e.g. six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or delays

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

in payments that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. Appropriate allowances for loan losses are expected to be maintained. With regard to loans not otherwise reportable as past due, financial institutions are not expected to designate loans with deferrals granted due to the pandemic as past due because of the deferral. The interagency statement also states that during short-term pandemic-related loan modifications, these loans generally should not be reported as nonaccrual.

For loan modifications that do not qualify for treatment under Section 4013 or ASC Subtopic 310-40, as clarified by the Revised Statement, financial institutions will be required to comply with existing accounting policies to determine whether the modification should be accounted for as a TDR.

The Company's initial loan deferral program provided a deferral of principal and/or interest-only payments for periods not exceeding 90-days for all loans that qualified under Section 4013 of the CARES Act. Loans that qualified for deferral under this program continued to accrue interest during the deferral period, unless they are considered impaired, and are not reported as past due loans or TDRs for the term of the deferral period. At the end of the deferral period, borrowers are required to resume making regularly scheduled loan payments and fully amortizing loans are re-amortized over the remaining term. All payments received will be applied first to interest payments that were deferred during the deferral period, and then to interest and principal as provided under the terms of the loan. The Company may grant an additional extension of the deferment period as a result of COVID-19. The accrued interest is reviewed to determine if a reserve for uncollectible interest is required.

**Purchased Credit Impaired Loans**

The Bank purchases groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased 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. As of December 31, 2020, the total carrying value of purchased credit impaired loans was approximately \$846,000, net of discounts to contractual value of approximately \$1.4 million, which could be accreted to income in the future if cash flows are greater than expected.



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each segment.

The Bank determines a separate allowance for each portfolio segment. The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. The Bank considers a loan to be impaired when it is probable that the Bank will be unable to collect all amounts due, principal and interest, according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the net realizable value of the collateral. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment as described above.

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

General reserves cover non-impaired loans and are based on historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience.

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

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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 \$145,000 at December 31, 2020 and \$120,000 at December 31, 2019 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.

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, 2020.

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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Loan Sales and Servicing of Financial Assets

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

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. For purposes of measuring impairment, the Bank has identified each servicing asset with the underlying loan being serviced. 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 prepayment speeds and changes in the discount rates.

Servicing fee income, which is reported on the consolidated income statement with servicing and related income on loans, 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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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.

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 \$340,240 in 2020 and \$263,897 in 2019 and is included in salaries and employee benefits expense in the consolidated statements of income.

Advertising Costs

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

Income Taxes

Deferred income taxes are computed using the asset and liability method, which recognizes a liability or asset representing the tax effects, based on current tax law, of future deductible or taxable amounts attributable to events that have been recognized in the financial statements. A valuation allowance is established to reduce the deferred tax asset to the level at which it is "more likely than not" that the tax asset or benefits will be realized. Realization of tax benefits of deductible temporary differences and operating loss 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 consolidated financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

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 \$573,872 for 2020, with a related tax effect of \$166,423, and \$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.

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.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting under ASC Topic 805 - *Business Combinations*. Under the acquisition method, the Company measures the identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in a business combination at fair value on acquisition date. Goodwill is generally determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

The Company accounts for merger-related costs, which may include advisory, legal, accounting, valuation, other professional fees, data conversion fees, contract termination charges and branch consolidation costs, as expenses in the periods in which the costs are incurred and the services are received.



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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Goodwill

Goodwill is the excess purchase price over the fair value of all identifiable assets and liabilities acquired and totals \$19,723,000 and \$16,220,000 at December 31, 2020 and 2019, respectively. 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, 2020 and 2019, 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 from 2010 through 2014, each of which included branch offices in the Coachella Valley, the Bank 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. In 2020, the Bank acquired CalWest Bank and recorded core deposit intangibles of \$47,000 related to branch offices primarily in Orange County. The core deposit intangibles are being amortized over periods of seven to ten years. Amortization expense for the years ending December 31, 2020 and 2019 was \$385,503 and \$442,693, respectively. Accumulated amortization as of December 31, 2020 and 2019 was \$1,798,388 and \$1,412,885. Future estimated amortization expense for each of the next five years is as follows:

2021	\$ 351,452
2022	\$ 324,851
2023	\$ 290,930
2024	\$ 220,870
2025	\$ 207,256
Thereafter	\$ 481,007

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 consolidated financial statements.

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Revenue Recognition – Noninterest Income

The core principle of Topic 606, *Revenue from Contracts with Customers*, is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise more judgment when considering the terms of a contract than under Topic 605, *Revenue Recognition*. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams, such as income from bank owned life insurance and gain and losses on sales of investment securities and loans, are out of scope of Topic 606.

Topic 606 is applicable to noninterest revenue streams such as (i) service charges and fees on deposit accounts, including account maintenance, transaction-based and overdraft services, and (ii) interchange fees, which represent fees earned when a debit card issued by the Bank is used. These revenue streams are largely transaction-based and revenue is recognized upon completion of transaction.

All of the Bank's revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income in the consolidated statements of income.

Gains/losses on the sale of OREO are included in non-interest income/expense in the consolidated statements of income 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.

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:

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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.

Recently Adopted Accounting Pronouncements

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework- Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The primary objective of ASU 2018-13 was to improve the effectiveness of disclosures in the notes to financial statements. ASU 2018-13 was effective for interim and annual reporting periods beginning after December 15, 2019, although early adoption was permitted. The Company adopted this guidance on January 1, 2020. The adoption of ASU 2018-13 did not have a material impact to the Company's consolidated financial statements.

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

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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 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.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Financial Instruments - Credit Losses* (Topic 326). The amendments in this Update clarify certain aspects of Topic 326 guidance issued in ASU 2016-13 including guidance providing transition relief for troubled debt restructurings ("TDRs"). This ASU will be effective upon adoption of ASU 2016-13 (Topic 326). The Company has not yet determined the potential impact of the adoption of ASU 2019-11 to the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12). The amendments in this Update simplify the accounting for income taxes by removing certain exceptions for investments, intraperiod allocations, and interim calculations, and add guidance to reduce the complexity of applying Topic 740. This ASU is effective for fiscal years beginning after December 15, 2021 and interim periods beginning after December 15, 2022, with early adoption permitted. The Company has not yet determined the potential impact of the adoption of ASU 2019-12 to the consolidated financial statements.

On March 12, 2020, the FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* (ASU 2020-04), which provides optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments are effective for all entities as of March 12, 2020 and may be adopted through December 31, 2022. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, that an entity has elected certain optional expedients for and that are retained through the end of the hedging relationship. The Company is still currently evaluating the impact of ASU 2020-04 to the consolidated financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform* (Topic 848), which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. Specifically, certain provisions in Topic 848, if elected by an entity, apply to derivative instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. Amendments in this Update to the expedients and exceptions in Topic 848 capture the incremental consequences of the scope clarification and tailor the existing guidance to derivative instruments affected by the discounting transition. The amendments in ASU 2021-01 are elective and apply to all entities that have derivative

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**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

instruments that use an interest rate for margining, discounting, or contract price alignment that is modified as a result of reference rate reform. The amendments also optionally apply to all entities that designate receive-variable-rate, pay-variable-rate cross-currency interest rate swaps as hedging instruments in net investment hedges that are modified as a result of reference rate reform. The amendments in ASU 2021-01 are effective immediately for all entities. The Company does not expect the adoption of ASU 2021-01 will have a material impact to the consolidated 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
<b>December 31, 2020</b>				
U.S. Government and Agency:				
Mortgage-Backed Securities	\$ 5,419,141	\$ 20,600	\$( 9,583)	\$ 5,430,158
SBA Securities	9,860,150	10,884	( 27,397)	9,843,637
Taxable Municipals	4,799,414	338,458	-	5,137,872
Tax Exempt Bank-Qualified Municipals	1,708,038	82,702	-	1,790,740
Other Debt Securities	2,500,000	60	-	2,500,060
	<u>\$24,286,743</u>	<u>\$ 452,704</u>	<u>\$( 36,980)</u>	<u>\$ 24,702,467</u>
<b>December 31, 2019</b>				
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
	<u>\$15,917,398</u>	<u>\$ 438,864</u>	<u>\$( 12,515)</u>	<u>\$ 16,343,747</u>



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**NOTE B - DEBT SECURITIES - CONTINUED**

The amortized cost and estimated fair value of all debt securities as of December 31, 2020 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	\$ -	\$ -
Due from One Year to Five Years	5,135,206	5,513,247
Due from Five to Ten Years	12,198,007	12,213,788
Due after Ten Years	1,534,389	1,545,273
Mortgage-Backed Securities	5,419,141	5,430,159
	<u>\$ 24,286,743</u>	<u>\$ 24,702,467</u>

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, 2020 and 2019 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
<b>December 31, 2020:</b>						
Mortgage-Backed Securities	\$( 3,835)	\$ 1,506,176	\$( 5,748)	\$ 340,943	\$( 9,583)	\$ 1,847,119
SBA Securities	( 27,397)	8,298,363	-	-	( 27,397)	8,298,363
Taxable Municipals	-	-	-	-	-	-
Tax Exempt Bank-Qualified Municipals	-	-	-	-	-	-
Other Debt Securities	-	-	-	-	-	-
	<u>\$( 31,232)</u>	<u>\$ 9,804,539</u>	<u>\$( 5,748)</u>	<u>\$ 340,943</u>	<u>\$( 36,980)</u>	<u>\$ 10,145,482</u>
<b>December 31, 2019:</b>						
Mortgage-Backed Securities	\$ -	\$ -	\$( 12,515)	\$ 416,830	\$( 12,515)	\$ 416,830
Taxable Municipals	-	-	-	-	-	-
Tax Exempt Bank-Qualified Municipals	-	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$( 12,515)</u>	<u>\$ 416,830</u>	<u>\$( 12,515)</u>	<u>\$ 416,830</u>

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**NOTE B - DEBT SECURITIES - CONTINUED**

As of December 31, 2020, there was one debt security, and as of December 31, 2019, there was one debt security, 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, 2020, no unrealized losses are deemed to be other-than-temporary.

The Bank had gross gains of \$573,872 and gross losses of \$0 for sales of debt securities for the year ended 2020. The Bank had gross gains of \$195,709 and gross losses of \$15,347 for sales of debt securities for the year ended 2019.

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 \$8,523,000 and \$4,029,000 at December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Federal Reserve Bank	\$ 3,955,100	\$ 2,746,450
Federal Home Loan Bank	<u>4,629,800</u>	<u>3,352,100</u>
	<u>\$ 8,584,900</u>	<u>\$ 6,098,550</u>

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**NOTE D - LOANS**

The Bank's loan portfolio consists primarily of loans to borrowers within its markets of Counties of San Diego, Orange and Los Angeles, California, as well as the Coachella Valley in Riverside 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, 2020 was 53%.

The Bank has originated loans that are serviced 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 \$38,980,035 at December 31, 2020 and \$33,229,000 at December 31, 2019.

*Paycheck Protection Program ("PPP").* Beginning in April of 2020, the Company participated in the PPP, administrated by the SBA, in assisting borrowers with additional liquidity. PPP loans are 100% guaranteed by the SBA and carry a fixed rate of 1.00%. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 (the "Flexibility Act") was signed into law which changed key provisions of the PPP, including provisions relating to the maturity of PPP loans, the deferral of PPP loan payments, and the forgiveness of PPP loans. Under the Flexibility Act, as clarified by the SBA in an October 7, 2020 update, the maturity date for PPP loans funded before June 5, 2020 remained at two years from funding while the maturity date for PPP loans funded after June 5, 2020 was five years from funding. In addition, the Flexibility Act, increased the period during which PPP loan proceeds are to be used for purposes that would qualify the loan for forgiveness (the "covered period") from 8 weeks to 24 weeks, at the borrower's election, for PPP loans made prior to June 5, 2020, and set the covered period for loans made after June 5, 2020 at 24 weeks from funding. Under the Flexibility Act, PPP borrowers are not required to make any payments of principal or interest before the date on which SBA remits the loan forgiveness amount to the Company (or notifies the Company that no loan forgiveness is allowed) and, although PPP borrowers may submit an application for loan forgiveness at any time prior to the maturity date, if PPP borrowers do not submit a loan forgiveness application within 10 months after the end of their covered period, such borrowers will be required to begin paying principal and interest after that period. For loans originated under the SBA's PPP loan program, interest and principal payments on these loans were originally deferred for six months following the funding date, during which time interest would continue to accrue. The Flexibility Act extended the deferral period for borrower payments of principal, interest, and fees on all PPP loans to the date that the SBA remits the borrower's loan forgiveness amount to the lender (or, if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower's loan forgiveness covered period). The extension of the deferral period under the Flexibility Act automatically applied to all PPP loans.

At loan origination, the Company was paid a processing fee from the SBA ranging from 1% to 5% based on the loan size. At December 31, 2020, PPP loans, net of unearned fees of \$5.3 million, totaled \$407 million, which are included in commercial and industrial loans. The unearned fees are being accreted to interest income based on an effective yield method over the estimated life of the loans, including estimated forgiveness payments. The SBA began approving forgiveness applications and making payments as forgiveness was approved in the fourth quarter of 2020. At December 31, 2020, approximately \$110 million of PPP loans had been forgiven by the SBA or repaid by borrowers and \$8.2 million in net deferred fees had been accreted to income.

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**NOTE D - LOANS - CONTINUED**

*Payment Deferrals.* Throughout 2020, the Company granted payment deferrals on loans totaling \$186 million for COVID-19 related reasons, which either qualified as modifications under Section 4013 of the CARES Act or were otherwise not considered to be TDRs. At December 31, 2020, \$162 million, or 87%, of the total loans originally on payment deferral had resumed making regular, contractually agreed-upon payments.

The Bank has pledged loans with a carrying value of \$329,030,000 to collateralize credit facilities at the FHLB of San Francisco and the FRB as of December 31, 2020. Additionally, the Bank had pledged \$169,382,934 of SBA Paycheck Protection Program (PPP) Loans to the FRB Paycheck Protection Program Liquidity Program (PPPLF) as of December 31, 2020.

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

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Period	\$ 5,363,361	\$ 4,372,643
Provision for Loan Losses	4,552,000	1,000,000
Loans Charged Off	( 105,132)	( 164,239)
Recoveries on Loans Charged Off	<u>444,776</u>	<u>154,957</u>
Net Recoveries (Charge-offs)	<u>339,644</u>	<u>( 9,282)</u>
Balance, End of Period	<u>\$ 10,255,005</u>	<u>\$ 5,363,361</u>



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**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, 2020 and 2019 and for the years then ended follows:

	Construction and Land Development	Real Estate - Other	Commercial & Industrial	Consumer	Total
<b>December 31, 2020</b>					
Allowance for Loan Losses:					
Beginning of Year	\$ 233,182	\$ 3,875,723	\$ 1,239,299	\$ 15,157	\$ 5,363,361
Provisions	210,178	3,560,535	745,872	35,415	4,552,000
Charge-offs	-	(92,391)	-	(12,741)	(105,132)
Recoveries	-	11,247	427,896	5,633	444,776
End of Year	<u>\$ 443,360</u>	<u>\$ 7,355,114</u>	<u>\$ 2,413,067</u>	<u>\$ 43,464</u>	<u>\$ 10,255,005</u>
Specific Reserves	\$ -	\$ -	\$ -	\$ -	\$ -
General Reserves	443,360	7,355,114	2,413,067	43,464	10,255,005
	<u>\$ 443,360</u>	<u>\$ 7,355,114</u>	<u>\$ 2,413,067</u>	<u>\$ 43,464</u>	<u>\$ 10,255,005</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ 129,808	\$ 734,680	\$ -	\$ 864,488
Collectively	31,375,236	619,909,286	576,874,733	4,857,563	1,233,016,818
	<u>\$ 31,375,236</u>	<u>\$ 620,039,094</u>	<u>\$ 577,609,413</u>	<u>\$ 4,857,563</u>	<u>\$ 1,233,881,306</u>
<b>December 31, 2019</b>					
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	<u>\$ 233,182</u>	<u>\$ 3,875,723</u>	<u>\$ 1,239,299</u>	<u>\$ 15,157</u>	<u>\$ 5,363,361</u>
Specific Reserves	\$ -	\$ -	\$ 131,149	\$ -	\$ 131,149
General Reserves	233,182	3,875,723	1,108,150	15,157	5,232,212
	<u>\$ 233,182</u>	<u>\$ 3,875,723</u>	<u>\$ 1,239,299</u>	<u>\$ 15,157</u>	<u>\$ 5,363,361</u>
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
	<u>\$ 24,679,602</u>	<u>\$ 526,439,401</u>	<u>\$ 122,969,242</u>	<u>\$ 2,566,670</u>	<u>\$ 676,654,915</u>

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**December 31, 2020 and 2019**

**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.

**Doubtful** - Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, highly questionable and improbable.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**NOTE D - LOANS - CONTINUED**

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2020 and 2019 follows:

	Pass	Special Mention	Substandard	Impaired	Total
<b>December 31, 2020</b>					
Construction and Land Development	\$ 31,256,301	\$ -	\$ 118,935	\$ -	\$ 31,375,236
Real Estate - Other:					
1-4 Family Residential	99,156,669	4,087,622	-	123,100	103,367,391
Multifamily Residential	111,815,776	-	-	-	111,815,776
Commercial Real Estate and Other	403,480,913	240,925	1,127,381	6,708	404,855,927
Commercial and Industrial	576,331,882	-	542,851	734,680	577,609,413
Consumer	4,857,563	-	-	-	4,857,563
	<u>\$1,226,899,104</u>	<u>\$ 4,328,547</u>	<u>\$ 1,789,167</u>	<u>\$ 864,488</u>	<u>\$1,233,881,306</u>

	Pass	Special Mention	Substandard	Impaired	Total
<b>December 31, 2019</b>					
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
	<u>\$ 668,307,015</u>	<u>\$ 6,164,709</u>	<u>\$ 271,948</u>	<u>\$ 1,911,243</u>	<u>\$ 676,654,915</u>

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE D - LOANS - CONTINUED**

A summary of past due loans, loans still accruing over 90 days and nonaccrual loans as of December 31, 2020 and 2019 follows:

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
<b>December 31, 2020</b>			
Construction and Land Development	\$ -	\$ -	\$ -
Real Estate:			
1-4 Family Residential	86,530	-	123,100
Multifamily Residential	-	-	-
Commercial Real Estate and Other	2,197,659	-	6,708
Commercial and Industrial	-	-	734,680
Consumer	-	-	-
	<u>\$ 2,284,189</u>	<u>\$ -</u>	<u>\$ 864,488</u>

	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
<b>December 31, 2019</b>			
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	-	-	-
	<u>\$ 2,433,194</u>	<u>\$ -</u>	<u>\$ 1,911,243</u>



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**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, 2020:

<b>December 31, 2020</b>	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no Related Allowance Recorded</b>					
Construction and Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate:					
1-4 Family Residential	291,863	123,100	-	147,768	2,328
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	52,104	6,708	-	9,895	-
Commercial and Industrial	3,279,727	734,680	-	894,579	-
Consumer	12,742	-	-	7,003	-
<b>With an Allowance Recorded</b>					
Construction and Land Development	-	-	-	-	-
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	-	-	-	-	-
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
	<u>\$ 3,636,436</u>	<u>\$ 864,488</u>	<u>\$ -</u>	<u>\$ 1,059,245</u>	<u>\$ 2,328</u>

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**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:

<b>December 31, 2019</b>	<b>Unpaid Principal Balance</b>	<b>Recorded Investment</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
<b>With no Related Allowance Recorded</b>					
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	-	-	-	-	-
<b>With an Allowance Recorded</b>					
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	-	-	-	-	-
	<u>\$ 3,555,565</u>	<u>\$ 1,911,243</u>	<u>\$ 131,149</u>	<u>\$ 2,187,046</u>	<u>\$ 2,778</u>

No additional funds are committed to be advanced on impaired loans. The Bank received income recognized on a cash basis of \$2,328 on impaired loans in 2020 and \$2,778 in 2019. The principal balance of impaired loans that was guaranteed by the SBA was \$523,379 and \$919,704 at December 31, 2020 and 2019, respectively.

The Bank did not have any loans that have been modified in troubled debt restructurings as of December 31, 2020 and December 31, 2019. No loans were modified during 2020 and 2019 which resulted in a troubled debt restructuring.

The balance of unamortized loan origination fees, net of unamortized loan origination costs and premiums, at December 31, 2020, included in total loans was \$5,320,318. This balance includes \$5,312,035 in net unamortized fees on SBA Paycheck Protection Program Loans originated in 2020. The balance of unamortized loan origination costs and premiums, net of unamortized loan origination fees, included in total loans was \$772,802 at December 31, 2019. The unamortized purchase discount related to business acquisitions on loans acquired at fair value and included in total loans was \$4,112,351 and \$2,975,081 as of December 31, 2020 and 2019, respectively.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE E - PREMISES AND EQUIPMENT**

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

	2020	2019
Land & Building	\$ 3,451,679	\$ 3,451,679
Leasehold Improvements	3,655,209	2,672,610
Furniture & Fixtures	1,531,540	835,688
Computer & Other Equipment	2,518,649	2,253,104
	<u>11,157,077</u>	<u>9,213,081</u>
Less Accumulated Depreciation and Amortization	( 4,639,933)	( 3,851,080)
	<u>\$ 6,517,144</u>	<u>\$ 5,362,001</u>

Depreciation and amortization expense on premises and equipment was \$1,067,897 and \$836,807 for 2020 and 2019, respectively.

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 right of use (“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 7.8 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.

The statement of financial condition and supplemental information at December 31 are shown below.

	2020	2019
Operating Lease ROU Assets	\$ 8,534,343	\$ 4,112,707
Operating Lease Liability	\$ 9,397,488	\$ 5,015,405
Weighted Average Remaining Lease Term, in Years	5.82	3.98
Weighted Average Discount Rate	5.3%	5.0%

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE E - PREMISES AND EQUIPMENT - CONTINUED**

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 years ending December 31:

	<u>2020</u>	<u>2019</u>
Lease Costs:		
Operating Lease Cost	\$ 1,965,299	\$ 1,375,869
Variable Lease Cost	300,890	236,063
Short-term Lease Cost	<u>51,002</u>	<u>49,524</u>
Total Lease Costs	<u>\$ 2,317,191</u>	<u>\$ 1,661,456</u>
Other Information:		
Cash Paid for Amounts Included in Lease Liabilities	\$ 2,164,030	\$ 1,451,298
ROU Assets Obtained for New Operating Lease Obligations	\$ 2,224,124	\$ 190,363

Lease liabilities as of December 31, 2020, mature as indicated below:

Twelve Months Ended December 31:	
2021	\$ 2,087,020
2022	1,877,113
2023	1,817,074
2024	1,736,175
2025	1,154,115
Thereafter	<u>2,331,399</u>
Total Future Minimum Lease Payments	11,002,896
Less: Imputed Interest	<u>1,605,408</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 9,397,488</u>

**NOTE F - DEPOSITS**

At December 31, 2020, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	\$ 107,847,123
Due from over One to Three Years	10,151,648
Due over Three Years	<u>720,763</u>
Total Time Deposits	<u>\$ 118,719,534</u>

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**December 31, 2020 and 2019**

**NOTE G - BORROWING ARRANGEMENTS**

A summary of outstanding borrowings as of December 31 follows:

	2020	2019
FHLB Advances	\$ 10,000,000	\$ 30,000,000
FRB PPP Liquidity Facility	169,382,934	-
Subordinated Notes	17,580,231	-
Subordinated Debentures	2,684,905	-
Total Borrowings	<u>\$ 199,648,070</u>	<u>\$ 30,000,000</u>

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 \$8,523,000 and loans with a carrying value of approximately \$315,854,000 pledged with the FHLB at December 31, 2020. During 2020, the Bank paid off \$30,000,000 in FHLB fixed rate advances prior to maturity and incurred a prepayment penalty of \$2,369,349, which was accounted for as a debt extinguishment and is included in other noninterest expenses in the consolidated statements of income.

The Bank had outstanding FHLB borrowings of \$10,000,000 at December 31, 2020, advanced under a special recovery program at a rate of 0.0%, and that mature in May, 2021. As of December 31, 2020, FHLB has also issued a \$22 million letter of credit to secure public deposits of the Bank. Available remaining borrowing capacity from the FHLB at December 31, 2020, based upon collateral pledged was approximately \$137,484,000.

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, 2020 with a book value of \$13,176,000. The Bank had no discount window borrowings at December 31, 2020 or 2019. Additionally, the Bank participated in the FRB Paycheck Protection Program Liquidity Facility (PPPLF) during 2020 and has pledged PPP loans of \$169,382,934 as collateral to secure advances under this program at December 31, 2020. The PPPLF advances bear interest at a fixed rate of 0.35%, have maturities of less than two years, but must be repaid as PPP loans are paid off, unless previously paid off by the Bank, at its option.

On May 28, 2020, the Company issued \$18,000,000 of 5.50% Fixed-to-Floating Rate Subordinated Notes Due 2030 (the "Notes"). The Notes mature March 25, 2030, accrue interest at a fixed rate of 5.50% through the fixed rate period to March 26, 2025, after which interest accrues at a floating rate of 90-day SOFR plus 350 basis points, until maturity, unless redeemed early, at the Company's option, after the end of the fixed rate period. Issuance costs of \$475,000 were incurred and are being amortized over the first 5-year fixed term of the Notes; unamortized issuance costs at December 31, 2020, were \$419,769. At December 31, 2020, the Company was in compliance with all covenants and terms of the Notes.



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE G - BORROWING ARRANGEMENTS - CONTINUED**

In the acquisition of CalWest Bancorp, the Company assumed \$3,093,000 of junior subordinated deferrable interest debentures (the “Debentures”) which were issued to CalWest Statutory Trust I (the “Trust”). The Debentures mature September 17, 2033, and accrue interest at three-month LIBOR plus 2.95%, with an effective rate was 3.18% at December 31, 2020. The Company also acquired a 3% common interest in the Trust, which is comprised of mandatorily redeemable preferred securities. At acquisition, the Debentures were valued at a premium of \$408,095, which is being amortized over the remaining term of the borrowing.

The Bank has a \$5,000,000 overnight unsecured credit line from a correspondent bank. The line is subject to annual review. There were no outstanding borrowings under this line at December 31, 2020 or 2019.

**NOTE H - INCOME TAXES**

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

	2020	2019
Current Taxes Payable:		
Federal	\$ 2,604,177	\$ 1,899,000
State	1,532,577	1,173,000
	<u>4,136,754</u>	<u>3,072,000</u>
Deferred Taxes	<u>(2,091,000)</u>	<u>(162,000)</u>
Total Expense	<u><u>\$ 2,045,754</u></u>	<u><u>\$ 2,910,000</u></u>

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

	2020		2019	
	Amount	Rate	Amount	Rate
Federal Taxes	\$ 1,421,331	21.0%	\$ 2,033,000	21.0%
State Taxes	593,358	8.8%	846,000	8.7%
Employee Stock Based Comp	45,000	0.7%	50,000	0.5%
Tax Free Income	(86,000)	(1.2%)	(65,000)	(0.6%)
Merger Expenses	60,000	0.9%	37,000	0.4%
Other	12,065	0.2%	9,000	0.1%
	<u><u>\$ 2,045,754</u></u>	<u><u>30.4%</u></u>	<u><u>\$ 2,910,000</u></u>	<u><u>30.1%</u></u>

The Bank is subject to Federal and California franchise tax. Income tax returns for the years ending after December 31, 2016 are open to audit by the Federal authorities and income tax returns for the years ending after December 31, 2015 are open to audit by California authorities. There were no interest and penalties related to unrecognized tax benefits in income tax expense at December 31, 2020 and 2019. The total amount of unrecognized tax benefits was zero at December 31, 2020 and 2019.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**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:

	<u>2020</u>	<u>2019</u>
Deferred Tax Assets:		
Allowance for Loan Losses	\$ 2,918,000	\$ 1,387,000
Stock-Based Compensation	433,000	251,000
Acquisition Basis Differences	1,473,000	1,041,000
Net Operating Loss Carryforward	1,723,000	-
California Franchise Tax	322,000	236,000
Deferred Expense Deductions	1,324,000	453,000
Deferred Rent - Net	235,000	267,000
Other	343,000	294,000
	<u>8,771,000</u>	<u>3,929,000</u>
Deferred Tax Liabilities:		
Deferred Loan Costs	( 828,000)	( 495,000)
Acquisition Basis Differences	( 1,261,000)	( 1,100,000)
Depreciation Differences	( 143,000)	( 74,000)
Other	( 243,000)	( 223,000)
	<u>( 2,475,000)</u>	<u>( 1,892,000)</u>
Net Deferred Tax Assets	<u>\$ 6,296,000</u>	<u>\$ 2,037,000</u>

Section 382 of the Internal Revenue Code imposes an annual limitation on a corporation's ability to use any net unrealized built-in losses and other tax attributes, such as net operating loss and tax credit carryforwards, when it undergoes a 50% ownership change over a designated testing period not to exceed three years. As a result of the acquisition of CWB, the Company has federal and California Section 382 limited net operating loss carryforwards of approximately \$5.8 million at December 31, 2020, which are scheduled to begin expiring in 2029. The federal and California net operating loss carryforwards are subject to annual limitations of \$381,000 each. The Company expects to fully utilize the recorded federal and California net operating loss carryforwards before they expire.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE I - OTHER EXPENSES**

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

	2020	2019
Data Processing and Communications	\$ 2,870,311	\$ 2,175,748
Legal, Audit and Professional	868,282	459,463
Merger and Related Expenses	2,248,404	592,812
FHLB Prepayment Penalty	2,369,649	-
Regulatory Assessments	497,990	233,821
Marketing, Advertising and Public Relations	566,486	565,460
Travel, Training and Office	385,040	435,332
Deposit Administration and Online Banking	382,734	328,996
Core Deposit Intangible Amortization	385,503	442,693
Loan Administration	64,887	76,131
Loan Collections and OREO Expense	55,770	260,215
Insurance and Correspondent Charges	162,051	126,272
Director and Shareholder Expenses	545,251	520,744
Operating Losses and Other Expenses	43,398	53,680
	<u>\$ 11,445,756</u>	<u>\$ 6,271,367</u>

**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:

	2020		2019	
	Income	Shares	Income	Shares
Net Income as Reported	\$ 4,722,488		\$ 6,773,012	
Weighted-Average Shares Outstanding		9,480,736		8,452,104
<b>Used in Basic EPS</b>	4,722,488	9,480,736	6,773,012	8,452,104
Dilutive Effect of Outstanding:				
Stock Options and Unvested Stock Grants	-	219,667	-	179,321
<b>Used in Dilutive EPS</b>	<u>\$ 4,722,488</u>	<u>9,700,403</u>	<u>\$ 6,773,012</u>	<u>8,631,425</u>

At December 31, 2020 and 2019, there were 204,500 and 222,500 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. A total of 465,883 unvested performance based restricted stock grants have been excluded from the computation of diluted EPS for 2020 because the performance conditions had not been met as of December 31, 2020.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**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, 2020 and 2019 follows:

	<u>2020</u>	<u>2019</u>
Balance at Beginning of Year	\$ 5,016,828	\$ 3,178,963
New Credit Granted	5,250,000	85,000
Credit Disbursements (Repayments)	<u>(3,234,259)</u>	<u>1,752,865</u>
	<u>\$ 7,032,569</u>	<u>\$ 5,016,828</u>

Deposits held by the Bank from directors and related interests at December 31, 2020 and 2019, amounted to approximately \$2,925,000 and \$4,503,000, 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 2020 and 2019 was \$38,000 and future minimum lease payments under the lease were \$52,000 as of December 31, 2020.

**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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2020 and 2019**

**NOTE L - COMMITMENTS AND CONTINGENCIES - CONTINUED**

As of December 31, 2020, and 2019, 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:

	2020	2019
Commitments to Extend Credit	\$ 203,348,011	\$ 131,630,313
Letters of Credit Issued to Customers	7,003,733	4,548,300
	<u>\$ 210,351,744</u>	<u>\$ 136,178,613</u>

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 \$16,117 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 2020 was \$186,442 and in 2019 was \$173,214. 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.

In November 2011, the Bank adopted the Omnibus Equity Incentive Plan (the "2011 Omnibus Plan") providing for shares of common stock that could be issued pursuant to awards of stock options, including incentive stock options, and restricted share awards. 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.

In June 2019, the Bank 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.



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**NOTE M - STOCK-BASED COMPENSATION PLAN - CONTINUED**

In contemplation of the holding company reorganization, in November 2019 the Company's Board of Directors adopted the Southern California Bancorp 2019 Omnibus Equity Incentive Plan (the "SCB Plan"). The SCB Plan was approved by shareholders in April 2020 with a maximum number of shares of common stock that may be issued or paid out under the plan of 2,200,000. In October 2020, the Company's Board of Directors approved increasing the maximum number of shares under the SCB Plan by 300,000 to 2,500,000. Under the SCB Plan, options and restricted share awards outstanding under the 2001 Plan, the 2011 Omnibus Plan and the 2019 Omnibus Plan became equivalent awards under the SCB Plan. In addition, the SCB Plan permits the Company to grant additional stock options and restricted share awards. The Plan provides for the granting to eligible participants such incentive awards as the Board of Directors or a committee established by the Board, in its sole discretion, to administer the Plan (the "Committee") may from time to time approve. 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 SCB Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

Total stock-based compensation cost was \$2,653,241 and \$600,740 in 2020 and 2019, respectively, and related tax benefits were approximately \$706,000 in 2020 and \$108,000 in 2019.

As of December 31, 2020, there was \$12,111,923 of total unrecognized compensation cost related to the outstanding stock options and restricted share awards that will be recognized over a weighted-average period of approximately 1.93 years as shown below:

2021	\$	3,176,405
2022		3,100,055
2023		2,949,146
2024		1,401,760
2025		1,484,557
	\$	<u>12,111,923</u>

*Stock Options*

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 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Expected Volatility	37.24%	37.24%
Expected Term (Years)	6.5	6.5
Expected Dividends	None	None
Risk Free Rate	0.29%	2.54%
Weighted-Average Grant Date Fair Value	\$ 9.11	\$ 5.41

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**NOTE M - STOCK-BASED COMPENSATION PLAN - CONTINUED**

A summary of changes in outstanding stock options during 2020 and options exercisable at December 31, 2020 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	863,100	\$ 9.11		
Granted	18,500	\$ 9.30		
Exercised	( 58,500)	\$ 6.31		
Expired	( 17,000)	\$ 10.28		
Forfeited	( 23,100)	\$ 11.74		
Outstanding at End of Year	<u>783,000</u>	<u>\$ 9.22</u>	<u>5.8 Years</u>	<u>\$2,763,990</u>
Options Exercisable	<u>504,900</u>	<u>\$ 8.18</u>	<u>5.0 Years</u>	<u>\$2,307,393</u>

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	<u>863,100</u>	<u>\$ 9.11</u>	<u>6.5 Years</u>	<u>\$3,141,684</u>
Options Exercisable	<u>445,300</u>	<u>\$ 7.50</u>	<u>5.3 Years</u>	<u>\$2,337,825</u>

The intrinsic value of stock options exercised was approximately \$216,000 and \$8,000 in 2020 and 2019, respectively.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**NOTE M - STOCK-BASED COMPENSATION PLAN - CONTINUED**

*Restricted Share Awards*

A summary of the changes in unvested restricted share awards and the balance of unvested awards outstanding at December 31, 2020, is presented below:

	Restricted Shares	Weighted- Average Grant Date Fair Value
Unvested at Beginning of Year	47,500	\$ 12.96
Granted	1,420,701	\$ 9.19
Vested	( 188,345)	\$ 8.78
Forfeited	( 3,750)	\$ 12.96
Unvested at End of Year	<u>1,276,106</u>	<u>\$ 9.37</u>

A summary of the changes in unvested restricted share awards and the balance of unvested awards outstanding at December 31, 2019, is presented below:

	Restricted Shares	Weighted- Average Grant Date Fair Value
Unvested at Beginning of Year	-	\$ -
Granted	47,500	\$ 12.96
Vested	-	\$ -
Forfeited	-	\$ -
Unvested at End of Year	<u>47,500</u>	<u>\$ 12.96</u>

The intrinsic value of the shares vested in the year ended December 31, 2020 was \$1,642,614. Of the total unvested restricted share awards outstanding as of December 31, 2020, vesting related to 465,883 shares is subject to various financial performance conditions being met by December 31, 2023, which the Company has assumed will be achieved for purposes of recognizing compensation cost. The associated cost is being charged to expense ratably over the requisite service period which extends to December 31, 2023. If the performance conditions are not achieved by 2023, the previously recognized compensation cost will be fully reversed. A total of \$259,157 of stock-based compensation expense was recognized in 2020 related to the performance based restricted share awards.

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 SCB Plan, vested options generally expire ninety days after the director or employee terminates the service affiliation with the Bank.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**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.

Banks considered to be "adequately capitalized" are required to maintain a minimum total capital ratio of 8.0%, a minimum Tier 1 capital ratio of 6.0%, a minimum common equity Tier 1 capital ratio of 4.5%, and a minimum leverage ratio of 4.0%. Banks considered to be "well capitalized" must maintain a minimum total capital ratio of 10.0%, a minimum Tier 1 capital ratio of 8.0%, a minimum common equity Tier 1 capital ratio of 6.5%, and a minimum leverage ratio of 5.0%. As of December 31, 2020, the most recent notification date to the regulatory agencies, the Bank is "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's categories.

Management believes, as of December 31, 2020, that the Company and the Bank met all capital adequacy requirements to which we are subject.

Basel III, the comprehensive regulatory capital rules for U.S. banking organizations, requires all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. Effective January 1, 2019, the capital conservation buffer increased by 0.625% to its fully phased-in 2.5%, such that the common equity Tier 1, Tier 1 and total capital ratio minimums inclusive of the capital conservation buffers were 7.0%, 8.5%, and 10.5%. At December 31, 2020, the Bank was in compliance with the capital conservation buffer requirements.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**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		To be Well-Capitalized under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2020:</b>						
Total Capital (to Risk-Weighted Assets)	\$ 172,316	20.4%	\$67,448	8.0%	\$84,310	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 161,916	19.2%	50,586	6.0%	67,448	8.0%
CET1 Capital (to Risk-Weighted Assets)	\$ 161,916	19.2%	37,939	4.5%	54,801	6.5%
Tier 1 Capital (to Average Assets)	\$ 161,916	12.0%	53,767	4.0%	67,208	5.0%
<b>As of December 31, 2019:</b>						
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%

The Company is not subject to similar regulatory capital requirements. At December 31, 2020, the Company qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, is not subject to consolidated capital rules at the bank holding company level.

The primary source of funds for the Company is dividends from the Bank. Under federal law, the Bank may not declare a dividend in excess of its undivided profits and, absent the approval of the OCC, the Bank's primary banking regulatory, if the total amount of dividends declared by the Bank in any calendar year exceeds the total of the Bank's retained net income of that current period, year to date, combined with its retained net income for the preceding two years. The Bank also is prohibited from declaring or paying any dividend if, after making the dividend, the Bank would be considered "undercapitalized" (as defined by reference to other OCC regulations). Federal bank regulatory agencies have authority to prohibit banking institutions from paying dividends if those agencies determine that, based on the financial condition of the bank, such payment will constitute an unsafe or unsound practice.

The Federal Reserve limits the amount of dividends that bank holding companies may pay on common stock to income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policies.

On May 24, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act was signed into law with provisions to reduce the regulatory burden on community banks, including increasing the threshold for institutions qualifying for relief under the Policy Statement from \$1 billion to \$3 billion.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**NOTE O – ACQUISITIONS**

At the end of May 2020, the Company acquired CalWest Bancorp of Irvine, California, and its subsidiary, CalWest Bank (“CalWest”), which operated four branch offices, in Irvine, Rancho Santa Margarita, and Huntington Beach in Orange County, and Redlands, located in San Bernardino County. As a result of the acquisition, the Bank assumed \$241 million in deposit liabilities, \$43.1 million of borrowings, and \$4.3 million of other liabilities, and acquired \$220.4 million of loans, \$8.9 million in bonds and \$2.0 million of FRB, FHLB and other equity stock; \$62.9 million in cash and cash equivalents, and \$16.6 million in other assets. Pursuant to a definitive agreement dated October 19, 2019, as amended April 28, 2020, CalWest Bancorp shareholders received \$0.35 per share in a cash only transaction for a total consideration of \$25.9 million. The acquisition of CalWest provides the Company with the opportunity to expand its footprint in Southern California.

As part of this transaction, the Bank purchased three related loans that were classified as purchased credit impaired loans. These loans were participations in a shared national credit 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 contractual balance of these loans at acquisition was \$1,360,620 and the carrying amount, or fair value was \$251,938. Income is not being recognized on these purchased credit impaired loans as 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 from CalWest as of May 31, 2020:

Contractual amounts receivable	\$ 223,030,344
Contractual cash flows not expected to be collected	<u>(4,003,029)</u>
Expected Cash Flows, net	219,027,315
Interest Component of Expected Cash Flows	<u>1,404,986</u>
Fair Value of Acquired Loans	<u><u>\$ 220,432,301</u></u>



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE O – ACQUISITIONS - CONTINUED**

The acquisition was accounted for using the acquisition method of accounting. The following table represents the fair value of assets and liabilities acquired from CalWest.

Cash and Cash Equivalents	\$ 62,877,638
FHLB Stock and Investment Securities	10,911,651
Loans	220,432,301
Premises and Equipment	554,598
Deferred Tax Assets, Prepaids and Other Assets	15,966,976
Core Deposit Intangible	47,000
Fair Value of Assets Acquired	310,790,164
Deposits	241,010,224
Borrowings	43,101,105
Other Liabilities	4,269,071
Fair Value of Liabilities Assumed	288,380,400
Total Consideration	25,912,777
Goodwill	\$ 3,503,013

Goodwill represents the excess of the purchase consideration over the fair value of the net assets acquired and was primarily attributable to the expected synergies and economies of scale expected from combining the operations of the Company and CalWest. Goodwill is not deductible for U.S. income tax purposes and is not amortized. Rather, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, by comparing its carrying value to the reporting unit's fair value.

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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**NOTE O – ACQUISITIONS - CONTINUED**

The following supplemental pro forma information presents certain financial results for the years ended December 31, 2020 and 2019 as if the acquisition of CalWest Bancorp was effective as of January 1, 2019. 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.

	Unaudited	
	Year Ended December 31,	
	2020	2019
	<i>(in thousands)</i>	
Net interest income and noninterest income	\$ 52,234	\$ 41,710
Net income	\$ 4,147	\$ 13,755
Net income per share:		
Basic	\$ 0.43	\$ 1.63
Diluted	\$ 0.42	\$ 1.59

The amount of revenue and earnings of CalWest Bancorp and CalWest Bank from the acquisition date to the end of 2020, which is included in the Consolidated Statements of Income and the Consolidated Statements of Comprehensive Income, 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.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**NOTE P - FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED**

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 fair value of loans, which is based on an exit price notion, is generally determined using an income-based approach based on discounted cash flow analysis. This approach utilizes the contractual maturity of the loans and market indications of interest rates, prepayment speeds, defaults and credit risk in determining fair value. For impaired loans and loan with other adverse risk characteristics, an asset-based approach is applied to determine the estimated fair values of the underlying collateral. This approach utilizes the estimated net sales proceeds to determine the fair value of the loans when deemed appropriate. The implied sales proceeds value provides a better indication of value than using an income-based approach as these loans are not performing or exhibit strong signs indicative of non-performance.

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. The fair value of advances under the FRB PPP Liquidity Facility were considered to be the carrying value due to the ongoing availability of the facility.

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**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:

		2020		2019	
	Fair Value Hierarchy	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>					
Cash and Due From Banks	Level 1	\$ 11,950,639	\$ 11,950,639	\$ 9,897,767	\$ 9,897,767
Fed Funds and Interest Bearing Balances	Level 1	238,866,116	238,866,116	80,950,002	80,950,002
Debt Securities Available for Sale	Level 2	24,702,467	24,702,467	16,343,747	16,343,747
Loans, net	Level 3	1,223,626,301	1,218,871,000	671,291,554	666,747,000
Restricted Stock, at Cost	Level 2	8,584,900	8,584,900	6,098,550	6,098,550
Accrued Interest Receivable	Level 2	6,126,174	6,126,174	2,192,308	2,192,308
<b>Financial Liabilities:</b>					
Deposits	Level 2	1,194,739,290	1,195,496,000	671,913,530	672,716,000
Borrowings	Level 2	199,648,070	199,641,000	30,000,000	30,235,000
Accrued Interest Payable	Level 2	453,782	453,782	288,268	288,268

**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).

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
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**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, 2020 and 2019.

The Bank has no liabilities measured and recorded at fair value as of December 31, 2020. The Bank had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2020. Bank had no non-recurring Level 3 fair value measurements at December 31, 2020 or December 31, 2019.

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2020:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
<b>Assets measured at fair value on a recurring basis</b>				
Securities Available for Sale	\$ -	\$ 24,702,467	\$ -	\$ 24,702,467

Bank had no non-recurring Level 3 fair value measurements at December 31, 2020 or December 31, 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			Total
	Level 1	Level 2	Level 3	
<b>Assets measured at fair value on a recurring basis</b>				
Securities Available for Sale	\$ -	\$ 16,343,747	\$ -	\$ 16,343,747

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE R - SUBSEQUENT EVENTS**

On April 19, 2021, the Company and Friendly Hills Bank (“FHB”) jointly announced the signing of a definitive agreement whereby FHB will acquire three branches of the Bank located in Orange, Redlands and Santa Fe Springs, California. The definitive agreement calls for the purchase and assumption of certain assets and liabilities, including certain furniture and equipment and other assets and deposits of the branches, and the leases associated with the branch offices. No loans are being sold in the transaction. Total deposits included in the agreement were approximately \$74 million at the time of signing. Subject to shareholder and regulatory approvals, the transaction is expected to close in the third quarter of 2021.

In April 2021, the Company and the Bank were named in an Amended Complaint filed by a competing financial institution in the Superior Court of California, County of Los Angeles, Central District. The Amended Complaint alleges causes of action against the Company and the Bank for intentional and negligent interference with prospective economic advantage, aiding and abetting breach of fiduciary duty, and unfair competition. In addition, the Amended Complaint alleges causes of action against the Bank’s Executive Chairman for breach of contract, breach of the implied covenant of good faith and fair dealing, intentional interference with prospective economic advantage, breach of fiduciary duty, and unfair competition. The Amended Complaint seeks actual damages, punitive damages, costs of suit, and injunctive relief. The Company believes the Amended Complaint is without merit and plans to defend itself vigorously. No accrual has been made in the consolidated financial statements for this loss contingency as of December 31, 2020.

On April 27, 2021, the Company and Bank of Santa Clarita (“BSCA”) jointly announced the signing of a definitive merger agreement. Pursuant to the merger agreement, which is expected to close in the third quarter of 2021, subject to customary closing conditions, including the receipt of all regulatory approvals and the approval of the shareholders of BSCA and the shareholders of the Company, BSCA will merge with and into Bank of Southern California. The shareholders of BSCA will receive 1.0 share of common stock of the Company in exchange for each share of BSCA common stock. Directors of both BSCA and the Company have entered into agreements committing to vote their respective shares in favor of the transaction, which is valued at approximately \$56 million based on recent per share value of \$14.15 for Southern California Bancorp common stock. At December 31, 2020, BSCA had total assets of over \$370 million, including total loans of over \$280 million.



**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE S - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY**

On May 15, 2020, the Company was involved in a corporate reorganization whereby the Bank became a wholly owned subsidiary of the Company. This reorganization was accounted for like a pooling of interest. The earnings of the subsidiary are recognized using the equity method of accounting. Condensed financial statements of the parent company only are presented below as if the pooling was effective January 1, 2020.

**Southern California Bancorp (Parent Company Only)**  
**CONDENSED BALANCE SHEET**

	<u>December 31, 2020</u>
<b>ASSETS</b>	
Cash	\$ 3,968,287
Investment in Bank of Southern California	184,895,669
Other Investments	93,000
Accrued Interest and Other Assets	381,246
	<u>\$ 189,338,202</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
Subordinated Debt and Other Borrowings	\$ 20,265,136
Accrued Interest and Other Liabilities	188,026
<b>TOTAL LIABILITIES</b>	<u>20,453,162</u>
Shareholders' Equity:	
Common Stock	146,895,943
Retained Earnings	21,693,933
Accumulated Other Comprehensive Income	295,164
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>168,885,040</u>
	<u>\$ 189,338,202</u>

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE S - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY –**  
**CONTINUED**

**CONDENSED INCOME STATEMENT**

	Year Ended December 31, 2020	
<b>INCOME</b>		
Other Interest and Dividends	\$ 2,425	
Dividends from Bank Subsidiary	12,100,000	
<b>TOTAL INCOME</b>	<u>12,102,425</u>	
<b>EXPENSES</b>		
Interest on Borrowings	726,992	
Merger and Related Expenses	348,662	
Other NonInterest Expense	86,927	
<b>TOTAL EXPENSES</b>	<u>1,162,581</u>	
<b>INCOME BEFORE INCOME TAXES</b>	<u>10,939,844</u>	
Income Tax Benefit	<u>344,246</u>	
<b>INCOME BEFORE DIVIDENDS IN EXCESS OF EQUITY IN INCOME OF SUBSIDIARY</b>	11,284,090	
Dividends in Excess of Equity in Income of Subsidiary	<u>( 6,561,602)</u>	
<b>NET INCOME</b>	<u><u>\$ 4,722,488</u></u>	

**SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2020 and 2019

**NOTE S - CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY ONLY –  
CONTINUED**

**CONDENSED STATEMENT OF CASH FLOWS**

	Year Ended December 31, 2020
<b>OPERATING ACTIVITIES</b>	
Net Income	\$ 4,722,488
Adjustments to Reconcile Net Income to Net Cash Used by Operating Activities:	
Dividends in Excess of Equity in Income of Subsidiary	6,561,602
Other Items	( 191,093)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>11,092,997</b>
<b>INVESTING ACTIVITIES</b>	
Investment in Subsidiaries	( 40,000,000)
Cash Paid for Acquisition of CalWest Bancorp	( 25,912,777)
Cash Acquired from CalWest Bancorp	271,595
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>( 65,641,182)</b>
<b>FINANCING ACTIVITIES</b>	
Proceeds from Issuance of Subordinated Debt	17,524,790
(Decrease) Increase in Short-Term Borrowings	( 11,000)
Issuance of Common Stock, net of costs	40,624,357
Stock Options Exercised	369,325
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>58,507,472</b>
<b>INCREASE IN CASH</b>	<b>3,959,287</b>
Cash at Beginning of Period	9,000
<b>CASH AT END OF YEAR</b>	<b>\$ 3,968,287</b>

## BOARD OF DIRECTORS

### David I. Rainer

Chairman of the Board

### John Farkash

Chairman Emeritus and President,  
Farkash Construction, Inc.

### Irwin L. Golds

CEO and Co-founder of  
Capitis Real Estate

### David Holman

Retired Bank Executive and Active Bank  
& Real Estate Investor

### Lester Machado, MD, DDS, FRCS (Ed)

Oral and Maxillofacial Surgeon

### Jan Lynn Owen

Senior Advisor, Manatt Financial Services

### Kaveh Varjavand

President, AARCS, LLC.

### David J. Volk

Principal, Castle Creek Advisors

### Anita Wolman

Banking and Corporate Governance  
Consultant

## EXECUTIVE MANAGEMENT

### David I. Rainer

President and Chief Executive Officer

### Anthony J. DiVita

Executive Vice President and  
Chief Administrative Officer

### Thomas G. Dolan

Executive Vice President and  
Chief Financial Officer

### Richard Hernandez

Executive Vice President and  
Chief Banking Officer

### Jeffery T. Hurtik

Executive Vice President and  
Chief Information Officer

### Pamela C. Isaacson

Executive Vice President and  
Chief Operations Officer

### Martin Liska

Executive Vice President and  
Chief Risk Officer

### Anne A. Williams

Executive Vice President and  
Chief Credit Officer



## COMMON STOCK

### Stock Exchange Listing

The common stock trades on the  
OTC Marketplace (OTC Pink) under  
the symbol BCAL.

### Transfer Agent

Computershare Investor Services

## LOCATIONS

### Carlsbad

3142 Tiger Run Ct. Ste. 107  
Carlsbad, CA 92010

### Del Mar

12265 El Camino Real Ste. 100  
San Diego, CA 92130

### Downtown San Diego

1620 Fifth Ave. Ste. 120  
San Diego, CA 92101

### Encino

16255 Ventura Blvd. Ste. 1100  
Encino, CA 91436

### Glendale

801 N. Brand Blvd. Ste. 185  
Glendale, CA 91203

### Irvine

400 Spectrum Center Dr. Ste. 100  
Irvine, CA 92618

### LaQuinta

47-000 Washington St.  
La Quinta, CA 92253

### Orange

625 The City Dr. S. Ste. 140  
Orange, CA 92868

### Ramona

1315 Main St.  
Ramona, CA 92065

### Rancho Mirage

40101 Monterey Ave. Ste. H  
Rancho Mirage, CA 92270

### Rancho Santa Margarita

22342 Avenida Empresa Ste. 101A  
Rancho Santa Margarita, CA 92688

### Redlands

408 E. State St.  
Redlands, CA 92373

### Santa Fe Springs

10400 S. Norwalk Blvd.  
Santa Fe Springs, CA 90670

### West Los Angeles

1640 S. Sepulveda Blvd. Ste. 130  
Los Angeles, CA 90025

### Westlake Village

875 S. Westlake Blvd. Ste. 101  
Westlake Village, CA 91361

SOUTHERN  
CALIFORNIA  
BANCORP



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