



2012 ANNUAL REPORT



To Our Shareholders:

We are very pleased to report Bank of Southern California's financial results for 2012, noting another profitable year. While the year-end loan and deposit portfolios and total assets reflect modest growth over the prior year, we feel that 2012 was another year where we made significant strides in improving the Bank's position for long term success.

- We successfully exited the TARP program, and were able to successfully redeem \$1.3 million of our preferred stock at a discount from par of approximately \$100,000.
- We have continued to improve the credit quality of our loan portfolio and a reduction in problem assets.
- We introduced a new Real Estate product to the market to take advantage of the heightened activity in the investor single family residential sector.
- We also introduced a robust new online banking platform and mobile banking as part of our strategic investment in technology.

We are cautiously optimistic that 2013 will be a better year, both for the national and local economies, as well as for the bank. We are particularly pleased with the momentum we have developed late last year that will benefit us in growing the bank in 2013.

- In the first quarter 2013, loan production increased nearly 300% compared to the first quarter 2012.
- In the first quarter 2013, we successfully bid to purchase the La Quinta branch office building at a discount to market value, solidifying our market presence in the Coachella Valley, and further reducing our occupancy expense for that location.
- The bank remains significantly well-capitalized based on the regulatory requirement for well-capitalized banks.

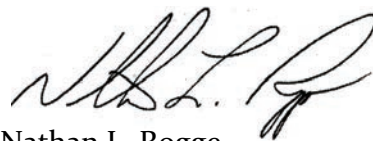
We continue to feel that the Southern California market is filled with opportunities for future growth. As the number of local banks headquartered in Southern California continues to diminish, we feel our conservative and organic approach to growing our "fortress balance sheet" will be instrumental to delivering long term results to our shareholders.

We continue to build our brand of providing superior customer service, over and above what is expected in the industry by leading with our employees who embody who bank of Southern California has come to represent. We have worked hard to attain our current position with strong capital, liquidity, earnings and improving credit quality. This foundation provides us with the opportunity to capture more of the market and continue to provide value to you, our shareholders.

As always, we appreciate your continued confidence and support.



John Farkash
Chairman of the Board



Nathan L. Rogge
President and Chief Executive Officer

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

VALUE THE DIFFERENCE

Independent Auditor's Report

Board of Directors and Shareholders of
Bank of Southern California, N.A.

We have audited the accompanying financial statements of Bank of Southern California N.A., which are comprised of the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of Southern California N.A. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, CA
March 29, 2013

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BANK OF SOUTHERN CALIFORNIA, N.A.

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2012 and 2011**

ASSETS

	2012	2011
Cash and Due from Banks	\$ 6,430,243	\$ 7,251,826
Excess Reserves at Federal Reserve Bank	16,690,000	17,740,000
TOTAL CASH AND CASH EQUIVALENTS	23,120,243	24,991,826
Investment Securities Available for Sale	8,045,954	13,010,499
Loans:		
Construction and Land Development	8,498,426	5,722,475
Real Estate - Other	112,167,875	109,700,483
Commercial and Industrial	26,257,030	27,726,268
Consumer	4,309,012	3,801,324
TOTAL LOANS	151,232,343	146,950,550
Allowance for Loan Losses	(2,449,061)	(2,731,854)
NET LOANS	148,783,282	144,218,696
Stock Investments, at Cost	1,585,250	1,591,500
Premises and Equipment	1,096,741	962,053
Goodwill and Other Intangibles	1,040,343	1,120,598
Other Real Estate Owned, net	-	475,552
Bank Owned Life Insurance	3,704,709	-
Accrued Interest and Other Assets	1,649,414	1,601,103
TOTAL ASSETS	\$ 189,025,936	\$ 187,971,827

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

BANK OF SOUTHERN CALIFORNIA, N.A.

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2012 and 2011**

LIABILITIES AND SHAREHOLDERS' EQUITY

	2012	2011
Deposits:		
Noninterest-Bearing Demand	\$ 55,097,599	\$ 49,883,800
Interest-Bearing NOW, Money Market and Savings Accounts	79,021,485	75,941,782
Time Deposits Under \$100,000	9,882,173	13,059,104
Time Deposits \$100,000 and Over	19,841,297	23,548,731
TOTAL DEPOSITS	163,842,554	162,433,417
Federal Home Loan Bank Advances	1,000,000	1,000,000
Accrued Interest and Other Liabilities	866,688	1,191,564
TOTAL LIABILITIES	165,709,242	164,624,981
Commitments and Contingencies - Notes E and K	-	-
Shareholders' Equity:		
Preferred Stock - Authorized 10,000,000 shares, No Par Value; Issued and Outstanding 3,050 Shares in 2012 and 4,354 Shares in 2011	3,026,122	4,277,774
Common Stock - 10,000,000 Shares Authorized, \$5.00 Par Value; Issued and Outstanding 3,263,534 in 2012 and 2011	16,317,670	16,317,670
Additional Paid-in Capital	13,048,707	13,083,112
Accumulated Deficit	(9,244,015)	(10,336,398)
Accumulated Other Comprehensive Income - Net of Taxes	168,210	4,688
TOTAL SHAREHOLDERS' EQUITY	23,316,694	23,346,846
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 189,025,936	\$ 187,971,827

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2012 and 2011

	2012	2011
INTEREST INCOME		
Interest and Fees on Loans	\$ 8,356,958	\$ 9,121,496
Interest and Dividends on Investment Securities	363,636	285,978
Interest on Federal Funds Sold and Other Balances	43,640	35,375
TOTAL INTEREST INCOME	8,764,234	9,442,849
INTEREST EXPENSE		
Interest on Savings, NOW and Money Market Accounts	255,492	416,537
Interest on Time Deposits	524,275	677,075
Interest on Other Borrowings	15,715	48,614
TOTAL INTEREST EXPENSE	795,482	1,142,226
NET INTEREST INCOME	7,968,752	8,300,623
Provision for Loan Losses	110,000	800,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,858,752	7,500,623
NONINTEREST INCOME		
Service Charges, Fees and Other	621,002	514,091
Gain on Sale of Securities	52,706	39,831
Gain on Sale of Loans	58,429	90,748
Loss on Sale of Other Real Estate Owned	(20,330)	-
	711,807	644,670
NONINTEREST EXPENSE		
Salaries and Employee Benefits	4,049,624	4,050,864
Occupancy and Equipment Expenses	1,253,320	1,244,781
Other Expenses	2,507,337	2,111,335
	7,810,281	7,406,980
INCOME BEFORE INCOME TAXES	760,278	738,313
Income Taxes (Benefit)	(378,000)	(353,200)
NET INCOME	\$ 1,138,278	\$ 1,091,513
NET INCOME PER SHARE - BASIC	\$ 0.33	\$ 0.36
NET INCOME PER SHARE - DILUTED	\$ 0.33	\$ 0.36

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2012 and December 31, 2011

	<u>2012</u>	<u>2011</u>
Net Income	\$ 1,138,278	\$ 1,091,513
OTHER COMPREHENSIVE INCOME:		
Net Unrealized Gains on Securities Available for Sale	330,589	22,881
Reclassification Adjustment for Realized Gain on Sale of Securities Available for Sale Included in Net Income	<u>(52,706)</u>	<u>(39,831)</u>
	277,883	(16,950)
Income Taxes (Benefit)	<u>114,361</u>	<u>(6,975)</u>
TOTAL OTHER COMPREHENSIVE INCOME	<u>163,522</u>	<u>(9,975)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 1,301,800</u>	<u>\$ 1,081,538</u>

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

BANK OF SOUTHERN CALIFORNIA, N.A.

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2012 and December 31, 2011**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Total Shareholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at December 31, 2010	4,354	\$ 4,246,197	2,643,534	\$ 13,217,670	\$ 13,271,574	\$ (11,396,334)	\$ 14,663	\$ 19,353,770
Accretion of Redemption Value		31,577				(31,577)		-
Issuance of Common Shares, net			620,000	3,100,000	(24,037)			3,075,963
Dividends Paid					(222,140)			(222,140)
Stock-Based Compensation					57,715			57,715
Net Income						1,091,513		1,091,513
Other Comprehensive Income							(9,975)	(9,975)
Balance at December 31, 2011	<u>4,354</u>	<u>4,277,774</u>	<u>3,263,534</u>	<u>16,317,670</u>	<u>13,083,112</u>	<u>(10,336,398)</u>	<u>4,688</u>	<u>23,346,846</u>
Accretion of Redemption Value		45,895				(45,895)		-
Preferred Stock Redeemed	(1,304)	(1,297,547)			95,946			(1,201,601)
Dividends Paid					(222,140)			(222,140)
Stock-Based Compensation					91,789			91,789
Net Income						1,138,278		1,138,278
Other Comprehensive Income							163,522	163,522
Balance at December 31, 2012	<u>3,050</u>	<u>\$ 3,026,122</u>	<u>3,263,534</u>	<u>\$ 16,317,670</u>	<u>\$ 13,048,707</u>	<u>\$ (9,244,015)</u>	<u>\$ 168,210</u>	<u>\$ 23,316,694</u>

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

BANK OF SOUTHERN CALIFORNIA, N.A.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011

	2012	2011
OPERATING ACTIVITIES		
Net Income	\$ 1,138,278	\$ 1,091,513
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	467,823	469,274
Gain on Sale of Loans	(58,429)	(90,748)
Provision for Loan Losses	110,000	800,000
Deferred Tax Benefits	(399,000)	(493,000)
Loss on Sale of Other Real Estate Owned and Fixed Assets	13,561	-
Stock-Based Compensation	91,789	57,715
Increase in Cash Surrender Value of Bank Owned Life Insurance	(29,709)	-
Gain on Sale of Available for Sale Securities	(52,706)	(39,831)
Net Changes in Other Assets and Liabilities	(88,547)	179,868
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,193,060	1,974,791
INVESTING ACTIVITIES		
Purchase of Available-for-Sale Securities	-	(7,460,732)
Proceeds from Sale of Available-for-Sale Securities	3,543,579	474,105
Proceeds from Maturities of Available-for-Sale Securities	1,751,554	1,555,272
Net Redemption (Purchase) of Stock Investments	6,250	(456,200)
Purchase of Bank Owned Life Insurance	(3,675,000)	-
Net (Funding) Repayment of Loans	(8,528,716)	2,806,625
Proceeds from Sale of Loans	3,587,868	3,925,387
Proceeds from Sale of Other Real Estate Owned	779,913	-
Purchases of Premises and Equipment, net of Sales Proceeds	(515,487)	(146,153)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(3,050,039)	698,304
FINANCING ACTIVITIES		
Net Increase in Deposits	1,409,137	6,930,159
Net Repayment in Federal Home Loan Bank Advances	-	(3,000,000)
Redemption of Preferred Stock	(1,201,601)	-
Proceeds from Common Stock Offering, Net of Expenses	-	3,075,963
Dividends on Preferred Stock	(222,140)	(222,140)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	(14,604)	6,783,982
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,871,583)	9,457,077
Cash and Cash Equivalents at Beginning of Year	24,991,826	15,534,749
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	\$ 23,120,243	\$ 24,991,826
Supplemental Disclosures of Cash Flow Information:		
Interest Paid	\$ 804,307	\$ 1,148,949
Taxes Paid	\$ 1,500	\$ 25,800
Loans Transferred to Other Real Estate Owned	\$ 340,881	\$ 475,552

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

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

Reclassifications

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. The reclassifications have no material effect on shareholders’ equity, or net income, as previously reported.

Cash and Cash Equivalents

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Due From Banks

Banking regulations require that banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Bank's reserve requirement at December 31, 2012 was \$751,000, which was met by the Bank.

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

Investment Securities

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

Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities and recorded at fair value. Unrealized gains or losses on available-for-sale securities are excluded from net income and reported as an amount net of taxes as a separate component of other comprehensive income included in shareholders' equity. Premiums or discounts on held-to-maturity and available-for-sale securities are amortized or accreted into income using the interest method. Realized gains or losses on sales of held-to-maturity or available-for-sale securities are recorded using the specific identification method.

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Stock Investments

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

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of any deferred fees or costs on originated loans, or unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. Amortization of deferred loan fees is discontinued when a loan is placed on nonaccrual status.

Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. The accrual of interest on loans is generally discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or earlier when, in the opinion of management, there is reasonable doubt as to collectability. On a case by case basis, loans past due 90 days may remain on accrual, if the loan is well collateralized, actively in process of collection and, in the opinion of management, likely to be paid current within the next payment cycle. When loans are placed on nonaccrual status, all interest previously accrued but not collected is generally reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectable as to all principal and interest.

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Allowance for Loan Losses – Continued

The Bank reviews the historical loss rates for each portfolio segment and utilizes peer loss rates when the Bank does not have sufficient historical experience or otherwise feels historical experience is not indicative of the current loan portfolio. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions, changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; the existence and effect of any concentrations of credit; the effect of other external factors such as competition and legal and regulatory requirements; the quality and effectiveness of the risk rating system; and the quality of regulatory and other external credit reviews.

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

Other Real Estate Owned

Real estate acquired through foreclosure is reclassified from the loan portfolio when legal title is transferred. The real estate owned is reclassified at the lower of the recorded investment in the loan or the net realizable value of the property. Net realizable value is measured as the expected sales price, less the expected expense associated with the sale. Write downs to net realizable value when title is acquired are charged against the allowance for loan loss. Subsequent declines in the net realizable value after title is acquired are recorded as a valuation allowance against the property and charged to expense. Major improvements to the property may be capitalized to the basis in the property, provided the increase to the recorded investment does not exceed the net realizable value. At December 31, 2012, the Bank had no other real estate owned and at December 31, 2011 had \$475,552.

Transfers of Financial Assets

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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 prepayments speeds and changes in the discount rates.

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

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives, which ranges from three to seven years for furniture, equipment and computer equipment. Leasehold improvements are amortized using the straight-line method over the estimated useful lives of the improvements or the remaining lease term, whichever is shorter. Expenditures for betterments or major repairs are capitalized and those for ordinary repairs and maintenance are charged to operations as incurred.

Advertising Costs

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

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

The Bank has adopted guidance issued by the Financial Accounting Standards Board (“FASB”) that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Management believes that all tax positions taken to date are highly certain and, accordingly, no accounting adjustment has been made to the financial statements. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense.

Preferred Stock

On April 10, 2009 in connection with the Troubled Assets Relief Program (“TARP”), the Bank received \$2,211,000 from the U.S. Treasury in exchange for the issuance 2,211 shares of the Bank’s Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A and 111 shares of the Bank's Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B. The original aggregate redemption price of Series A and Series B Preferred Stock was \$2,322,000. The difference between the aggregate redemption price and the issuance proceeds, net of issuance costs, of \$141,135 is accreted against retained earnings over the estimated five-year life of the Preferred Stock and reduces the reported income available for common shareholders. The Preferred Stock, Series A pays non-cumulative dividends at a rate of 5% per year for the first five years and 9% per year thereafter. The Preferred Stock, Series B pays non-cumulative dividends at a rate of 9% per year. The Series B Preferred Stock may be redeemed after all of the Series A Preferred Stock has been redeemed.

On December 11, 2009, the Bank received \$2,032,000 from the U.S. Treasury in exchange for the issuance of 2,032 shares of the Bank’s Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C. The Series C redemption price is \$2,032,000. The issuance cost of \$18,832 is accreted against retained earnings over the estimated five-year life of the Preferred Stock reducing the reported income available for common shareholders. The Series C Preferred Stock pays non-cumulative dividends at a rate of 5% per year and may be redeemed at par independent of the redemption of the Series A and B Preferred Stock.

In December, 2012, pursuant to an auction by the U.S. Treasury, the Bank redeemed 553 shares of Series A, 51 shares of Series B, and 700 shares of Series C, for an aggregate redemption price of \$1,201,601, and all remaining Preferred Stock was sold by the U.S. Treasury to independent investors. All significant terms of the preferred shares remain the same.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Comprehensive Income

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

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. The Bank is a contingent obligor under a letter of credit issued on its behalf to secure certain lease obligations. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Disclosure about Fair Value of Financial Instruments

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

Earnings Per Share ("EPS")

Earnings per share present the net income or loss per common share, after consideration of the preferred shareholders interest in the net income or loss. Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Goodwill

Goodwill is the excess purchase price over the fair value of all identifiable assets and liabilities acquired. Current accounting standards require that goodwill be reviewed for impairment at least annually. The Bank has performed a qualitative assessment for potential impairment as of December 31, 2012, and as a result of that assessment has determined that there has been no impairment to the goodwill recorded in a branch acquisition that was completed during the year ended December, 2010.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Intangible Asset

A core deposit intangible of \$508,287 resulted from the purchase of two branches from Palm Desert National Bank during 2010, and is being amortized over a period of five years. Amortization expense for each of the periods ended December 31, 2012 and 2011 was \$80,256. Future amortization expense is approximately \$80,256 each year through 2016. Accumulated amortization as of December 31, 2012 and 2011 was \$167,200 and \$86,944, respectively. Intangible assets subject to amortization are evaluated periodically to determine recoverability of their carrying value when economic conditions indicate impairment may exist. These conditions would include an ongoing negative performance history and a forecast of anticipated performance that is significantly below management's initial expectation for the acquired entity. Intangible assets are evaluated for impairment at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets and liabilities. If the projected undiscounted cash flows is less than the carrying amount of the assets, the assets will be written down to the estimated fair value in the period the determination is made. As of December 31, 2012, management believes that no impairment of the intangible assets exists.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for awards of stock options and restricted stock grants, or other equity instruments, based on the grant-date fair value of those awards. This cost is recognized over the period which an employee is required to provide services in exchange for the award, generally the vesting period.

Fair Value Measurement

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

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Adoption of New Accounting Standards

In April 2011, the FASB amended existing guidance for assisting a creditor in determining whether a restructuring is a troubled debt restructuring (“TDR”). The amendments clarify the guidance for a creditor’s evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. This guidance was effective for annual reporting periods ending after December 15, 2012, and applied retrospectively to the beginning of the annual period of adoption. The new guidance did not have a significant impact on the Bank’s determination of whether a restructuring is a TDR.

In May, 2011, the FASB issued an amendment to achieve common fair value measurement and disclosure requirements between U.S. and International accounting principles. Overall, the guidance is consistent with existing U.S. accounting principles; however, there are some amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The amendment in this guidance will be effective annual reporting periods beginning after December 15, 2011. The Bank adopted this amended guidance and there was no significant impact as a result.

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

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

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE B - INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Asset-Backed Securities				
Federal Family Education Loans	\$ 1,582,287	\$ 44,377		\$ 1,626,664
U.S. Government and Agency				
Mortgage-Backed Securities	3,418,729	57,397	(4,690)	3,471,436
Municipal Securities	513,165	46,268	-	559,433
Taxable Municipals	2,245,922	142,499	-	2,388,421
	<u>\$ 7,760,103</u>	<u>\$ 290,541</u>	<u>\$(4,690)</u>	<u>\$ 8,045,954</u>
December 31, 2011				
Asset-Backed Securities				
Federal Family Education Loans	\$ 3,791,778	\$ -	\$(33,384)	\$ 3,758,394
U.S. Government and Agency				
Mortgage-Backed Securities	5,609,221	69,101	(8,390)	5,669,932
Municipal Securities	488,390	-	(5,255)	483,135
Taxable Municipals	3,113,142	2,235	(16,339)	3,099,038
	<u>\$ 13,002,531</u>	<u>\$ 71,336</u>	<u>\$(63,368)</u>	<u>\$ 13,010,499</u>

The amortized cost and estimated fair value of all investment securities as of December 31, 2012 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	\$ 858,615	\$ 872,327
Due from One Year to Five Years	1,678,687	1,704,582
Due from Five to Ten Years	3,298,419	3,439,361
Due after Ten Years	1,924,382	2,029,684
	<u>\$ 7,760,103</u>	<u>\$ 8,045,954</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE B - INVESTMENT SECURITIES - CONTINUED

The gross unrealized loss and related estimated fair value of investment securities that have been in a continuous loss position for less than twelve months and over twelve months at December 31, 2012 and 2011 are as follows:

	Less than Twelve Months		Over Twelve Months		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
December 31, 2012:						
Asset-Backed Securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-Backed Securities	(4,690)	512,426			(4,690)	512,426
Municipal Securities					-	-
Taxable Municipals					-	-
	<u>\$(4,690)</u>	<u>\$ 512,426</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$(4,690)</u>	<u>\$ 512,426</u>
December 31, 2011:						
Asset-Backed Securities	\$(33,384)	\$ 3,758,394			\$(33,384)	\$ 3,758,394
Mortgage-Backed Securities	-	-	(8,390)	1,338,832	(8,390)	1,338,832
Municipal Securities	(5,255)	483,135			(5,255)	483,135
Taxable Municipals	(16,339)	1,972,608			(16,339)	1,972,608
	<u>\$(54,978)</u>	<u>\$ 6,214,137</u>	<u>\$(8,390)</u>	<u>\$ 1,338,832</u>	<u>\$(63,368)</u>	<u>\$ 7,552,969</u>

As of December 31, 2012, there were no investment securities that had been in a continuous loss position for over twelve months, as compared to two investment securities that had been in a similar loss position as of December 31, 2011. Management evaluates investment securities for other-than-temporary impairment taking into consideration the extent and length of time the fair value has been less than cost, the financial condition of the issuer and whether the 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, 2012, no unrealized losses are deemed to be other-than-temporary.

The Bank had gross gains on sales of investment securities of \$52,706 and \$39,831 for the years ended December 31, 2012 and 2011, respectively.

The Bank may pledge investment securities to collateralize credit lines, secure public deposits, and for other purposes as permitted or required by law. Investment securities carried at \$3,442,905 and \$5,608,075 at December 31, 2012 and 2011, respectively, were pledged to secure credit facilities at the Federal Home Loan Bank of San Francisco ("FHLB") and at the Federal Reserve ("FRB") discount window.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE C - STOCK INVESTMENTS, at COST

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

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

	<u>2012</u>	<u>2011</u>
Federal Reserve Bank	\$ 724,350	\$ 684,100
Federal Home Loan Bank	800,900	847,400
Pacific Coast Bankers Bank	<u>60,000</u>	<u>60,000</u>
	<u>\$ 1,585,250</u>	<u>\$ 1,591,500</u>

NOTE D - LOANS

The Bank's loan portfolio consists primarily of loans to borrowers within its markets of San Diego County, California and the Coachella Valley of 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, 2012 was 80%.

The Bank has pledged loans with a carrying value of \$49,782,684 to collateralize credit lines at the FHLB of San Francisco and the FRB as of December 31, 2012.

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

	<u>2012</u>	<u>2011</u>
Beginning Balance	\$ 2,731,854	\$ 2,456,628
Additions to the Allowance Charged to Expense	110,000	800,000
Recoveries on Loans Charged Off	<u>105,656</u>	<u>137,797</u>
	2,947,510	3,394,425
Less Loans Charged Off	<u>(498,449)</u>	<u>(662,571)</u>
Ending Balance	<u>\$ 2,449,061</u>	<u>\$ 2,731,854</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012 and 2011 and for the years then ended follows:

<u>December 31, 2012</u>	Construction and Land Development	Real Estate - Other	Commercial & Industrial	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	\$ 184,004	\$ 1,517,129	\$ 898,191	\$ 132,530	\$ 2,731,854
Provisions	181,679	347,362	(331,792)	(87,249)	110,000
Charge-offs	-	(446,651)	(48,824)	(2,974)	(498,449)
Recoveries	-	3,500	70,825	31,331	105,656
End of Year	<u>\$ 365,683</u>	<u>\$ 1,421,340</u>	<u>\$ 588,400</u>	<u>\$ 73,638</u>	<u>\$ 2,449,061</u>
Specific Reserves	\$ 167,070	\$ 475,685	\$ 141,956	\$ -	\$ 784,711
General Reserves	198,613	945,655	446,444	73,638	1,664,350
	<u>\$ 365,683</u>	<u>\$ 1,421,340</u>	<u>\$ 588,400</u>	<u>\$ 73,638</u>	<u>\$ 2,449,061</u>
Loans Evaluated for Impairment:					
Individually	\$ 620,020	\$ 4,788,207	\$ 510,979	\$ -	\$ 5,919,206
Collectively	7,878,406	107,379,668	25,746,051	4,309,012	145,313,137
	<u>\$ 8,498,426</u>	<u>\$ 112,167,875</u>	<u>\$ 26,257,030</u>	<u>\$ 4,309,012</u>	<u>\$ 151,232,343</u>
<u>December 31, 2011</u>					
Allowance for Loan Losses:					
Beginning of Year	\$ 84,704	\$ 1,302,914	\$ 988,835	\$ 80,175	\$ 2,456,628
Provisions	99,300	431,913	103,169	165,618	800,000
Charge-offs	-	(311,332)	(233,747)	(117,492)	(662,571)
Recoveries	-	93,634	39,934	4,229	137,797
End of Year	<u>\$ 184,004</u>	<u>\$ 1,517,129</u>	<u>\$ 898,191</u>	<u>\$ 132,530</u>	<u>\$ 2,731,854</u>
Specific Reserves	\$ 30,221	\$ 205,151	\$ 148,840	\$ -	\$ 384,212
General Reserves	153,783	1,311,978	749,351	132,530	2,347,642
	<u>\$ 184,004</u>	<u>\$ 1,517,129</u>	<u>\$ 898,191</u>	<u>\$ 132,530</u>	<u>\$ 2,731,854</u>
Loans Evaluated for Impairment:					
Individually	\$ 100,738	\$ 3,800,590	\$ 679,456	\$ -	\$ 4,580,784
Collectively	5,621,737	105,899,893	27,046,812	3,801,324	142,369,766
	<u>\$ 5,722,475</u>	<u>\$ 109,700,483</u>	<u>\$ 27,726,268</u>	<u>\$ 3,801,324</u>	<u>\$ 146,950,550</u>

NOTE D – LOANS – CONTINUED

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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. 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.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE D – LOANS – CONTINUED

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2012 and 2011 follows:

	Pass	Special Mention	Substandard	Impaired	Total
December 31, 2012					
Construction and Land Development	\$ 7,878,406	\$ -	\$ -	\$ 620,020	\$ 8,498,426
Real Estate -Other:					
1-4 Family Residential	40,982,090	-	-	81,516	41,063,606
Multifamily Residential	8,009,611	-	-	-	8,009,611
Commercial Real Estate and Other	57,718,179	669,788	-	4,706,691	63,094,658
Commercial and Industrial	25,237,084	130,642	378,325	510,979	26,257,030
Consumer	4,309,012	-	-	-	4,309,012
	<u>\$ 144,134,382</u>	<u>\$ 800,430</u>	<u>\$ 378,325</u>	<u>\$ 5,919,206</u>	<u>\$ 151,232,343</u>
December 31, 2011					
Construction and Land Development	\$ 5,621,737	\$ -	\$ -	\$ 100,738	\$ 5,722,475
Real Estate -Other:					
1-4 Family Residential	20,483,719	-	15,589	1,010,295	21,509,603
Multifamily Residential	8,170,635	-	72,228	-	8,242,863
Commercial Real Estate and Other	72,702,124	375,862	4,079,736	2,790,295	79,948,017
Commercial and Industrial	26,322,537	-	724,275	679,456	27,726,268
Consumer	3,801,324	-	-	-	3,801,324
	<u>\$ 137,102,076</u>	<u>\$ 375,862</u>	<u>\$ 4,891,828</u>	<u>\$ 4,580,784</u>	<u>\$ 146,950,550</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE D – LOANS – CONTINUED

A summary of past due loans, loans still accruing over 90 days and nonaccrual loans as of December 31, 2012 and 2011 follows:

	<u>Still Accruing</u>		<u>Nonaccrual</u>
	<u>30-89 Days Past Due</u>	<u>Over 90 Days Past Due</u>	
December 31, 2012			
Construction and Land Development	\$ -	\$ -	\$ 620,020
Real Estate:			
1-4 Family Residential	-	-	81,516
Multifamily Residential	-	-	-
Commercial Real Estate and Other	-	-	4,706,691
Commercial and Industrial	15,697	-	510,979
Consumer	-	-	-
	<u>\$ 15,697</u>	<u>\$ -</u>	<u>\$ 5,919,206</u>
December 31, 2011			
Construction and Land Development	\$ -	\$ -	\$ 100,738
Real Estate:			
1-4 Family Residential	-	-	1,010,295
Multifamily Residential	-	-	-
Commercial Real Estate and Other	-	-	2,790,295
Commercial and Industrial	-	-	679,456
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,580,784</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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, 2012:

December 31, 2012	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no Related Allowance Recorded					
Construction and Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate:					
1-4 Family Residential	-	-	-	-	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,486,185	1,207,886	-	1,149,027	31,893
Commercial and Industrial	392,058	192,387	-	201,079	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	723,670	620,020	167,070	664,076	-
Real Estate:					
1-4 Family Residential	101,672	81,516	24,455	84,512	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	3,498,805	3,498,805	451,230	1,760,301	34,426
Commercial and Industrial	376,146	318,592	141,956	388,589	888
Consumer	-	-	-	-	-
	<u>\$ 6,578,536</u>	<u>\$ 5,919,206</u>	<u>\$ 784,711</u>	<u>\$ 4,247,584</u>	<u>\$ 67,207</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE D – LOANS – CONTINUED

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

December 31, 2011	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no Related Allowance Recorded					
Construction and Land Development	\$ -	\$ -	\$ -	\$ -	\$ -
Real Estate:					
1-4 Family Residential	54,256	41,215	-	8,244	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,657,452	1,586,652	-	1,467,745	51,745
Commercial and Industrial	-	-	-	-	-
Consumer	-	-	-	-	-
With an Allowance Recorded					
Construction and Land Development	100,738	100,738	30,221	109,334	-
Real Estate:					
1-4 Family Residential	969,080	969,080	141,972	303,458	-
Multifamily Residential	-	-	-	-	-
Commercial Real Estate and Other	1,284,909	1,203,643	63,179	488,039	-
Commercial and Industrial	679,456	679,456	148,840	506,595	-
Consumer	-	-	-	-	-
	<u>\$ 4,745,891</u>	<u>\$ 4,580,784</u>	<u>\$ 384,212</u>	<u>\$ 2,883,415</u>	<u>\$ 51,745</u>

No additional funds are committed to be advanced on impaired loans. The Bank received cash payments and recognized \$67,207 of interest income on impaired loans in 2012 and \$51,745 in 2011. Interest foregone on impaired loans was \$150,111 in 2012 and \$147,387 in 2011. The principal balance of impaired loans that was guaranteed by the SBA was \$687,723 and \$782,362 at December 31, 2012 and 2011, respectively.

At December 31, 2012, the Bank had approximately \$1,927,000 in recorded investment in loans identified as troubled debt restructurings and had allocated approximately \$360,000 of specific reserves for these loans. The Bank had no loans identified as troubled debt restructurings during 2011.

During the period ended December 31, 2012, the terms of a certain loans were modified as a troubled debt restructuring. The modification of the terms included an extension of a maturity date at a rate of interest that was considered to be lower than the current market rate for new debt with similar risk and an additional advance of principal without a corresponding improvement in the credit or an increase in the interest rate. Management believes that the restructured terms of these loans improve the probability of repayment for each of the loans. Since the restructurings, the loans have been performing in accordance with its modified terms.

BANK OF SOUTHERN CALIFORNIA, N.A.
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December 31, 2012 and 2011

NOTE D – LOANS – CONTINUED

The following table presents loans by class modified as troubled debt restructurings that occurred during the period ended December 31, 2012:

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Construction and Land Development	1	\$ 620,020	\$ 620,020
Real Estate:			
1-4 Family Residential	-	-	-
Multifamily Residential	-	-	-
Commercial Real Estate and Other	1	1,307,076	1,307,076
Commercial and Industrial	-	-	-
Consumer	-	-	-
	<u>2</u>	<u>\$ 1,927,096</u>	<u>\$ 1,927,096</u>

The Bank has originated loans that it services for others, including loans partially-guaranteed by the SBA, some of which have been sold in the secondary market, as well as commercial real estate loans for investors and other participating financial institutions. The portfolio of loans serviced for other parties was \$2,828,179 at December 31, 2012 and \$7,417,521 at December 31, 2011.

NOTE E - PREMISES AND EQUIPMENT

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

	<u>2012</u>	<u>2011</u>
Leasehold Improvements	\$ 1,476,196	\$ 1,232,472
Furniture, Fixtures, and Equipment	1,046,093	884,430
Computer Equipment	475,753	385,704
	<u>2,998,042</u>	<u>2,502,606</u>
Less Accumulated Depreciation and Amortization	<u>(1,901,301)</u>	<u>(1,540,553)</u>
	<u>\$ 1,096,741</u>	<u>\$ 962,053</u>

The Bank leases its Ramona banking premises from its principal shareholder, under an operating lease expiring on April 30, 2017, with two five-year renewal options. The Bank believes the terms of the lease are no less favorable to the Bank than could have been obtained from unaffiliated third parties. The Bank pays fixed monthly lease payments, which are increased annually by 3%, and its prorata share of common area operating expenses for the property.

BANK OF SOUTHERN CALIFORNIA, N.A.
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NOTE E - PREMISES AND EQUIPMENT - CONTINUED

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

The Bank opened a deposit production office in Carlsbad, California in September 2008 which was expanded to a full service branch in February 2009. In addition to rent, the Bank is responsible for common area operating expenses. The original lease term for this branch was six months and the parties have agreed to six month extensions since then with the current expiration in March 2013.

The Bank acquired two branches located in Palm Springs and La Quinta, California from another bank in December 2010 and entered into three year leases for each of the offices. In February of 2013, the Bank purchased the branch office located in La Quinta from the landlord and, therefore, is no longer subject to that lease obligation, which has been excluded from the table below.

At December 31, 2012, the future lease rentals payable under non-cancellable operating lease commitments to related parties and others are as follows:

Years Ending December 31,	<u>Related Party</u>	<u>Others</u>
2013	31,616	426,569
2014	32,564	381,694
2015	33,541	394,882
2016	34,548	408,847
2017	11,629	422,811
Thereafter	-	-
Total	<u>\$ 143,898</u>	<u>\$ 2,034,803</u>

The minimum rental payments shown above are given for the existing lease obligations and are not a forecast of future rental expense. Total rental expense was \$572,997 and \$590,897 for the years ended December 31, 2012 and 2011, respectively.

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NOTE F - DEPOSITS

At December 31, 2012, the scheduled maturities of time deposits are as follows:

Due in One Year or Less	\$ 27,152,307
Due from One to Three Years	1,789,617
Due over Three Years	781,546
Total Time Deposits	<u>\$ 29,723,470</u>

NOTE G - BORROWING ARRANGEMENTS

The Bank has a credit facility with the Federal Home Loan Bank of San Francisco (“FHLB”), under which the Bank may enter borrowing agreements under various terms and conditions, subject to pledging qualifying collateral, such as investment securities and loans. The Bank had investment securities with a carrying value of \$3,442,905 and loans with a carrying value of \$45,342,000 pledged with the FHLB at December 31, 2012.

At December 31, 2012, the Bank had one variable rate advance for \$1,000,000 outstanding with the FHLB that bears interest at the prime rate minus 1.70%, which was 1.55% at December 31, 2012, and matures December 31, 2013. Available borrowing capacity from the FHLB at December 31, 2012, based upon collateral pledged was \$20,723,000.

The Bank has a \$2,000,000 overnight credit line on an unsecured basis from a correspondent bank. The line is subject to annual review. The Bank had no overnight borrowings at December 31, 2012 or 2011.

The Bank has credit availability at the Federal Reserve discount window to the extent of collateral pledged. The Bank had pledged loan collateral at December 31, 2012 with a book value of \$4,441,000. The Bank had no discount window borrowings at either December 31, 2012 or 2011.

NOTE H - INCOME TAXES

The Bank is subject to Federal and California franchise tax. Income tax returns for the years ended December 31, 2012, 2011 and 2010 are open to audit by the Federal authorities and income tax returns for the years ended December 31, 2012, 2011, 2010, and 2009 are open to audit by California authorities.

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

	2012	2011
Current Taxes:		
Federal	\$ 17,256	\$ 16,798
State	3,744	123,002
	21,000	139,800
Deferred	(399,000)	(493,000)
Total (Benefit) Expense	\$ (378,000)	\$ (353,200)

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NOTE H - INCOME TAXES – CONTINUED

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

	2012		2011	
	Amount	Rate	Amount	Rate
Federal Tax Rate	\$ 258,000	34.0%	\$ 251,000	34.0%
State Taxes	55,000	7.2%	55,000	7.4%
Valuation Allowance	(688,000)	(90.5%)	(663,000)	(89.7%)
Stock-Based Compensation	9,000	1.2%	4,000	0.5%
Other	(12,000)	(1.6%)	(200)	(0.0%)
	<u>\$ (378,000)</u>	<u>(49.7%)</u>	<u>\$ (353,200)</u>	<u>(47.7%)</u>

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:

	2012	2011
Deferred Tax Assets:		
Operating Loss Carryforwards	\$ 3,121,000	\$ 3,486,000
Allowance for Loan Losses	601,000	647,000
Stock-Based Compensation	117,000	96,000
Depreciation Differences	18,000	-
Other	400,000	371,000
	<u>4,257,000</u>	<u>4,600,000</u>
Valuation Allowance	<u>(3,187,000)</u>	<u>(3,875,000)</u>
Deferred Tax Liabilities:		
Deferred Loan Costs	(84,000)	(133,000)
Depreciation Differences	-	(37,000)
Unrealized Gain on Available for Sale Securities	(118,000)	(3,000)
Other	(94,000)	(62,000)
	<u>(296,000)</u>	<u>(235,000)</u>
Net Deferred Tax Assets	<u>\$ 774,000</u>	<u>\$ 490,000</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE H - INCOME TAXES – CONTINUED

The valuation allowance for deferred tax assets was established after considering many factors, including the size of the deferred tax assets, especially the operating loss carryforwards, and the Bank’s history of taxable income, in order to reduce the deferred tax asset to a level deemed “more likely than not” to be realized. The Bank has net operating loss carryforwards of approximately \$7,500,000 for Federal income and \$8,000,000 for California franchise tax purposes. Federal and California net operating loss carryforwards, to the extent not used will expire in 2030.

NOTE I - OTHER EXPENSES

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

	<u>2012</u>	<u>2011</u>
Data Processing	\$ 668,581	\$ 625,615
Marketing and Public Relations	138,032	97,537
Professional Fees	306,505	254,208
Office Expenses	147,643	182,068
Insurance	35,241	32,489
Deposit Administration and Online Banking	264,329	241,974
Loan Administration	100,864	79,624
Loan Collections and OREO Expense	297,908	125,927
Regulatory Assessments	227,579	267,576
Other Expenses	320,655	204,317
	<u>\$ 2,507,337</u>	<u>\$ 2,111,335</u>

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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:

	2012		2011	
	Income	Shares	Income	Shares
Net Income as Reported	\$ 1,138,278		\$ 1,091,513	
Accretion of Preferred Stock	(45,895)		(31,577)	
Weighted-Average Shares Outstanding		3,263,534		2,977,417
Used in Basic EPS	1,092,383	3,263,534	1,059,936	2,977,417
Dilutive Effect of Outstanding:				
Stock Options	-	-	-	-
Restricted Stock Grants	-	2,704	-	-
Used in Dilutive EPS	\$ 1,092,383	3,266,238	\$ 1,059,936	2,977,417

At December 31, 2012 and 2011 there were 233,977 and 270,977 stock options, respectively, that could potentially dilute earnings per share that were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE K - RELATED PARTY TRANSACTIONS

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

The balance of these loans outstanding and activity in related party loans for the periods ended December 31, 2012 and 2011 follows:

	2012	2011
Balance at Beginning of Year	\$ 622,049	\$ 2,898,725
Credit Granted, Including Renewals	2,969,537	20,000
Repayments	(70,020)	(2,296,676)
	\$ 3,521,566	\$ 622,049

In addition to active loans and lines to related parties, standby letters of credit in the amount of \$3,000,000 were outstanding to a related party at December 31, 2011. No such standby letters of credit were outstanding at December 31, 2012. Deposits held by the Bank from directors and their related interests at December 31, 2012 and 2011, amounted to \$5,257,474 and \$2,371,563 respectively.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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.

As of December 31, 2012 and 2011, 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:

	<u>2012</u>	<u>2011</u>
Commitments to Extend Credit	\$ 27,073,990	\$ 28,997,000
Letters of Credit Issued to Customers	<u>1,070,325</u>	<u>1,830,000</u>
	<u>\$ 28,144,315</u>	<u>\$ 30,827,000</u>

The Bank carries a reserve for off-balance sheet credit risk in other liabilities for potential losses on commitments to extend credit and potential recourse on sold loans. The balance of the reserve was \$50,000 and \$100,000 at December 31, 2012 and December 31, 2011 respectively.

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.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
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NOTE M – STOCK-BASED COMPENSATION PLAN

Under the Bank’s 2001 Stock Option Plan (the “2001 Plan”), as amended, stock options were granted to eligible employees and directors. The 2001 Plan terminated November 8, 2011, in accordance with its term; however stock options previously granted under the Plan remain valid in accordance with their terms. Under the terms of the 2001 Plan, officers and key employees were granted either nonqualified or incentive stock options and directors, who were not also an officer or employee, were granted nonqualified stock options. Under the 2001 Plan, stock options were granted at prices not less than 100% of the fair market value of the stock on the date of grant; options granted expired no later than ten years from the date of the grant; and option grants generally vest over five years. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

In November 2011, the board of directors adopted the Omnibus Equity Incentive Plan (the “Omnibus Plan”). The Omnibus Plan provides for the grant of stock options, including incentive stock options, and restricted share awards. The Omnibus Plan provides that any director, employee or consultant of the Bank shall be eligible to be designated a participant in the Omnibus Plan for purposes of receiving awards. The Board has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each award, the vesting and exercisability of the awards and the form of consideration payable upon exercise. Stock options expire no later than ten years from the date of the grant. Subject to adjustment in certain circumstances, the aggregate number of shares of the Bank’s common stock that may be issued pursuant to awards granted under the Omnibus Plan is 544,907. The Plan provides for accelerated vesting if there is a change of control, as defined in the Plan.

The Bank recognized stock-based compensation cost of \$91,789 and \$57,716 in 2012 and 2011, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. 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 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Expected Volatility	40.83%	44.75%
Expected Term (Years)	6.5	6.5
Expected Dividends	None	None
Risk Free Rate	0.83%	0.90%
Weighted-Average Grant Date Fair Value	\$ 2.30	\$ 2.39

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

BANK OF SOUTHERN CALIFORNIA, N.A.
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NOTE M – STOCK-BASED COMPENSATION – CONTINUED

A summary of changes in outstanding stock options during 2012 and options exercisable at December 31, 2012 is presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at Beginning of Year	270,977	\$ 8.66		
Granted	5,000	\$ 5.55		
Exercised	-	\$ -		
Forfeited or Expired	(42,000)	\$ 7.78		
Outstanding at End of Year	<u>233,977</u>	<u>\$ 8.76</u>	<u>5.7 Years</u>	<u>None</u>
Options Exercisable	<u>173,727</u>	<u>\$ 8.75</u>	<u>5.6 Years</u>	<u>None</u>

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

As of December 31, 2012, there was \$203,925 of total unrecognized compensation cost related to the outstanding stock options and restricted stock that will be recognized over a weighted-average period of approximately 2.50 years as shown below:

2013	\$ 58,507
2014	50,050
2015	46,168
2016	35,667
2017	13,533
	<u>\$ 203,925</u>

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

BANK OF SOUTHERN CALIFORNIA, N.A.
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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.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined).

As of December 31, 2012, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as "well-capitalized" under the regulatory framework for prompt corrective action. As of December 31, 2012, the Bank's capital level and ratios indicate that it is "well-capitalized" under the regulatory framework for prompt corrective action, ("PCA").

To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below. Management believes, as of December 31, 2012, that the Bank meets all capital adequacy requirements to which it is subject. The following table also sets forth the Bank's actual capital amounts and ratios (dollar amounts in thousands):

	Actual		Amount of Capital Required			
			To be Adequately Capitalized under PCA Provisions		To be Well-Capitalized under PCA Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012:						
Total Capital (to Risk-Weighted Assets)	\$ 23,246	18.8%	\$ 9,908	8.0%	\$ 12,385	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	21,687	17.5%	4,954	4.0%	7,431	6.0%
Tier 1 Capital (to Average Assets)	21,687	11.3%	7,687	4.0%	9,609	5.0%
As of December 31, 2011:						
Total Capital (to Risk-Weighted Assets)	\$ 23,767	18.2%	\$ 10,473	8.0%	\$ 13,091	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	22,116	16.9%	5,236	4.0%	7,854	6.0%
Tier 1 Capital (to Average Assets)	22,116	11.5%	7,663	4.0%	9,579	5.0%

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
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NOTE N - REGULATORY MATTERS – CONTINUED

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

In 2009 the Bank issued three series of preferred stock to the U. S. Treasury for a combined par value of \$4,354,000. In 2012, the Bank redeemed an aggregate par value of \$1,304,000 of the preferred stock. All three series of preferred stock feature non-cumulative dividends. The Bank has no legal capacity to pay dividends and therefore has made applications to the Office of the Comptroller of the Currency for permission to pay dividends on the preferred stock when due. The OCC has granted permission to pay dividends as a reduction of capital surplus. Dividends declared and paid have been charged against additional paid-in capital. The dividends are considered a distribution of permanent capital and do not reduce earnings available to the common shares.

NOTE O - 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.

BANK OF SOUTHERN CALIFORNIA, N.A.
NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

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

Financial Liabilities

The carrying amounts of deposit liabilities payable on demand are considered to approximate fair value. For fixed maturity deposits, fair value is estimated by discounting estimated future cash flows using currently offered rates for deposits of similar remaining maturities. The fair value of long-term debt is based on rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. The fair value of these financial instruments is not material.

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

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Due From Banks	\$ 6,430,243	\$ 6,430,243	\$ 7,251,826	\$ 7,251,826
Excess Reserves at the Federal Reserve Bank	16,690,000	16,690,000	17,740,000	17,740,000
Investment Securities Available for Sale	8,045,954	8,045,954	13,010,499	13,010,499
Loans, net	148,783,282	148,484,000	144,218,696	145,117,000
FHLB, FRB and Banker's Bank Stock	1,585,250	1,585,250	1,591,500	1,591,500
Accrued Interest Receivable	385,152	385,152	584,560	584,560
Financial Liabilities:				
Deposits	163,842,555	163,911,000	162,433,417	162,639,000
FHLB Advances	1,000,000	1,000,000	1,000,000	1,000,000
Accrued Interest and Other Liabilities	866,688	866,688	1,191,564	1,191,564

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NOTE P – FAIR VALUE MEASUREMENT

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2).

Collateral-Dependent Impaired Loans: The Bank does not record loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect partial write-downs, through charge-offs or specific reserve allowances, that are based on the current appraised or market-quoted value of the underlying collateral. The fair value estimates for collateral-dependent impaired loans are 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).

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).

The Bank has no liabilities measured and recorded at fair value as of December 31, 2012. The Bank had no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2012.

The following table provides the hierarchy and fair value for each major category of asset measured at fair value at December 31, 2012:

	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Assets measured at fair value on a recurring basis				
Assets:				
Securities Available for Sale	\$ -	\$ 8,045,954	\$ -	\$ 8,045,954
Assets measured at fair value on a non-recurring basis				
Collateral-Dependent Impaired Loans, Net of Specific Reserves	\$ -	\$ -	\$ 4,278,835	\$ 4,278,835

BANK OF SOUTHERN CALIFORNIA, N.A.
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December 31, 2012 and 2011

NOTE P – FAIR VALUE MEASUREMENT - CONTINUED

Collateral-dependent impaired loans, which are measured for impairment using the fair value of the collateral, had a carrying value of \$4,897,135 and specific reserves of \$618,300 at December 31, 2012.

Quantitative information about the Bank’s nonrecurring Level 3 fair value measurements as of December 31, 2012, is as follows:

	Fair Value <u>Amount</u>	Valuation <u>Technique</u>	Unobservable <u>Input</u>	Weighted Average <u>Adjustment</u>
Collateral-Dependent Impaired Loans	\$4,278,835	3rd Party Appraisals	Selling Costs and Management Adjustments	10%

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

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

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

Board of Directors

John Farkash | Chairman of the Board

Thomas H. Blair, Jr. | Media Consultant

Lester Machado, MD, DDS, FRCS (Ed) | Oral and Maxillofacial Surgeon

Joseph E. Matranga, C.P.A. | President and Founder, Matranga and Riley CPA's

Michael A. Persall, C.P.A. | Managing Member, ABP Capital

Nathan L. Rogge | President and CEO, Bank of Southern California

Executive and Senior Management

Nathan L. Rogge | President and Chief Executive Officer

James H. Burgess | Executive Vice President and Chief Financial Officer

Robert A. Marshall | Executive Vice President and Chief Financial Officer

Pamela C. Isaacson | Executive Vice President and Chief Administrative Officer

Tony DiVita | Senior Vice President and Director of Sales and Marketing

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Manager: DeAnna Jones

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La Quinta, CA 92253

Phone: (760) 771-0654

Fax: (760) 771-9548

Manager: Crystal Munoz

Professional Consultants

Vavrinek Trine Day & Co., LLP | Independent Accountants

Horgan, Rosen, Beckham & Coren, L.L.P. | Legal Counsel

Common Stock Information

Stock Exchange Listing | The common stock is quoted on the Over the Counter Bulletin Board (OTCBB) under the symbol FBBN.

Computershare Investor Services | Transfer Agent



WE DON'T JUST MEASURE OUR SUCCESS BY THE NUMBERS...

“ It is nice to be recognized as a customer of the Bank and not just a number. ”

“ They know who you are and always give the best personal service. ”

“ The bank staff we have dealt with are professional, knowledgeable and provide excellent customer service. ”

“ Everyone goes out of their way to help in whatever way is necessary. Can't rave enough. Banking has never been this easy for me. ”

“ Friendly staff committed to helping the customer. The way banking should be done. ”

“ To be able to contact someone who understands my particular problem and resolve it is priceless. ”

“ Local bank where everybody knows you when you walk in the door. ”

WE MEASURE OUR SUCCESS BY WHAT OUR CUSTOMERS SAY ABOUT US.

