

First California Financial Group, Inc.  
Form S-4  
August 17, 2012  
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As filed with the Securities and Exchange Commission on August 17, 2012

Registration No. [       ]

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM S-4

### REGISTRATION STATEMENT

*UNDER*

*THE SECURITIES ACT OF 1933*

## FIRST CALIFORNIA FINANCIAL GROUP, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	6022	38-3737811
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)
3027 TOWNSGATE ROAD, SUITE #300, WESTLAKE VILLAGE, CALIFORNIA 91361 (805) 322-9655		

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**ROMOLO SANTAROSA**

**CHIEF FINANCIAL OFFICER**

**FIRST CALIFORNIA FINANCIAL GROUP, INC.**

**3027 TOWNSGATE ROAD, SUITE #300, WESTLAKE VILLAGE, CALIFORNIA 91361**

**(805) 322-9655**

**(Name, address, including zip code, and telephone number, including area code, of agent for service)**

*With a copy to:*

**Arthur A. Coren Professional Corporation  
Khoi D. Dang, Esq.  
Horgan, Rosen, Beckham & Coren, L.L.P.  
23975 Park Sorrento, Suite 200  
Calabasas, CA 91302-4001  
(818) 591-2121 / Fax: (818) 591-3838**

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this Registration Statement and the satisfaction or waiver of all other conditions to the transaction described in the joint proxy statement-prospectus.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to Be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, \$0.01 par value	293,626	\$7.00	\$2,055,382	\$235.55

- (1) Represents the estimated maximum number of shares of the registrant's common stock that could be issued in connection with the merger described herein.  
 (2) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(f) under the Securities Act.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said section 8(a), may determine.

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**THE INFORMATION IN THIS PROXY STATEMENT/PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT ISSUE THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.**

**SUBJECT TO COMPLETION, DATED AUGUST 17, 2012**

**MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT**

Dear Fellow Shareholders:

You are cordially invited to attend a special meeting of shareholders of Premier Service Bank (**PSBK**) to be held at the headquarters of PSBK, 3637 Arlington Avenue, Suite B, Riverside, California, at 6:00 p.m. (local time) on [MEETING DATE].

At the special meeting, you will be asked to approve the Agreement and Plan of Merger, dated February 27, 2012, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated July 9, 2012 (the **Merger Agreement**), by and between First California Financial Group, Inc. (**FCAL**), First California Bank (**FCB**), and PSBK, pursuant to which PSBK will merge with and into First California Bank, the separate existence of PSBK will cease, and FCB will continue commercial banking operations under its California charter and as a wholly-owned subsidiary of FCAL (the **Merger**).

The aggregate consideration to be paid to the holders of the outstanding common stock of PSBK, no par value per share (the **PSBK Common Stock**) by FCAL to PSBK shareholders will consist of 293,626 shares of the common stock of FCAL, \$0.01 par value per share (the **FCAL Common Stock**). Based on 1,261,281 shares of PSBK Common Stock issued and outstanding, upon completion of the Merger, PSBK shareholders are expected to receive consideration equal to approximately 0.2328 shares of FCAL Common Stock and in lieu of any fractional shares, PSBK shareholders will receive an amount in cash as determined in accordance with the Merger Agreement.

The consideration to be received by PSBK shareholders may be adjusted based on the closing shareholders' equity of PSBK, as determined in accordance with the Merger Agreement. Therefore, you will not know the exact number of shares of FCAL Common Stock you will receive, or the value of those shares, when you vote on the Merger Agreement.

FCAL Common Stock is quoted on the NASDAQ Global Select Market under the trading symbol **FCAL**. The closing price for a share of FCAL Common Stock on [ ], 2012 was \$[ ] per share.

**AFTER CAREFUL CONSIDERATION, PSBK'S BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR APPROVAL OF THE MERGER AGREEMENT.**

Approval of the Merger Agreement and the Merger requires the affirmative vote of at least a majority of the outstanding shares of PSBK Common Stock as of [RECORD DATE]. The special meeting of shareholders will be held at the headquarters of PSBK, 3637 Arlington Avenue, Suite B, Riverside, California, at 6:00 p.m. (local time) on [MEETING DATE].

**This document provides you with detailed information about the Merger. In addition to being a proxy statement of PSBK, this document is also the prospectus of FCAL for its shares of common stock that will be issued in connection with the Merger. We encourage you to read the entire document carefully. Please pay particular attention to **RISK FACTORS** beginning on page 16 for a discussion of the risks related to the Merger and owning FCAL Common Stock after the Merger.**

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I hope to see you on [MEETING DATE] in Riverside, California.

Sincerely,

Kerry L. Pendergast

President and Chief Executive Officer

Premier Service Bank

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES REGULATORS HAVE APPROVED OR DISAPPROVED OF THE SECURITIES TO BE ISSUED IN THE MERGER OR DETERMINED IF THIS DOCUMENT IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**THE SHARES OF FCAL COMMON STOCK TO BE ISSUED IN THE MERGER ARE NOT DEPOSITS OR SAVINGS ACCOUNTS OR OTHER OBLIGATIONS OF ANY BANK OR SAVINGS ASSOCIATION, AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENTAL AGENCY.**

This proxy statement/prospectus is dated August [ ], 2012 and is first being mailed to PSBK s shareholders on [MAILING DATE].

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**HOW TO OBTAIN ADDITIONAL INFORMATION**

This proxy statement/prospectus incorporates important business and financial information about First California Financial Group, Inc. ( **FCAL** ) from other documents filed with the Securities and Exchange Commission that are not included in or delivered with this proxy statement/prospectus. This information is described on page [ ] under **WHERE YOU CAN FIND MORE INFORMATION**. You can obtain free copies of these documents by accessing the Securities and Exchange Commission's website maintained at [www.sec.gov](http://www.sec.gov) or by requesting free copies in writing or by telephone from FCAL at the following address:

**First California Financial Group, Inc.**

**3027 Townsgate Road, Suite 300**

**Westlake Village, California 91361**

**Attention: Investor Relations**

**(805) 322-9655**

**To obtain timely delivery of the documents before the special meeting, you must request the documents from FCAL by [INSERT A DATE THAT IS NO LATER THAN 5 BUSINESS DAYS PRIOR TO MEETING DATE].**

You should rely only on the information contained or incorporated by reference in this document in determining how to vote your shares at the special meeting. FCAL and PSBK have not authorized anyone to provide you with information that is different from what is contained in this document. This document is dated [PROSPECTUS DATE]. You should not assume that the information contained in this document is accurate as of any date other than that date, and neither the mailing of this document to shareholders nor the issuance of FCAL's Common Stock in the Merger creates any implication to the contrary. See **WHERE YOU CAN FIND MORE INFORMATION** on page [ ].

Premier Service Bank ( **PSBK** ) is not subject to the reporting and informational requirements maintained by the Securities and Exchange Commission and does not file reports or other information with the Securities and Exchange Commission. Until August 8, 2012, the PSBK Common Stock was registered with the Federal Deposit Insurance Corporation ( **FDIC** ) pursuant to Part 335 of the FDIC's regulations, which incorporates certain of the reporting requirements of the Securities Exchange Act of 1934 (the **Exchange Act** ). Effective August 8, 2012, PSBK deregistered its Common Stock and is no longer required to file quarterly reports on Form 10-Q, annual reports on Form 10-K, or current reports on Form 8-K with the FDIC. Reports filed prior to deregistration can be obtained from the FDIC's website at [www2.fdic.gov/efr/](http://www2.fdic.gov/efr/). As a result of the deregistration, PSBK is no longer required to file proxy statements that it distributes to its shareholders in connection with its shareholders meetings with the FDIC in accordance with the requirements of the Exchange Act. As a result, this proxy statement was not filed with the FDIC for review prior to its distribution.

This information is available without charge to you upon written or oral request. If you request any such documents, PSBK will mail them to you by first class mail or other equally prompt means. PSBK also posts its required securities filings on its website at <http://www.premierservicebank.com/>. You may obtain copies of these documents by going to PSBK's website and clicking **Investor Relations** under the **About Us** tab.

For documents relating to PSBK, direct requests to:

**Premier Service Bank**

**637 Arlington Avenue, Suite B**

**Riverside, California 92506**

**Attention: Kerry L. Pendergast**

**President and Chief Executive Officer**

**(951) 274-2400**

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To obtain timely delivery before PSBK's special shareholders' meetings, you must request the information no later than [INSERT DATE THAT IS 5 BUSINESS DAYS PRIOR TO MEETING DATE].

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**3637 Arlington Avenue, Suite B**

**Riverside, California 92506**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON [MEETING DATE]**

To the Shareholders of Premier Service Bank:

Premier Service Bank will hold a special meeting of shareholders at the headquarters of PSBK, 3637 Arlington Avenue, Suite B, Riverside, California, at 6:00 p.m. (local time) on [MEETING DATE], for the following purpose:

1. **Approval of Merger Agreement and Merger.** To consider and vote upon a proposal to approve and adopt the Agreement and Plan of Merger, dated as of February 27, 2012, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated July 9, 2012 (the **Merger Agreement** ), by and between First California Financial Group, Inc. ( **FCAL** ), First California Bank ( **FCB** ) and Premier Service Bank, which provides for the merger of Premier Service Bank with and into FCB (the **Merger** ). A copy of the Merger Agreement is attached as **Appendix A** to the accompanying proxy statement/prospectus of which this notice is a part.
2. **Adjournment.** To consider and vote upon a proposal to grant discretionary authority to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement and Merger.

No other business may be conducted at the Special Meeting.

We have fixed the close of business on [RECORD DATE] as the record date for determining those shareholders entitled to vote at the special meeting. Only Premier Service Bank shareholders of record at the close of business on that date are entitled to notice of the special meeting, and only the shareholders of record of Premier Service Bank Common Stock at the close of business on that date are entitled to vote at the special meeting. In order for the Merger Agreement to be approved by Premier Service Bank's shareholders, the holders of at least **a majority** of the outstanding shares of Premier Service Bank Common Stock entitled to vote must vote for approval of the Merger Agreement. Abstentions and broker non-votes will have the same effect as votes against approval of the Merger Agreement and any other proposals being presented. If you wish to attend the special meeting and your shares are held in the name of a broker, trust, bank or other nominee, you must bring with you a proxy or letter from the broker, trustee, bank or nominee to confirm your beneficial ownership of the shares.

If you do not vote in favor of the Merger Agreement and you strictly comply with the procedures set forth in Chapter 13 of the California General Corporations Code, you will be entitled to obtain payment in cash of the fair value of your shares of Premier Service Bank Common Stock as determined under these provisions. A copy of these provisions is included as **Appendix D** to this attached proxy statement/prospectus, and a summary of these provisions can be found in the section titled "The Merger Dissenters Rights of PSBK Shareholders" beginning on page [ ] of this document.

The Premier Service Bank Board of Directors has unanimously approved the Merger Agreement and the transactions contemplated therein. Based on Premier Service Bank's reasons for the Merger described in the attached proxy statement/prospectus, the Premier Service Bank Board of Directors believes that the Merger of



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Premier Service Bank with and into FCB pursuant to the Merger Agreement is in the best interests of Premier Service Bank and its shareholders. Accordingly, the Premier Service Bank Board of Directors unanimously recommends that Premier Service Bank shareholders vote **FOR** approval of the Merger Agreement.

[MAILING DATE]

By Order of the Board of Directors,

Kenneth B. Stream

Chairman of the Board

Premier Service Bank

Riverside, California

SINCE IMPORTANT MATTERS ARE TO BE CONSIDERED AT THE SPECIAL MEETING, IT IS VERY IMPORTANT THAT EACH SHAREHOLDER VOTE. Please complete, sign, date and return your proxy card in the enclosed envelope, whether or not you plan to attend the Special Meeting.

THE ENCLOSED PROXY CARD IS SOLICITED BY PREMIER SERVICE BANK'S BOARD OF DIRECTORS. ANY SHAREHOLDER WHO EXECUTES AND DELIVERS A PROXY CARD HAS THE RIGHT TO REVOKE IT AT ANY TIME BEFORE IT IS EXERCISED BY GIVING WRITTEN NOTICE OF REVOCATION TO THE CORPORATE SECRETARY OF PREMIER SERVICE BANK, BY SUBMITTING PRIOR TO THE SPECIAL MEETING A PROPERLY EXECUTED PROXY BEARING A LATER DATE, OR BY BEING PRESENT AT THE SPECIAL MEETING AND ELECTING TO VOTE IN PERSON BY ADVISING THE CHAIRMAN OF THE SPECIAL MEETING OF SUCH ELECTION.

PLEASE INDICATE ON THE PROXY WHETHER OR NOT YOU EXPECT TO ATTEND THE SPECIAL MEETING SO THAT ARRANGEMENTS FOR ADEQUATE ACCOMMODATIONS CAN BE MADE.

IF YOU WOULD LIKE TO ATTEND THE PREMIER SERVICE BANK SPECIAL MEETING AND YOUR SHARES ARE HELD BY A BROKER, BANK OR OTHER NOMINEE, YOU MUST BRING TO THE SPECIAL MEETING A RECENT BROKERAGE STATEMENT OR A LETTER FROM THE NOMINEE CONFIRMING YOUR BENEFICIAL OWNERSHIP OF THE SHARES. YOU MUST ALSO BRING A FORM OF PERSONAL IDENTIFICATION. IN ORDER TO VOTE YOUR SHARES AT THE PREMIER SERVICE BANK SPECIAL MEETING, YOU MUST OBTAIN FROM THE NOMINEE A PROXY ISSUED IN YOUR NAME.

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**QUESTIONS AND ANSWERS ABOUT THE MERGER**

**Q: What am I voting on?**

A: First California Financial Group, Inc. ( **FCAL** ), First California Bank ( **FCB** ) and Premier Service Bank ( **PSBK** ) have entered into an Agreement and Plan of Merger, dated February 27, 2012, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated July 9, 2012 (the **Merger Agreement** ) pursuant to which FCAL has agreed to acquire PSBK by merging PSBK with and into FCB, its wholly-owned subsidiary (the **Merger** ). You are being asked to consider and vote upon a proposal to approve the Merger Agreement and the Merger contemplated therein. As a result of the Merger, PSBK will cease to exist and PSBK shareholders will exchange their shares of the common stock of PSBK, no par value per share (the **PSBK Common Stock** ) for shares of the common stock of FCAL, \$0.01 par value per share (the **FCAL Common Stock** ).

You are also being asked to consider and vote upon a proposal to grant discretionary authority to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement and Merger.

**Q: What will I receive in exchange for my shares of PSBK Common Stock?**

A: Based on 1,261,281 shares of PSBK Common Stock issued and outstanding as of the date of this proxy statement/prospectus, upon completion of the Merger, PSBK shareholders are expected to receive Merger consideration equal to approximately 293,626 shares of FCAL Common Stock, subject to adjustment as set forth in the Merger Agreement. Based on the closing price of FCAL Common Stock of \$[ ] as of [ ], 2012 the aggregate consideration to PSBK shareholders would be approximately \$[ ] million, or approximately \$[ ] per share.

**Q: Will I be able to trade the FCAL Common Stock that I receive in the Merger?**

A: Yes. The FCAL Common Stock issued in the Merger will be quoted on the NASDAQ Global Select Market under the symbol **FCAL**. Unless you are deemed an affiliate of FCAL, you may sell the shares of FCAL Common Stock you receive in the Merger without restriction.

**Q: What is the required vote to approve the Merger Agreement?**

A: The holders of at least **a majority** of the outstanding shares of PSBK Common Stock as of [RECORD DATE], the record date for the special meeting, must vote to approve the Merger Agreement in order for the Merger to be completed. Abstentions from voting and broker non-votes are not considered affirmative votes and, therefore, will have the same effect as a vote against the Merger.

As of the record date, holders of 250,651 shares of PSBK Common Stock, representing approximately 19.87% of the outstanding shares have signed voting agreements with FCAL agreeing to vote in favor of the Merger.

**Q: Are FCAL shareholders voting on the Merger?**

A: No, the vote of FCAL shareholders is not required to complete the Merger under Delaware law.

**Q: What does the PSBK Board of Directors recommend?**

A: The Board of Directors of PSBK unanimously recommends that PSBK s shareholders vote **FOR** the Merger Agreement.



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**Q: Do I have dissenters or appraisal rights with respect to the Merger?**

A: Yes. Under California law, you have dissenters' rights in accordance with the provisions of California Corporations Code Sections 1300, *et. seq.* With respect to voting, in order to exercise dissenters' rights, you do not need to affirmatively vote against the Merger Agreement, but instead you need only not vote in favor of the Merger Agreement. However, if you choose to exercise dissenters' rights, you must also comply with the provisions of California Corporations Code Sections 1300, *et. seq.* Please read the sections entitled "THE MERGER - Dissenters' Rights of PSBK Shareholders" on page [ ] hereof and **Appendix D**.

FCAL and FCB have the option to terminate the Merger Agreement if dissenters' rights are perfected and exercised with respect to more than five percent (5%) of the PSBK Common Stock outstanding. Please see "THE MERGER - Dissenters' Rights of PSBK Shareholders - Condition to Closing" herein.

**Q: When do you expect the Merger to occur?**

A: We expect to complete the Merger promptly after PSBK's shareholders approve the Merger Agreement at the special meeting and after the receipt of all requisite governmental and regulatory approvals, the expiration of applicable waiting periods and the satisfaction or waiver of all other conditions to the Merger. We currently expect this to occur late in the 3rd quarter or early in the 4th quarter of 2012 although delays may occur.

**Q: Are there any risks I should consider in deciding whether I vote for the Merger Agreement and the Merger?**

A: Yes. Set out under the heading of "RISK FACTORS," beginning on page [ ] of this document, a number of risk factors are discussed that you should consider carefully.

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**QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING**

**Q: When and where is the PSBK special shareholders meeting?**

A: The special meeting will be held at the headquarters of PSBK, 3637 Arlington Avenue, Suite B, Riverside, California on [MEETING DATE], at 6:00 p.m. (local time).

**Q: Who is entitled to vote at the special meeting?**

A: Holders of record of PSBK Common Stock at the close of business on [RECORD DATE], which is the date PSBK's Board of Directors has fixed as the record date for the special meeting, are entitled to vote at the special meeting.

**Q: What do I need to do now?**

A: Please mail your signed proxy card in the enclosed return envelope, as soon as possible, so your shares will be represented at the special meeting. In order to be sure that your vote is counted, please vote now even if you plan to attend the special meeting in person.

Your proxy card will instruct the persons named on the proxy card to vote your shares at the special meeting as you direct. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be voted **FOR** the approval of the Merger Agreement.

**Q: May I change my vote after I have mailed my signed proxy card?**

A: Yes. You may change your vote at any time before your proxy is voted at the special meeting. You may change your vote by submitting a new proxy with a later date or by voting in person at the special meeting. Alternatively, you may revoke your proxy altogether by notifying PSBK's Secretary in writing before the special meeting that you have revoked your proxy.

**Q: May I vote in person?**

A: Yes. You may attend the special meeting and vote your shares in person rather than completing, signing and mailing a proxy card.

**Q: Why is it important for me to vote?**

A: We cannot complete the Merger without the holders of at least **a majority** of the outstanding shares of PSBK Common Stock as of the record date voting in favor of the Merger Agreement. If you do not vote or fail to give instructions to your broker or bank to vote on your behalf, it will have the same effect as a vote against the Merger.

**Q: Should I send in my stock certificates with my proxy card?**

A: No. Please do not send your stock certificates with your proxy card. Promptly after the completion of the Merger, the exchange agent will mail to you a letter of transmittal and instructions for exchanging your PSBK stock certificates for the Merger consideration.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

A: Without instructions from you, your broker cannot vote your shares on the Merger proposal. If your shares are held in street name, you should instruct your broker as to how to vote your shares, following the instructions contained in the voting instruction card that your broker



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provides to you. Without instructions, your shares will not be voted, which will have the same effect as if you voted against the Merger proposal.

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**How to Get More Information**

**Q: Who can help answer my questions?**

A: If you have questions about the Merger or about how to vote your shares, please call Kerry L. Pendergast at Premier Service Bank at (951) 274-2400.

**Q: Where can I find more information about FCAL?**

A: You can find more information about FCAL from the various sources described under the heading WHERE YOU CAN FIND MORE INFORMATION on page [ ] of this proxy statement/prospectus.

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**SUMMARY**

This summary highlights selected information from this proxy statement/prospectus and may not contain all of the information that is important to you. To understand the Merger fully and for a more complete description of the legal terms of the Merger, you should carefully read this entire document and the other documents to which FCAL and PSBK have referred you, including the Appendices to this proxy statement/prospectus. For more information about FCAL and PSBK see WHERE YOU CAN FIND MORE INFORMATION on page [ ]. We have included page references in this Summary to direct you to other places in this proxy statement/prospectus where you can find a more complete description of the topics FCAL has summarized.

**Parties to the Merger**

**First California Financial Group, Inc.**

**3027 Townsgate Road, Suite 300**

**Westlake Village, California 91361**

**(805) 322-9655**

FCAL is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. FCAL's primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank, or FCB, as well as to consider from time to time other legally available investment opportunities.

FCAL was incorporated under the laws of the State of Delaware on June 7, 2006. The company formed as a wholly-owned subsidiary of National Mercantile Bancorp, a California corporation, or National Mercantile, for the purposes of facilitating the mergers of National Mercantile and FCB Bancorp, a California corporation. On March 12, 2007, National Mercantile merged with and into FCAL. Immediately thereafter, the parties completed the previously announced Merger of FCB Bancorp with and into FCAL. As a result of the mergers, the separate corporate existence of National Mercantile and FCB Bancorp ceased, and FCAL succeeded, and assumed all the rights and obligations of, National Mercantile, whose principal assets were the capital stock of two bank subsidiaries, Mercantile National Bank and South Bay Bank, N.A., and the rights and obligations of FCB Bancorp, whose principal assets were the capital stock of First California Bank. On June 18, 2007, FCAL integrated National Mercantile's bank subsidiaries into First California Bank.

First California Bank is a full-service commercial bank headquartered in Westlake Village, California. The bank is chartered under the laws of the State of California and is subject to supervision by the California Department of Financial Institutions (DFI). The FDIC insures its deposits up to the maximum legal limit.

FCAL's common stock is traded on the NASDAQ Global Select Market under the ticker symbol FCAL.

FCAL's principal executive offices are located at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361, and our telephone number is (805) 322-9655.

At June 30, 2012, FCAL had, on a consolidated basis, total assets of \$2.0 billion, deposits of \$1.6 billion, and shareholders' equity of \$231.2 million. At December 31, 2011, FCAL had, on a consolidated basis, total assets of \$1.8 billion, deposits of \$1.4 billion, and shareholders' equity of \$223.1 million.

**Premier Service Bank**

**3637 Arlington Avenue, Suite B**

**Riverside, California 92506**

**(951) 274-2400**



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Premier Service Bank, or PSBK, is a California state banking association chartered under the banking laws of the State of California on December 7, 2000. PSBK commenced operations on September 10, 2001. PSBK provides a full range of commercial banking services including loans to individuals and large and small businesses and offers a range of banking products including certificates of deposit, checking accounts, consumer and commercial loans, and other traditional banking services.

At June 30, 2012, PSBK had, on a consolidated basis, total assets of \$137.2 million, deposits of \$110.0 million, and shareholders' equity of \$10.3 million. At December 31, 2011, PSBK had total assets, net loans, total deposits and shareholders' equity of \$141.3 million, \$101.1 million, \$111.8 million and \$10.7 million, respectively.

### **The Special Meeting of PSBK (page )**

PSBK plans to hold a special meeting of its shareholders on [MEETING DATE], at 6:00 p.m. (local time), at the headquarters of PSBK, 3637 Arlington Avenue, Suite B, Riverside, California. At the meeting you will be asked to consider and vote upon a proposal to approve the Merger Agreement and a proposal to grant discretionary authority to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement and Merger.

You can vote at the special meeting if you owned PSBK Common Stock at the close of business on [RECORD DATE]. As of that date, there were 1,261,281 shares of PSBK Common Stock outstanding and entitled to vote. You can cast one vote for each share of PSBK Common Stock that you own.

### **The Merger (page )**

The Merger Agreement is attached as **Appendix A** to this proxy statement/prospectus and is incorporated into this proxy statement/prospectus by reference. You are encouraged to read the Merger Agreement as it is the legal document that governs the Merger.

### **Structure of the Merger (page )**

PSBK will be merged with and into FCB, a wholly-owned subsidiary of FCAL, with FCB as the surviving corporation. The directors and officers of FCB immediately before the effective time of the Merger will continue to serve as the directors and officers of FCB after the effective time of the Merger.

### **PSBK's Reasons for Merger and Factors Considered by PSBK's Board of Directors (page )**

Based on the reasons discussed elsewhere in this proxy statement/prospectus, PSBK's Board of Directors has determined that the Merger is advisable and in your best interests and unanimously recommends that you vote **FOR** the Merger Agreement. For a discussion of the circumstances surrounding the Merger and the factors considered by PSBK's Board of Directors in approving the Merger Agreement, see page [ ].

### **FCAL's Reasons for Merger (page )**

As part of FCAL's business strategy, FCAL routinely evaluates opportunities to acquire bank holding companies, banks and other financial institutions. The acquisition of PSBK is consistent with this strategy. The acquisition will increase FCAL's existing presence in California, provide opportunities for further growth and also result in a potential to realize economies of scale from a larger organization.

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**PSBK's Financial Advisors Have Provided an Opinion as to the Fairness of the Merger Consideration, from a Financial Point of View, to PSBK's Shareholders (page )**

Hovde Securities, LLC delivered its written opinion to PSBK's Board of Directors that, as of July 9, 2012 and based upon and subject to the factors and assumptions set forth in the opinion, the aggregate consideration to be received by holders of the outstanding PSBK Common Stock under the Merger Agreement was fair from a financial point of view to such holders.

The full text of the written opinion of Hovde Securities, LLC, dated July 9, 2012, which sets forth assumptions made, procedures followed, matters considered and limitations and qualifications on the review undertaken in connection with the opinion, is attached as **Appendix B** to this proxy statement/prospectus. PSBK's shareholders should read the opinion in its entirety. Hovde Securities, LLC provided its opinion for the information and assistance of PSBK's Board of Directors in connection with its consideration of the transaction. The Hovde Securities, LLC opinion does not address the underlying business decision to proceed with the Merger and is not a recommendation as to how any holder of PSBK Common Stock should vote or make any election with respect to the transaction or any related matter.

**Merger Consideration to the Holders of PSBK Common Stock (page )**

PSBK's shareholders will receive Merger consideration for their shares of PSBK Common Stock in the form of shares of FCAL Common Stock. Based on 1,261,281 shares of PSBK Common Stock issued and outstanding as of the date of the Merger Agreement, upon completion of the Merger, PSBK shareholders are expected to receive Merger consideration equal to approximately 293,626 shares of FCAL Common Stock. The number of shares you receive will depend in part on the PSBK Closing Shareholders' Equity, as this term is defined in the Merger Agreement.

**What Will Happen to Outstanding PSBK Options (page )**

As a condition to completion of the Merger, PSBK agreed to take all action necessary to ensure that PSBK's options plans and each outstanding option to purchase PSBK Common Stock will be either exercised by the holder of the options before the effective time, or each option not exercised or forfeited before the effective time will be cancelled and the holder of any exercised option will be entitled to receive payment in the form of shares of FCAL Common Stock as determined in accordance with the Merger Agreement. Since the exercise price for each of the PSBK options currently outstanding far exceeds the value of the Stock Consideration which would be received upon exercise of the option, it is not anticipated that any of the options will be exercised. PSBK will request all the optionees to cancel their options prior to the effective time of the Merger. See "The Merger - PSBK Stock Options" herein for more information.

**Material Federal Income Tax Consequences of the Merger (page )**

The Merger is intended to qualify as a tax-free reorganization for United States federal income tax purposes under Section 368(a) of the Internal Revenue Code, as amended (the "Code"). Notwithstanding however, if dissenters' rights are perfected and exercised with respect to more than 10% of the outstanding shares of PSBK Common Stock, the Merger may fail to qualify as a tax-free reorganization under the Code. The Merger Agreement provides, as a condition to closing the Merger, that dissenters' rights are not perfected and exercised with respect to more than 5% of the outstanding shares of PSBK Common Stock.

If the Merger qualifies as a tax-free reorganization under the Code, you will not recognize gain or loss upon the exchange of your shares of PSBK Common Stock for shares of FCAL Common Stock. However, you will recognize gain or loss with respect to cash received, if any, in lieu of fractional share interests to the extent the amount of cash received exceeds or is less than your tax basis in your PSBK Common Stock. If you perfect and

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exercise dissenters' rights with respect to any shares of PSBK Common Stock and receive cash for your dissenting shares, you will recognize gain or loss to the extent the amount of cash you receive exceeds or is less than your tax basis in your PSBK Common Stock.

For a more complete discussion of the federal income tax consequences of the Merger, you should carefully read the discussion in the section entitled PROPOSAL 1: THE MERGER Federal Income Tax Consequences, herein. Further, you are encouraged to consult your tax advisor because tax matters can be complicated, and the tax consequences of the Merger to you will depend upon your own situation. You should also consult your tax advisor concerning all state, local and foreign tax consequences of the Merger.

**PSBK Shareholder Vote Required to Approve the Agreement and Plan of Merger (page )**

Approval of the Merger Agreement requires the affirmative vote of the holders of at least a majority of the shares of PSBK Common Stock outstanding as of the close of business on [RECORD DATE], the record date for the special meeting of PSBK shareholders. At the close of business on the record date, there were 1,261,281 shares of PSBK Common Stock outstanding held by [ ] holders of record. Each holder of record of PSBK Common Stock on the record date is entitled to one vote for each share held on all matters to be voted upon at the special meeting.

As of the record date, PSBK's executive officers and directors and their affiliates, as a group, held 250,651 voting shares, or approximately 19.87% of the PSBK Common Stock outstanding. See BENEFICIAL STOCK OWNERSHIP BY MANAGEMENT AND PRINCIPAL SHAREHOLDERS OF PREMIER SERVICE BANK. PSBK's executive officers and directors have entered into voting agreements pursuant to which they have agreed, in their capacity as shareholders of PSBK, to vote their shares of PSBK Common Stock in favor of the Merger Agreement. The form of Voting Agreement is attached as **Appendix C** to this proxy statement/prospectus.

**Dissenters' Rights of PSBK Shareholders (page )**

In order to perfect dissenters' rights, you must do the following:

make a timely written demand upon PSBK for purchase in cash of your shares of PSBK Common Stock at their fair market value as of February 27, 2012 which demand includes:

the number and class of the shares you held of record that you demand upon PSBK, and

what you claim to be the fair market value of your shares as of February 27, 2012;

have your demand received by PSBK within 30 days after the date on which the notice of the approval of the Merger is mailed to you;

not vote in favor of the principal terms of the Merger Agreement;

submit certificates representing your shares for endorsement in accordance with Section 1302 of the California Corporations Code; and

comply with such other procedures as are required by the California Corporations Code.

If you properly perfect dissenters' rights, you have the right to cash in the amount equal to the fair market value, as determined by PSBK, or, if required, by a court of law, of your shares of PSBK Common Stock as of February 27, 2012, the business day immediately preceding the announcement of the Merger. Please also refer to **Appendix D** to this proxy statement/prospectus for additional information. **Appendix D** sets forth the applicable provisions of the California Corporations Code relating to the required procedures that must be followed in order to perfect

and exercise dissenters' rights under California law.



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### **Certain PSBK Directors and Executive Officers May Have Interests in the Merger that are Different from, or in Addition to, Their Interests as Shareholders (page )**

You should be aware that certain of PSBK's directors and executive officers may have interests in the Merger that are different from, or in addition to, their interests as shareholders of PSBK. PSBK's Board of Directors was aware of these interests and took them into account at the time they approved the Merger Agreement. These interests include, among other things, an offer of employment for Kerry L. Pendergast and a severance payment due to Jessica W. Lee upon completion of the Merger. Please read the section entitled "Interests of Directors and Officers in the Transaction" for more information.

### **PSBK Has Agreed When and How PSBK and its Subsidiaries Can Consider Third-Party Merger Proposals (page )**

The Merger Agreement contains detailed provisions prohibiting PSBK, either directly or indirectly, from seeking or encouraging an alternative Acquisition Proposal. The "no solicitation" provisions prohibit PSBK and its subsidiaries, as well as their officers, directors, employees and representatives, from taking any action to solicit an Acquisition Proposal.

Even if the PSBK Board of Directors resolves to change its recommendation in favor of the Merger Agreement, PSBK must hold the special meeting of shareholders and, unless the Merger Agreement has been terminated, PSBK's shareholders who are parties to the voting agreement will be required to honor the voting agreement, under which they have agreed to vote the shares of PSBK Common Stock held by them (aggregating approximately 19.87% of PSBK's outstanding shares) in favor of the Merger Agreement. Please read the section entitled "Director and Executive Officer Voting Agreements" for more information.

### **Accounting Treatment (page )**

The combination of the two companies will be accounted for as an acquisition of PSBK by FCAL using the acquisition method of accounting.

### **The Completion of the Merger is Subject to Certain Conditions (page )**

Completion of the Merger is subject to various conditions, including, among other things, the approval of the Merger Agreement by PSBK's shareholders, dissenters' rights are not perfected and exercised with respect to more than 5% of the outstanding PSBK Common Stock, the receipt of all required banking and other regulatory approvals without the imposition of a condition that in the good faith judgment of FCAL would so adversely impact the economic or business benefits of the transactions contemplated by the Merger Agreement, that, had that condition or restriction been known, FCAL would not have entered into the Merger Agreement; the accuracy of the other parties' representations and performance of their respective obligations and receipt of opinions of counsel as to the tax treatment of the Merger. There can be no assurance as to whether or when all of the conditions will be satisfied or, where permissible, waived.

### **We Have Not Yet Obtained All Regulatory Approvals (page )**

We cannot complete the Merger unless we receive all necessary permits, consents, waivers, approvals and authorizations of the Securities and Exchange Commission (the "SEC"), applicable blue sky administrators, the DFI, the FDIC and any third parties and other governmental bodies necessary to consummate the Merger as contemplated by the Merger Agreement. There can be no assurance that all requisite approvals will be obtained or that such approvals will be received on a timely basis.

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**Termination of the Merger Agreement and Plan of Merger (page )**

The parties can mutually agree to terminate or extend the Merger Agreement. Either party can terminate the Merger Agreement in the event of a material breach or the occurrence of certain other events. FCAL can terminate the Merger Agreement in the event the Closing Price, as defined in the Merger Agreement, of the FCAL Common Stock, is greater than \$7.83, and PSBK can terminate the Merger Agreement in the event the Closing Price of the FCAL Common Stock is less than \$5.79. See RISK FACTORS FCAL's Right to Terminate the Merger Agreement if the Closing Price, as defined therein, of FCAL's Common Stock is Greater than \$7.83, Could Result in the Termination of the Merger Agreement for Reasons beyond PSBK's Control herein.

FCAL and PSBK have agreed that in the event the Merger Agreement is terminated because of a material breach by a party the non-breaching party will be entitled to receive \$500,000 from the breaching party. The parties have also agreed that PSBK will pay FCAL a fee of \$1,000,000 in the event either (i) the Merger Agreement is terminated because PSBK accepts and thereafter enters into a definitive agreement with respect to a Superior Proposal or its board fails to recommend, withdraws its recommendation or modifies its recommendation of the Merger Agreement in a manner that is adverse to FCAL after receipt of a Superior Proposal; or (ii) within twelve (12) months following termination of the Merger Agreement for a non-cured breach of any representation, warranty or covenant by PSBK or the failure of PSBK's shareholder to approve the Merger Agreement after PSBK has received another acquisition transaction proposal, PSBK enters into a definitive agreement with respect to, or otherwise consummates, another acquisition transaction.

**Voting Agreement (page )**

FCAL has entered into voting agreements with each of the directors and executive officers of PSBK in the form of **Appendix C** to this proxy statement/prospectus, pursuant to which each such director and/or executive officer has agreed, among other things, to vote all shares of PSBK Common Stock owned by such person in favor of the approval of the Merger Agreement and the transactions contemplated thereby at PSBK's special meeting. The voting agreements also provide that each director and/or executive officer will not take any action that will alter the right to vote his or her shares.

**Non-Competition and Non-Solicitation Agreements (page )**

Each of the executive officers and directors of PSBK have entered into Non-Competition and Non-Solicitation Agreements in the form of Exhibit B to the Merger Agreement, pursuant to which each such director and/or executive officer has agreed, among other things, not to compete with FCAL and FCB, as the surviving bank, for a period of two (2) years in the City of Riverside and any area within a fifty-mile radius of the City of Corona; provided, however, that the Non-Competition and Non-Solicitation Agreement entered into with Jessica W. Lee, PSBK's Chief Financial Officer, has been modified so as not to preclude Ms. Lee from being employed by another financial institution within the restricted territory.

**Table of Contents****SELECTED FINANCIAL DATA****Selected Financial Data of PSBK**

The following summary presents the financial data for PSBK as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 and as of and for the six months ended June 30, 2012 and 2011. The data for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 are derived from PSBK's audited financial statements. The data for June 30, 2012 and 2011 are derived from PSBK's unaudited interim financial statements and, in the opinion of PSBK's management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, PSBK's financial position as of June 30, 2012 and 2011. You should read this information in conjunction with the section of this proxy statement/prospectus entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS OF PREMIER SERVICE BANK" herein and the audited financial statements and the unaudited interim financial statements of PSBK included herewith. The historical results presented in the following summary do not necessarily indicate expected results for future periods. Please see "INDEX TO FINANCIAL STATEMENTS," herein.

	As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,				
	2012	2011	2011	2010	2009	2008	2007
(dollars in thousands, except per share data)							
<b>Results of Operations</b>							
Net interest income	\$ 3,038	\$ 3,361	\$ 6,500	\$ 6,840	\$ 6,865	\$ 7,081	\$ 6,709
Provision for loan losses	225	1,609	2,794	4,011	1,870	1,468	195
Noninterest income	328	439	716	699	767	732	687
Noninterest expense	3,496	3,416	6,607	6,455	6,563	6,627	6,311
Net income (loss)	(\$ 356)	(\$ 1,225)	(\$ 2,186)	(\$ 3,429)	(\$ 802)	(\$ 100)	\$ 566
<b>Financial Position</b>							
Assets	\$ 137,169	\$ 146,736	\$ 141,256	\$ 155,992	\$ 163,979	\$ 151,502	\$ 139,332
Gross loans	96,082	111,500	103,668	117,624	128,591	125,685	110,045
Allowance for loan losses	2,907	2,803	2,359	2,549	1,900	1,596	1,260
Deposits	109,970	114,281	111,759	123,397	126,794	110,562	109,415
FHLB advances	16,000	20,000	18,000	19,000	20,000	26,900	16,000
Shareholders' equity	\$ 10,308	\$ 11,658	\$ 10,685	\$ 12,858	\$ 16,421	\$ 13,209	\$ 13,132
<b>Per Share Data</b>							
Earnings (loss) per common share:							
Basic	(\$ 0.30)	(\$ 0.99)	(\$ 1.77)	(\$ 2.80)	(\$ 0.67)	(\$ 0.08)	\$ 0.45
Diluted	(\$ 0.30)	(\$ 0.99)	(\$ 1.77)	(\$ 2.80)	(\$ 0.67)	(\$ 0.08)	\$ 0.44
Book value per common share	\$ 4.90	\$ 6.00	\$ 5.22	\$ 6.97	\$ 9.84	\$ 10.48	\$ 10.46
<b>Selected Ratios</b>							
Return on average equity	(6.74)%	(19.85)%	(18.18)%	(22.68)%	(4.80)%	(0.75)%	4.49%
Return on average assets	(0.51)%	(1.62)%	(1.47)%	(2.15)%	(0.50)%	(0.07)%	0.41%
Efficiency ratio <sup>(1)</sup>	78.47%	75.51%	79.04%	77.46%	80.47%	81.25%	85.33%
Net interest margin (tax equivalent) <sup>(2)</sup>	4.84%	4.96%	4.82%	4.79%	4.83%	5.12%	5.28%
Nonaccrual loans to total loans	5.70%	5.66%	8.61%	6.98%	5.82%	2.25%	0.64%
Net charge-offs (recovery) to average loans	(0.65)%	2.36%	2.67%	2.71%	1.25%	0.95%	0.05%
Allowance for loan losses to total loans	3.03%	2.51%	2.28%	2.17%	1.48%	1.27%	1.13%
Equity to assets	7.52%	7.95%	7.57%	8.25%	10.02%	8.72%	9.43%
Total capital ratio (to risk weighted assets)	11.27%	10.92%	10.78%	11.64%	12.88%	10.94%	12.08%
Tier 1 capital ratio (to risk weighted assets)	10.00%	9.66%	9.52%	10.38%	11.63%	9.71%	10.96%
Tier 1 leverage ratio (to average assets)	7.39%	7.73%	7.21%	8.05%	9.69%	8.50%	9.46%

(1) Computed by dividing noninterest expense, excluding integration/conversion expense, loss on and expense of REO, by net interest income and noninterest income, excluding gain on sale of securities and market gain on foreclosed assets. The efficiency ratio measures the cost expended to generate a dollar of revenue and provides an additional financial metric of interest to market participants.

(2) Computed by dividing net interest income by average interest-earning assets.



**Table of Contents****Consolidated Selected Financial Data of FCAL**

The following summary presents the consolidated financial data for FCAL as of and for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 and as of and for the six months ended June 30, 2012 and 2011. The data for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 are derived from FCAL's audited consolidated financial statements. The data for June 30, 2012 and 2011 are derived from FCAL's unaudited consolidated interim financial statements and, in the opinion of FCAL's management, contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly, in all material respects, FCAL's consolidated financial position as of June 30, 2012 and 2011. You should read this information in conjunction with the section of FCAL's Annual Report on Form 10-K for the year ended December 31, 2011 entitled "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as the section of FCAL's quarterly report on Form 10-Q for the period ended June 30, 2012 entitled "Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as the financial statements included with these reports. FCAL's Annual Report on Form 10-K for the year ended December 31, 2011 was filed with the Securities and Exchange Commission on March 15, 2012 and the Quarterly Report on Form 10-Q was filed on August 9, 2012. Both reports are incorporated herein by reference. The historical results presented in the following summary do not necessarily indicate expected results for future periods. Please see "WHERE YOU CAN FIND MORE INFORMATION - Incorporation by Reference," herein.

	As of or for the Six Months Ended June 30,		As of or for the Years Ended December 31,					
	2012	2011	2011	2010	2009	2008	2007 <sup>(1)</sup>	
	(dollars in thousands, except per share data)							
<b>Results of Operations</b>								
Net interest income	\$ 33,400	\$ 28,279	\$ 59,494	\$ 44,696	\$ 45,054	\$ 40,782	\$ 40,244	
Provision for loan losses	1,000	3,000	5,346	8,337	16,646	1,150		
Noninterest income	5,814	38,099	44,609	8,796	10,034	5,381	8,047	
Noninterest expense	28,596	32,330	58,464	42,805	46,856	35,105	37,045	
Net income (loss)	\$ 5,770	\$ 18,005	\$ 23,383	\$ 1,410	(\$ 4,661)	\$ 6,366	\$ 7,088	
<b>Financial Position</b>								
Assets	\$ 1,977,824	\$ 1,801,981	\$ 1,812,664	\$ 1,521,334	\$ 1,459,821	\$ 1,178,045	\$ 1,108,842	
Non-covered loans	1,021,521	900,601	918,356	930,704	922,741	811,774	749,805	
Covered loans	114,722	172,621	135,412	53,878				
Allowance for loan losses	18,344	18,306	17,747	17,033	16,505	8,048	7,828	
Goodwill and other intangibles	73,463	75,855	74,607	70,635	72,301	58,550	59,858	
Deposits	1,570,387	1,406,714	1,425,269	1,156,288	1,124,715	817,595	761,080	
Junior subordinated debentures	26,805	26,805	26,805	26,805	26,753	26,701	26,648	
Shareholders' equity	\$ 231,177	\$ 217,539	\$ 223,107	\$ 198,041	\$ 157,226	\$ 158,923	\$ 136,867	
<b>Per Share Data</b>								
Earnings (loss) per common share:								
Basic	\$ 0.18	\$ 0.61	\$ 0.73	\$ 0.01	(\$ 0.50)	\$ 0.56	\$ 0.68	
Diluted	\$ 0.17	\$ 0.61	\$ 0.71	\$ 0.01	(\$ 0.50)	\$ 0.54	\$ 0.66	
Book value per common share	\$ 7.02	\$ 6.78	\$ 6.75	\$ 6.16	\$ 11.45	\$ 11.80	\$ 11.55	
Tangible book value per common share	\$ 4.51	\$ 4.11	\$ 4.19	\$ 3.65	\$ 5.23	\$ 6.69	\$ 6.46	
<b>Selected Ratios</b>								
Return on average equity	5.10%	17.44%	10.94%	0.75%	-2.91%	4.59%	6.98%	
Return on average assets	0.61%	2.06%	1.31%	0.10%	-0.32%	0.56%	0.75%	
Efficiency ratio <sup>(2)</sup>	72.17%	80.45%	74.69%	74.75%	84.22%	73.43%	66.58%	
Net interest margin (tax equivalent) <sup>(3)</sup>	4.13%	3.82%	3.92%	3.46%	3.53%	4.08%	4.64%	
Non-covered nonaccrual loans to non-covered loans	1.30%	1.94%	1.48%	1.92%	4.25%	1.08%	0.76%	
Net charge-offs to average loans	0.07%	0.32%	0.43%	0.84%	0.89%	0.12%	0.07%	
Allowance for loan losses to non-covered loans	1.76%	1.99%	1.90%	1.80%	1.76%	1.02%	1.05%	
Equity to assets	11.69%	12.07%	12.31%	13.02%	10.77%	13.49%	12.34%	
Tangible common equity to tangible assets	6.92%	6.77%	7.05%	7.08%	4.38%	6.85%	7.25%	
Total capital ratio (to risk weighted assets)	16.93%	17.14%	17.32%	16.79%	12.69%	16.62%	13.35%	
Tier 1 capital ratio (to risk weighted assets)	15.67%	15.88%	16.07%	15.53%	11.43%	15.70%	12.43%	
Tier 1 leverage ratio (to average assets)	9.99%	9.77%	10.33%	11.00%	8.52%	12.77%	10.42%	



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- (1) FCAL was formed as a wholly-owned subsidiary of National Mercantile Bancorp, or National Mercantile, to facilitate the reincorporation merger with FCB Bancorp. Accordingly, the historical balance sheet and results of operations before the March 2007 merger are the same historical information of National Mercantile.
- (2) Computed by dividing noninterest expense, excluding amortization of intangible assets, integration/conversion expense and loss on and expense of REO, by net interest income and noninterest income, excluding gain on sale of securities, gain on sale of bank charters, gain on acquisitions and market gain on foreclosed assets. The efficiency ratio measures the cost expended to generate a dollar of revenue and provides an additional financial metric of interest to market participants.
- (3) Computed by dividing net interest income by average interest-earning assets.

**Table of Contents****COMPARATIVE MARKET PRICES AND DIVIDENDS**

FCAL Common Stock is traded on the NASDAQ Global Select Market under the symbol FCAL, and PSBK Common Stock is quoted on the OTC Bulletin Board under the symbol PSBK. Such market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

As of [latest practicable date], 2012, there were [ ] shares of FCAL Common Stock outstanding, which were held by approximately [ ] holders of record. As of [latest practicable date], 2012, there were 1,261,281 shares of PSBK Common Stock outstanding, which were held by approximately [ ] holders of record. Such numbers of shareholders do not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

The following table sets forth, for the calendar quarters indicated, the high and low sales prices per share of FCAL Common Stock and the high and low bid information for PSBK Common Stock, and the cash dividends declared per share for the periods indicated.

	FCAL Common Stock			PSBK Common Stock		
	High	Low	Trading Volume	High	Low	Trading Volume
<b>2010</b>						
First Quarter	\$ 3.38	\$ 2.54	5,298,440	\$ 6.00	\$ 4.00	9,900
Second Quarter	\$ 3.50	\$ 2.61	8,556,196	\$ 4.75	\$ 3.24	19,333
Third Quarter	\$ 2.91	\$ 2.36	2,323,523	\$ 4.50	\$ 1.75	50,489
Fourth Quarter	\$ 2.90	\$ 2.26	2,581,149	\$ 2.25	\$ 1.20	25,763
<b>2011</b>						
First Quarter	\$ 4.09	\$ 2.80	3,773,968	\$ 1.75	\$ 1.16	34,424
Second Quarter	\$ 4.00	\$ 3.40	2,838,926	\$ 1.50	\$ 1.02	5,495
Third Quarter	\$ 3.95	\$ 2.77	2,722,011	\$ 1.95	\$ 1.26	4,459
Fourth Quarter	\$ 3.72	\$ 2.79	5,251,101	\$ 1.95	\$ 0.56	19,301
<b>2012</b>						
First Quarter	\$ 5.92	\$ 3.29	8,034,348	\$ 1.50	\$ 0.56	26,107
Second Quarter	\$ 7.12	5.27	11,948,328	\$ 1.65	\$ 1.45	10,023

Third Quarter (through [latest practicable date], 2012)

[ ] [ ] [ ] [ ] [ ] [ ]

The following table sets forth the closing sale prices of FCAL Common Stock and the bid prices of PSBK Common Stock on February 27, 2012, the last trading day before the Merger was announced, and on [latest practicable date], 2012, the last practicable trading day before the distribution of this proxy statement/prospectus. The following table also includes the equivalent market value per share of PSBK common stock on February 27, 2012 and [latest practicable date], 2012 determined by multiplying the market value of a share of FCAL common stock as of the dates presented by the exchange ratio calculated in accordance with the Merger Agreement, assuming no adjustment to the stock consideration to be exchanged for all shares of PSBK Common Stock in the Merger.

	FCAL Common Stock	PSBK Common Stock	Equivalent Market Value per Share of PSBK Common Stock
February 27, 2012	\$ 4.69	\$ 1.01	\$ 1.77
[latest practicable date], 2012	\$ [ ]	\$ [ ]	\$ [ ]



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The above table shows only historical comparisons. Because the market prices of FCAL Common Stock and PSBK Common Stock will likely fluctuate prior to the Merger, these comparisons may not provide meaningful information to PSBK shareholders in determining whether to adopt the Merger Agreement. PSBK shareholders are encouraged to obtain current market quotations for FCAL Common Stock and PSBK Common Stock and to review carefully the other information contained, or incorporated by reference, in this proxy statement/prospectus. See WHERE YOU CAN FIND MORE INFORMATION. Following the Merger, FCAL Common Stock will continue to be listed on the NASDAQ Global Select Market, and there will be no further market for PSBK Common Stock.

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**RISK FACTORS**

In addition to the other information included or incorporated by reference into this proxy statement/prospectus, you should carefully read and consider the following factors in evaluating the Merger Agreement and the Merger. Please also refer to the additional risk factors identified in the periodic reports and other documents of FCAL incorporated by reference into this proxy statement/prospectus and listed in WHERE YOU CAN FIND MORE INFORMATION Incorporation of Documents by Reference on page [ ].

**Risk Related to the Merger**

***The Value of the Merger Consideration to be Paid to PSBK in FCAL Common Stock May Fluctuate Based on the Price of FCAL Stock.***

Upon completion of the Merger, each share of PSBK Common Stock will be converted into 0.2328 shares of FCAL Common Stock, subject to adjustment, pursuant to the terms of the Merger Agreement. As a result of the fixed exchange ratio, any change in the price of FCAL Common Stock prior to the closing date may affect the value of the FCAL Common Stock that PSBK shareholders will receive upon completion of the Merger. Stock price changes may result from a variety of factors, including general market and economic conditions, changes in FCAL's businesses, operations and prospects, regulatory considerations and completion of the Merger. Many of these factors are beyond FCAL's control. You should obtain current market quotations for FCAL Common Stock.

***FCAL's Right to Terminate the Merger Agreement if the Closing Price, as defined therein, of FCAL's Common Stock is Greater than \$7.83, Could Result in the Termination of the Merger Agreement for Reasons beyond PSBK's Control.***

The Merger Agreement provides that FCAL can terminate the Merger Agreement if the Closing Price, as defined therein, is greater than \$7.83. No assurances can be given that the Closing Price of FCAL Common Stock will not exceed \$7.83 prior to the closing of the Merger and, if so, no assurances can be provided that FCAL will not exercise its contractual right to terminate the Merger Agreement even if PSBK's shareholders approve the principal terms of the Merger Agreement.

***Recent Events Involving Unsolicited Offers to Purchase FCAL and Schedule 13D's Filed by FCAL Shareholders May Negatively Impact the Merger.***

On January 12, 2012, PSBK learned of the filing on that date of a Schedule 13D by James O. Pohlada, Robert C. Pohlada and William M. Pohlada, principal shareholders of FCAL, expressing their desire that FCAL engage an investment banker to assess all strategic alternatives including the sale of FCAL. On January 23, 2012, another Schedule 13D was filed, similar to the Pohlada filing, by Castine Capital Management, LLC, another principal shareholder of FCAL. A third 13D was filed on April 2, 2012, by Basswood Capital Management, LLC in support of the position taken by the Pohladas and Castine Capital Management, LLC. On May 14, 2012, Castine Capital Management, LLC, amended its 13D filing, indicating it reduced its FCAL shareholdings to less than 5%. A fourth Schedule 13D was filed, on May 29, 2012 and amended on June 25, 2012, by Loeb Offshore Management LP, also similar in substance to the Pohlada filing. PSBK does not know what impact, if any, the Schedule 13D filings will have on the Merger between FCAL and PSBK.

***PSBK shareholders who purchased their PSBK Common Stock at prices higher than the value of the FCAL Common Stock to be received in exchange for the PSBK Common Stock will suffer losses if they choose to sell their FCAL Common Stock upon close of the Merger.***

Except possibly for very recent trades, most of the PSBK shareholders have paid more for their shares of PSBK Common Stock than the value of the Stock Consideration they will receive for their PSBK shares. Assuming, for purposes of this example only, that 1,261,281 shares of PSBK Common Stock are issued and

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outstanding immediately prior to the effective time of the Merger and that the Closing Price of the FCAL Common Stock is \$7.00 per share, and PSBK Closing Shareholders' Equity, as determined in accordance with the Merger Agreement is greater than or equal to \$7.9 million (requiring no adjustment to the Stock consideration of 293,626 shares of FCAL Common Stock), the per share consideration would be 0.2328 shares of FCAL Common Stock, having a value of \$1.63 per share. Based on those assumptions, if a shareholder purchased PSBK shares at \$10.00 per share, that shareholder would suffer a loss of \$8.37 per share (83.7%) if the FCAL shares were sold by the former PSBK shareholder for \$7.00 immediately after the close of the Merger. It is hoped that PSBK shareholders will hold their shares until they are able to participate in the future possible appreciation in the value of the FCAL Common Stock, and by doing so reduce their loss; however, no assurances can be given that the FCAL Common Stock will increase in value after the effective time of the Merger, or that the PSBK shareholders will be able to reduce their losses by holding the FCAL Stock and delaying the sale of their FCAL shares. There also can be no assurances that FCAL's Common Stock will not be sold or exchanged in an FCAL transaction which closes after the Merger, and if that should occur, what the value of the FCAL Common Stock will be in that transaction.

***Shares Eligible for Future Sale Could Have a Dilutive Effect.***

Shares of FCAL Common Stock eligible for future sale, including those that will be issued in the acquisition of PSBK, could have a dilutive effect on the market for FCAL Common Stock and could adversely affect market prices.

As of the record date, there were 100,000,000 shares of FCAL Common Stock authorized, of which \_\_\_\_\_ shares were outstanding, excluding \_\_\_\_\_ shares of unvested restricted stock and \_\_\_\_\_ shares, issuable upon conversion of its Series A Preferred Stock. Assuming no adjustment to the stock consideration in accordance with the terms of the Merger Agreement, an estimated 293,626 additional shares will be issued to PSBK shareholders in the Merger, based on the exchange ratio of 0.2328 and the number of shares of PSBK Common Stock outstanding on February 27, 2012. After the close of the Merger, the 293,626 shares issued to the PSBK shareholders will constitute [ ] % of the shares of FCAL Common Stock then outstanding.

***PSBK Shareholders Cannot Be Sure of the Market Value of the FCAL Common Stock They Will Receive in the Merger.***

In consideration for the surrender of their shares of PSBK Common Stock, shareholders of PSBK will receive shares of FCAL Common Stock according to the exchange ratio specified in the Merger Agreement. The total merger consideration is variable depending on the timing of consummation of the Merger Agreement, which provides that the exchange ratio dictating the number of shares of FCAL Common Stock to be received in exchange for each share of PSBK Common Stock may be required to be adjusted in accordance with changes in PSBK's shareholders' equity as determined as of the last day of the calendar month immediately prior to the effective time of the Merger. Because of the variables affecting the exchange ratio of FCAL Common Stock, you will not know in advance either the number of shares of FCAL Common Stock or the value of the shares of FCAL Common Stock that you may receive until the Merger is completed.

***Mergers Involve Risk.***

Mergers involve a number of risks inherent in assessing the values, strengths, weaknesses and profitability of merger candidates, including adverse short-term effects of mergers on operating results; diversion of management's attention; dependence on retaining key personnel; and risks associated with unanticipated problems, including unanticipated expenses. In addition, the Merger's success will depend in part on the ability of FCAL and FCB to integrate the operations and assets of PSBK and capitalize on synergies to achieve economies of scale.

If FCAL is unable to successfully integrate the businesses of PSBK, operating results may suffer. FCAL and PSBK have operated and, until completion of the Merger, will continue to operate independently of one another.

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It is possible that the integration process could result in the loss of key employees, disruption of FCAL's and PSBK's ongoing business or inconsistencies in standards, controls, policies or procedures. These could negatively affect both FCAL's and PSBK's ability to maintain relationships with customers and employees, or achieve the anticipated benefits of the Merger within the time period expected, if at all. As with any merger of financial institutions, there may also be disruptions that cause customers, both deposit and loan, to take their business to competitors.

### ***The Merger Agreement Does not Require that the Fairness Opinion of PSBK's Financial Advisor be Updated as a Condition to the Completion of the Merger.***

On July 9, 2012, after the execution by FCAL, FCB and PSBK of Amendment No. 1 to Agreement and Plan of Merger, PSBK's financial advisor, Hovde Securities, LLC, ( Hovde ), presented its opinion to the PSBK Board of Directors as to the fairness of the merger consideration to the shareholders of PSBK from a financial point of view. As of such date, in the opinion of Hovde, the merger consideration was fair to the shareholders of PSBK from a financial point of view. The Merger Agreement does not require that the fairness opinion of Hovde be updated as a condition to the completion of the Merger, and PSBK does not intend to request that the opinion be updated. As such, the fairness opinion does not reflect any changes that may occur or may have already occurred after July 9, 2012 to the operations and prospects of PSBK or FCAL, general market and economic conditions and other factors that may affect the relative values of PSBK and FCAL. As a result, PSBK shareholders should be aware that the opinion of Hovde does not address the fairness of the merger consideration at any time other than as of July 9, 2012.

### ***Governmental Agencies, Self-Regulatory Organizations or Third Parties May Delay or Impose Conditions On Approval of the Merger, Which May Result in Termination of the Merger Agreement or Diminish the Anticipated Benefits of the Merger.***

Completion of the Merger is conditioned upon the receipt of all necessary consents, approvals and authorizations of any governmental authority, self-regulatory organization or third party. While the parties intend to vigorously pursue any and all required consents, approvals and authorizations and do not know of any reason why they would not be able to obtain the consents in a timely manner, the failure to receive such consents before December 31, 2012 will result in a termination of the Merger Agreement, unless mutually waived by the parties thereto. In addition, a condition to the respective obligations of the parties under the Merger Agreement is that governmental regulators do not impose conditions reasonably determined by the boards of directors of FCAL and PSBK to be material and adverse to the business operations, financial condition, property or assets of the combined entity. Failure to complete the Merger may negatively impact the future business and financial results of FCAL and PSBK.

In addition, the requirement to receive all necessary consents, approvals and authorizations of any governmental authority, self-regulatory organization or third party before December 31, 2012 could delay the completion of the Merger, possibly for a significant period of time after the shareholders of PSBK have approved the Merger. Any delay in the completion of the Merger could diminish the anticipated benefits of the Merger or result in additional transaction costs, loss of revenue or other effects associated with uncertainty about the Merger, such as difficulty in retaining key personnel or in pursuing business strategies.

There can be no assurances that the parties will be able to obtain the necessary approvals in a timely manner, or at all, or that any conditions imposed upon such approvals will not have a material adverse effect on FCAL and PSBK, as the surviving entities, following the Merger. In addition, there can be no assurance given that any such conditions will not result in the abandonment of the Merger by any of the parties thereto.

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***The Termination Fee and the Restrictions on Solicitation Contained in the Merger Agreement May Discourage Other Companies From Trying to Acquire PSBK.***

Until the completion of the Merger, with some exceptions, PSBK is prohibited from soliciting, initiating, encouraging or participating in any discussion of or otherwise considering any inquiries or proposals that may lead to a merger proposal, such as a merger or other business combination transaction, with any person or entity other than FCAL and FCB. The parties have agreed that PSBK will pay FCAL a fee of \$1,000,000 in the event that (i) the Merger Agreement is terminated because PSBK accepts and thereafter enters into a definitive agreement with respect to a Superior Proposal or its board fails to recommend, withdraws its recommendation or modifies its recommendation of the Merger Agreement in a manner that is adverse to FCAL after receipt of a Superior Proposal; or (ii) within twelve (12) months following termination of the Merger Agreement for a non-cured breach of any representation, warranty or covenant by PSBK or the failure of PSBK's shareholder to approve the Merger Agreement after PSBK has received another merger transaction proposal, PSBK enters into a definitive agreement with respect to, or otherwise consummates, another merger transaction. These provisions could discourage other companies from trying to acquire PSBK even though those other companies might be willing to offer greater value to PSBK's shareholders than FCAL has offered in the Merger. The payment of the termination fee could also have a material adverse effect on PSBK's financial condition.

In the event of termination of the Merger Agreement because of a breach of any representation, warranty, covenant or agreement contained in the Merger Agreement by a party, the non-breaching party will be entitled to claim from the breaching party liquidated damages equal to \$500,000. The payment of this fee could have an adverse effect on PSBK's or FCAL's financial condition.

***FCAL, FCB, and PSBK will be Subject to Business Uncertainties While the Merger is Pending that Could Adversely Affect Their Businesses.***

Uncertainty among employees, depositors, borrowers, vendors and others about the effect of the Merger may have an adverse effect on FCAL, FCB, and PSBK and, consequently, on the combined entity.

***PSBK's Officers and Directors Have Interests that are Different From, or in Addition to, Interests of PSBK's Shareholders Generally.***

You should be aware that the directors and officers of PSBK have interests in the Merger that are different from, or in addition to, the interests of PSBK shareholders generally. The Board of Directors of PSBK was aware of these interests and considered them, among other things, in their approval of the Merger Agreement and the transactions contemplated by the Merger Agreement. These include:

payment of severance to Ms. Lee under her existing employment agreement;

retention agreements that certain officers will become subject to upon completion of the Merger;

provisions in the Merger Agreement relating to indemnification of directors and officers and insurance for directors and officers of PSBK for events occurring before the Merger;

the retention of one director of PSBK on the boards of directors of FCAL and FCB; and

offers of employment upon completion of the Merger.

You should consider these interests in conjunction with the recommendation of the Board of Directors of PSBK with respect to approval of the Merger.

***If the Merger does not constitute a tax-free reorganization under section 368(a) of the Internal Revenue Code, then PSBK shareholders may be responsible for payment of U.S. federal income taxes.***

## Edgar Filing: First California Financial Group, Inc. - Form S-4

The United States Internal Revenue Service may determine that the Merger does not qualify as a tax-free reorganization under section 368(a) of the Code. In that case, PSBK shareholders would respectively recognize a

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gain or loss equal to the difference between (i) the fair market value of the FCAL Common Stock received by the shareholder in the Merger and (ii) the shareholder's adjusted tax basis in their respective shares of PSBK Common Stock exchanged therefor.

**Risks Relating to FCAL**

*FCAL's business is subject to interest rate risk and variations in interest rates may negatively affect its financial performance.*

Changes in the interest rate environment may reduce FCAL's profits. It is expected that FCAL will continue to realize income from the differential or spread between the interest earned on loans, securities and other interest-earning assets, and interest paid on deposits, borrowings and other interest-bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and rising interest rates generally are associated with a lower volume of loan originations. We cannot assure you that FCAL can minimize its interest rate risk. In addition, while an increase in the general level of interest rates may increase FCAL's net interest margin and loan yield, it may adversely affect the ability of certain borrowers with variable rate loans to pay the interest on and principal of their obligations. Accordingly, changes in levels of market interest rates could materially and adversely affect FCAL's net interest spread, asset quality, loan origination volume and overall profitability.

*FCAL faces strong competition from financial services companies and other companies that offer banking services which could negatively affect FCAL's business.*

FCAL conducts its banking operations primarily in Southern California. Increased competition in FCAL's market may result in reduced loans and deposits. Ultimately, FCAL may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that FCAL offers in its service area. These competitors include national banks, regional banks and other community banks. FCAL also faces competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, FCAL competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs and conduct extensive promotional and advertising campaigns.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services. FCAL also faces competition from out-of-state financial intermediaries that have opened low-end production offices or that solicit deposits in its market areas. If FCAL is unable to attract and retain banking customers, it may be unable to continue to grow its loan and deposit portfolios and its results of operations and financial condition may otherwise be adversely affected.

*Changes in economic conditions, in particular an economic slowdown in Southern California, could materially and negatively affect FCAL's business.*

FCAL's business is directly impacted by factors such as economic, political and market conditions, broad trends in industry and finance, legislative and regulatory changes, changes in government monetary and fiscal policies and inflation, all of which are beyond FCAL's control. A deterioration in economic conditions, whether caused by national or local concerns, in particular an economic slowdown in Southern California, could result in

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the following consequences, any of which could hurt FCAL's business materially: loan delinquencies may increase; problem assets and foreclosures may increase; demand for FCAL's products and services may decrease; low cost or noninterest bearing deposits may decrease; and collateral for loans made by FCAL, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with FCAL's existing loans. The State of California and certain local governments in our market area continue to face fiscal challenges upon which the long-term impact on the State's or the local economy cannot be predicted.

***An additional downturn in the real estate market could negatively affect FCAL's business.***

An additional downturn in the real estate market could negatively affect FCAL's business because a significant portion of FCAL's loans (approximately 84% as of June 30, 2012) are secured by real estate. A significant portion of PSBK's loans (approximately 84% as of June 30, 2012) are secured by real estate as well. FCAL's ability to recover on defaulted loans by selling the real estate collateral would then be diminished and FCAL would be more likely to suffer losses on defaulted loans.

Substantially all of FCAL's real property collateral is located in Southern California. If there is a future decline in real estate values, especially in Southern California, the collateral for FCAL's loans would provide less security. Real estate values could be affected by, among other things, future economic slowdown, an increase in interest rates, earthquakes and other natural disasters particular to California.

***FCAL is dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect FCAL's prospects.***

FCAL currently depends heavily on the services of its chief executive officer, C. G. Kum, and a number of other key management personnel. The loss of Mr. Kum's services or that of other key personnel could materially and adversely affect FCAL's results of operations and financial condition. FCAL's success also depends in part on its ability to attract and retain additional qualified management personnel. Competition for such personnel is strong in the banking industry and FCAL may not be successful in attracting or retaining the personnel it requires.

***FCAL is subject to extensive regulation which could adversely affect its business.***

FCAL's operations are subject to extensive regulation by federal, state and local governmental authorities and are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of FCAL's operations. Because FCAL's business is highly regulated, the laws, rules and regulations applicable to FCAL are subject to regular modification and change. There are currently proposed laws, rules and regulations that, if adopted, would impact FCAL's operations. There can be no assurance that these proposed laws, rules and regulations, or any other laws, rules or regulations, will not be adopted in the future.

***FCAL is exposed to risk of environmental liabilities with respect to properties to which FCAL takes title.***

In the course of FCAL's business, it may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. FCAL may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, FCAL may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If FCAL ever becomes subject to significant environmental liabilities, its business, financial condition, liquidity and results of operations could be materially and adversely affected.



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***FCAL's ability to pay dividends is restricted by law and contractual arrangements and depends on capital distributions from its subsidiary banks which are subject to regulatory limits.***

FCAL's ability to pay dividends to its shareholders is subject to the restrictions set forth in Delaware law which generally limits dividends to an amount equal to the excess of the net assets of FCAL (the amount by which total assets exceed total liabilities) over its statutory capital, or if there is no such excess, to its net profits for the current and/or immediately preceding fiscal year. In addition, FCAL's ability to pay dividends to its shareholders is restricted by the terms of its Series A Preferred Stock and Series C Preferred Stock. PSBK cannot assure its shareholders that FCAL will meet the criteria specified under Delaware law or under the Series A or Series C Preferred Stock in the future, in which case FCAL may not pay dividends on its common stock.

***The primary source of income from which FCAL pays dividends is the receipt of dividends from its subsidiary bank.***

The availability of dividends from FCAL's banking subsidiary, First California Bank (FCB), is limited by various statutes and regulations. It is possible, depending upon the financial condition of FCB, and other factors, that the Board of Governors of the Federal Reserve System, and/or the California Department of Financial Institutions, could assert that payment of dividends or other payments by FCB is an unsafe or unsound practice. In the event FCB were unable to pay dividends to FCAL, FCAL in turn may be unable to pay dividends on its common and preferred stock or make debt service payments. FCAL's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

***Reputational risk and social factors may impact FCAL's results.***

FCAL's ability to originate and maintain customer loan and deposit relationships is highly dependent upon customer and other external perceptions of its business practices and its financial health. Adverse perceptions regarding FCAL's business practices or its financial health could damage its reputation in both the customer and funding markets, leading to difficulties in generating and maintaining customer relationships as well as in financing them. Adverse developments with respect to the consumer or other external perceptions regarding the practices of FCAL's competitors, or its industry as a whole, may also adversely impact its reputation. In addition, adverse reputational impacts on third parties with whom FCAL has important relationships may also adversely impact its reputation. Adverse impacts on FCAL's reputation, or the reputation of its industry, may also result in greater regulatory or legislative scrutiny, which may lead to laws, regulations or regulatory actions that may change or constrain the manner in which FCAL engages with its customers and the products FCAL offers. Adverse reputational impacts or events may also increase FCAL's litigation risk. FCAL carefully monitors internal and external developments for areas of potential reputational risk and has established governance structures to assist in evaluating such risks in FCAL's business practices and decisions.

***FCAL is subject to litigation risk.***

In the normal course of business, FCAL may become subject to various litigation matters, the outcome of which may have a direct material impact on its financial position and daily operations. Please see the discussion under Part II, Item 1 of FCAL's Form 10-Q for the quarter ended June 30, 2012 and incorporated herein by reference, for a discussion of certain existing and threatened litigation.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This proxy statement/prospectus and the filings made with the Securities and Exchange Commission, or SEC, that are incorporated by reference into this proxy statement/prospectus contain or incorporate by reference forward-looking statements that have been made pursuant to the provisions of, and in reliance on the safe harbor under, the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections. Words such as anticipates, expects, intends, plans, believes, seeks, could, should, projects, estimates and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. In that event, PSBK's or FCAL's business, financial condition or results of operations could be materially adversely affected, and investors in PSBK's or FCAL's securities could lose part or all of their investment. Additional factors that could cause FCAL's results to differ materially from those described in the forward-looking statements can be found in FCAL's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the SEC. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this proxy statement/prospectus or, in the case of documents incorporated by reference, the date referenced in those documents. We are not obligated to update these statements or publicly release the result of any revision to them to reflect events or circumstances after the date of this proxy statement/prospectus or, in the case of documents incorporated by reference, the date referenced in those documents, or to reflect the occurrence of unanticipated events except as required by federal securities laws.

You should understand that the following important factors, in addition to those discussed elsewhere in this document and in the documents which are incorporated by reference, could affect the future results of FCAL and PSBK, and of the combined company after the merger, and could cause those results or other outcomes to differ materially from those expressed in our forward-looking statements:

the businesses of FCAL and PSBK may not be combined successfully, or such combination may take longer, be more difficult, time-consuming or costly to accomplish than expected, in particular with respect to the integration of information technology systems;

the expected growth opportunities from the Merger may not be fully realized or may take longer to realize than expected;

operating costs, customer losses and business disruption before or after the Merger, including adverse effects on relationships with employees, may be greater than expected;

governmental approvals of the Merger may not be obtained, or adverse regulatory conditions may be imposed in connection with governmental approvals of the Merger;

the shareholders of PSBK may fail to approve the Merger;

FCAL's and PSBK's ability to successfully execute their business plans and achieve their objectives;

changes in political and general economic conditions, including the economic effects of terrorist attacks against the United States and elsewhere and related events;

changes in financial market conditions, either nationally or locally in areas in which FCAL or PSBK conduct their operations, including reduced rates of business formation and growth, commercial real estate development and real estate prices;

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changes in interest rates, the quality and composition of the loan or securities portfolios, demand for loan products, deposit flows and competition;

acquisitions and integration of acquired businesses;

increases in the levels of losses, customer bankruptcies, claims and assessments;

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changes in fiscal, monetary, regulatory, trade and tax policies and laws, including policies of the U.S. Treasury and the Federal Reserve;

continuing consolidation in the financial services industry;

new litigation or changes in existing litigation;

success in gaining regulatory approvals, when required;

changes in consumer spending and savings habits;

increased competitive challenges and expanding product and pricing pressures among financial institutions;

demand for financial services in FCAL s or PSBK s market areas;

inflation and deflation;

technological changes and FCAL s and PSBK s implementation of new technologies;

FCAL s and PSBK s abilities to develop and maintain secure and reliable information technology systems;

legislation or regulatory changes, which adversely affect the ability of FCAL or PSBK to conduct the businesses in which they are engaged;

FCAL s and PSBK s ability to comply with applicable laws and regulations;

and changes in accounting policies, procedures or guidelines as may be required by the Financial Accounting Standards Board or regulatory agencies; and

the matters described under RISK FACTORS.

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**PSBK SPECIAL MEETING**

**General**

PSBK is sending you this proxy statement/prospectus to provide you with information concerning the Merger Agreement. The Merger Agreement provides for the merger of PSBK with and into FCB. PSBK's Board of Directors is soliciting your proxy for use at the special meeting for the purpose of approving the Merger Agreement, and approving the grant of discretionary authority to the PSBK Board of Directors to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement and Merger.

This proxy statement/prospectus is also being furnished by FCAL to PSBK's shareholders as a prospectus in connection with the issuance by FCAL of shares of FCAL Common Stock upon completion of the Merger.

This proxy statement/prospectus is first being furnished to the shareholders of PSBK on or about [MAILING DATE].

**Date, Time and Place of Special Meeting**

The special meeting of PSBK shareholders is to be held as follows

[MEETING DATE]

6:00 p.m. (local time)

3637 Arlington Avenue

Suite B

Riverside, California

**Purpose of the Special Meeting**

At the special meeting, the shareholders of PSBK entitled to vote at the special meeting will consider and vote upon a proposal to approve and adopt the Merger Agreement and the Merger.

**THE PSBK BOARD OF DIRECTORS HAS UNANIMOUSLY APPROVED THE MERGER AGREEMENT AND THE TRANSACTIONS CONTEMPLATED THEREBY AND RECOMMENDS THAT HOLDERS OF PSBK COMMON STOCK VOTE FOR THE MERGER AGREEMENT AND THE MERGER, AND FOR THE GRANT OF DISCRETIONARY AUTHORITY TO ADJOURN THE SPECIAL MEETING IF NECESSARY TO PERMIT FURTHER SOLICITATION OF PROXIES IF THERE ARE NOT SUFFICIENT VOTES AT THE TIME OF THE SPECIAL MEETING TO APPROVE THE MERGER AGREEMENT AND MERGER. SEE THE MERGER BACKGROUND OF THE TRANSACTION BEGINNING ON PAGE [ ].**

**Record Date; Shares Entitled to Vote; Quorum**

The PSBK Board of Directors has fixed the close of business on [RECORD DATE], as the record date for determining holders entitled to notice of and to vote at the special meeting. As of the record date, there were 1,261,281 shares of PSBK Common Stock issued and outstanding, each of which entitles its holder to one vote. The presence, either in person or by proxy, of the holders of a majority of the issued and outstanding shares of PSBK Common Stock entitled to vote at the special meeting is necessary to constitute a quorum for the transaction of business at the special meeting. Abstentions and broker non-votes (which are signed proxies returned by a broker that indicate that the broker has not received voting instructions from the beneficial owner of the shares and does not have discretionary authority to vote the shares) will be counted for purposes of determining whether a quorum exists.

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### **Vote of PSBK Shareholders Required for Adoption of the Merger Agreement and Plan of Merger and for the Grant of Discretionary Authority to Adjourn the Special Meeting if Necessary to Permit Further Solicitation of Proxies**

The affirmative vote of the holders of at least a majority of the outstanding shares of PSBK Common Stock on the record date is required for approval of the Merger Agreement, and for approval of the grant of discretionary authority to adjourn the special meeting if necessary to permit further solicitation of proxies if there are not sufficient votes at the time of the special meeting to approve the Merger Agreement and Merger.

Votes cast by proxy or in person at the special meeting will be tabulated by the election inspectors appointed for the meeting and the election inspectors will determine whether or not a quorum is present and if the proposals to approve the Merger Agreement and to grant discretionary authority to adjourn the meeting are approved.

As of the record date, holders of 250,651 shares of PSBK Common Stock, representing approximately 19.87% of the outstanding shares have signed voting agreements with FCAL agreeing to vote in favor of the Merger.

### **Voting By Proxy**

All properly completed and signed proxies delivered and not properly revoked will be voted at the special meeting in the manner specified in those proxies. If you do not specify a choice, your shares represented by an authorized proxy will be voted **FOR** the approval of the Merger Agreement, and **FOR** the approval of the grant of discretionary authority to adjourn the special meeting. The failure to submit a vote by proxy or in person at the special meeting, abstentions and broker non-votes will have the same effect as a vote **AGAINST** each of the proposals presented.

### ***Voting Your Proxy***

You may vote in person at the special meeting or by proxy. We recommend you vote by proxy even if you plan to attend the special meeting. You can change your vote at the special meeting.

You may vote by proxy by completing and mailing the enclosed proxy card. If you properly submit your proxy in time to vote, one of the individuals named as your proxy will vote your shares of common stock as you have directed. You may vote for or against the proposals submitted at the special meeting or you may abstain from voting.

### ***How to Vote***

**If you are a shareholder of record and you hold shares of PSBK Common Stock in your name, you may vote by signing, dating and returning the enclosed proxy card in the postage-paid envelope provided.**

If you hold shares of PSBK Common Stock through a broker or other custodian, please follow the voting instructions that the applicable institution provides to you. If you do not return your proxy card those shares will not be voted at the special meeting.

If you submit your proxy but do not make specific choices, your proxy will be voted **FOR** each of the proposals presented, and at the discretion of the proxy holders with respect to any other business properly brought before the meeting.

### ***Revoking Your Proxy***

If you hold shares registered in your name and you wish to change any proxy granted on the proxy card, you may revoke your proxy before it is voted by:

submitting a new proxy with a later date;

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notifying PSBK's Secretary, Jessica W. Lee, at PSBK, 3637 Arlington Avenue, Suite B, Riverside, California 92506, in writing before the special meeting that you have revoked your proxy; or

voting in person at the special meeting.

**Other Voting Matters**

***Voting in Person***

If you are a registered holder and plan to attend the special meeting to vote in person, you will be given a ballot at the special meeting.

***People with Disabilities***

PSBK can provide reasonable assistance to help you participate in the special meeting if you tell us about your disability and how you plan to attend. Please call or write PSBK's Secretary at least ten days before the special meeting at the number or address provided on the inside front cover page of this proxy statement/prospectus.

**Solicitation of Proxies; Expenses**

Proxies will be solicited by mail, and may also be solicited personally, by telephone, facsimile transmission or other means by the directors, officers and employees of PSBK, with no special or extra compensation therefor, although such officers, directors and employees may be reimbursed for out-of-pocket expenses incurred in connection with the solicitation. Arrangements will also be made with custodians, nominees and fiduciaries for the forwarding of soliciting material to the beneficial owners of PSBK Common Stock held of record by such persons, and PSBK may reimburse such custodians, nominees and fiduciaries for reasonable out-of-pocket expenses that they incur in that regard. Expenses incurred in connection with the merger, including those attributable to the solicitation of proxies, will be paid by the party to the Merger Agreement incurring the expense.

THE MATTERS TO BE CONSIDERED AT THE SPECIAL MEETING ARE OF GREAT IMPORTANCE TO THE SHAREHOLDERS OF PSBK. ACCORDINGLY, HOLDERS OF PSBK COMMON STOCK ARE URGED TO READ AND CAREFULLY CONSIDER THE INFORMATION PRESENTED IN THIS PROXY STATEMENT/PROSPECTUS, AND TO COMPLETE, DATE, SIGN AND PROMPTLY RETURN THE ENCLOSED PROXY IN THE ENCLOSED POSTAGE PREPAID ENVELOPE.

DO NOT SEND IN ANY PSBK STOCK CERTIFICATES WITH YOUR PROXY CARD. A TRANSMITTAL LETTER WITH INSTRUCTIONS FOR THE SURRENDER OF STOCK CERTIFICATES WILL BE MAILED TO YOU AS SOON AS PRACTICABLE AFTER COMPLETION OF THE MERGER.

**Other Business, Adjournment and Postponements**

Under the California General Corporation Law (the CGCL), only the business that is specified in the Notice of Special Meeting of Shareholders may be presented at the special meeting, and no other matters may properly be brought before the special meeting.

Any adjournment or postponement may be made from time to time by approval of the holders of PSBK's Common Stock representing a majority of the votes present in person or by proxy at the special meeting, whether or not a quorum exists, without further notice other than by an announcement made at the special meeting. If a quorum is not present at the special meeting, PSBK's shareholders may be asked to vote on a proposal to adjourn or postpone the special meeting to solicit additional proxies. If a quorum is present at the special meeting, but there are not sufficient votes at the time of the special meeting to approve the Merger Agreement, PSBK's shareholders may also be asked to vote on a proposal to approve the adjournment or postponement of the special meeting to permit further solicitation of proxies.

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**THE MERGER**

*This section describes certain aspects of the Merger Agreement and the transactions contemplated therein pursuant to which FCAL will acquire PSBK through a merger. Because this is a summary, it does not contain all the information that may be important to you. You should read this entire proxy statement/prospectus, including the appendices. A copy of the Merger Agreement and Plan of Merger dated February 27, 2012, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated July 9, 2012 (the Merger Agreement ) is attached as Appendix A to this proxy statement/prospectus and is incorporated by reference herein. The following discussion, and the discussion under the subsection entitled The Merger Agreement, describes important aspects and the material terms of the Merger Agreement and the transactions contemplated therein. These descriptions are qualified by reference to Appendix A.*

**Background of the Merger**

To properly understand the background of the Merger negotiations and discussions between FCAL and PSBK, it is necessary to first consider the efforts of PSBK to raise additional capital to address the requirements of its regulators, a process which began in mid-2010.

**PSBK Efforts to Raise Capital**

In a letter to PSBK from the FDIC dated June 22, 2010, PSBK was advised that PSBK was considered troubled for purposes of Section 32 of the Federal Deposit Insurance Act. The letter was highly critical of PSBK's deteriorated condition, and criticized Asset Quality, Earnings, Capital, Concentration Risk, and Liquidity. At its meeting on July 22, 2010, the PSBK board of directors discussed the letter and the preliminary results of the joint examination of PSBK by the FDIC and the California Department of Financial Institutions, or DFI. While the final report of examination was not expected for another month or so, the board proactively addressed PSBK's problems. As a result of the exit meeting with the FDIC and the DFI prior to the board meeting, PSBK's chairman of the board, Kenneth B. Stream, Jr., announced at the July 22 meeting that he had appointed a Compliance Committee, composed of Dr. Jaspan, Mr. Norton, Dr. Botic, Mr. Weiss and Mr. Stream (Chairman), to begin addressing the issues PSBK believed would be presented in the final report of examination. All directors were invited to attend the meetings of the Compliance Committee and to participate in its discussions.

During its July 22, 2010 meeting, the Board identified the following action items for the Compliance Committee, which the Board believed to be of concern to the PSBK's regulators, based on the exit meeting:

1. Monitor the progress and trends for the improvement of Asset Quality and Credit Administration (including steps to be taken to implement action plans developed by management to reduce delinquencies and classified assets, and determine whether a Special Assets Manager should be engaged);
2. Monitor the amendment of the Loan Policy to ensure all comments and concerns raised by the FDIC and the DFI have been addressed;
3. Review PSBK's marketing efforts to sell its foreclosed properties;
4. Monitor all compliance efforts, reports and responses to PSBK's regulators;
5. Consider ways to improve the performance of the Loan Committee, and monitor the development by management and the Loan Committee of an appraisal review process;
6. Ensure that PSBK is taking all steps necessary to enhance its legal efforts to collect problem loans and recover losses;



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7. On the financial side, again review overhead expenses and administration costs;
8. Monitor the preparation of a revised budget which reflects the current condition of PSBK and the challenges facing PSBK;
9. Review the nonaccrual accounting issues raised by the FDIC and the DFI;
10. Review interest rate risk management and monitor management's efforts to improve in this area;
11. Explore all capital issues, including raising new capital, looking at merger possibilities, effecting asset sales if necessary, and working with legal counsel and PSBK's investment banking firm to implement capital enhancing strategies;
12. Monitor personnel issues, including compensation issues;
13. Improve audit policies and practices, and better educate employees;
14. Consider ways to improve the board's oversight of IT issues; and
15. Monitor marketing activities to ensure PSBK is doing all that it can do to bring in core deposits and new business, including evaluating the possible need to change personnel where necessary.

The board also took action at that meeting to suspend all director fees until PSBK returns to consistent profitability.

Item 11 above concerned PSBK's recognition, although well capitalized at that time, that additional capital would be needed and that all possible means for raising that capital needed to be explored.

Following that meeting on July 22, 2010, PSBK began discussions with several investment bankers for assistance in raising capital. In anticipation of receiving a formal requirement from the regulators to raise capital, PSBK commenced the process of preparing a draft offering circular for a rights and public offering to raise up to \$5 million. A formal Consent Order was signed by PSBK with the FDIC and the DFI on December 1, 2010, imposing specific capital requirements. See Regulatory Matter Consent Order, beginning on page [ ] of this proxy statement/prospectus.

After signing the Consent Order on December 1, 2010, PSBK's Compliance Committee met several times to develop the Capital Plan for raising the capital necessary to comply with the requirements of the Order. The Committee recognized that PSBK's condition would make a rights and public offering difficult and it was important to have alternative solutions. The Committee directed management to explore possible mergers on a concurrent basis, and to engage a qualified investment banker, with access to capital sources, to provide guidance and advisory services.

On December 17, 2010, PSBK engaged D.A. Davidson & Co. ( Davidson ) on an exclusive basis to render financial advisory and investment banking services to PSBK. PSBK advised Davidson that PSBK's focus was on completing the rights and public offering, but that PSBK would also consider a stock merger proposal that would provide the PSBK shareholders with the opportunity to participate in the possible appreciation in value of the acquirer's stock. In mid-December, while PSBK was in the process of preparing the rights and public offering for the sale of up to \$5 million of common stock and warrants, PSBK's legal counsel, Richard E. Knecht, introduced one of his clients, a bank with excess capital headquartered in Orange County (the OC Bank ), to PSBK for purposes of discussing the possible merger of PSBK into the OC Bank in an adjusted book to book stock transaction. During the holidays, the parties reviewed public information about each other and decided, in late December, to initiate discussions. A Confidentiality and Non-Disclosure Agreement ( NDA ) was signed by

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both banks on December 29, 2010 and the parties began exchanging information in early January 2011. The agreement included an exclusivity provision which did not permit PSBK to enter into discussions with any other financial institutions while discussions were continuing with the OC Bank. The OC Bank was represented by Davidson, requiring PSBK to engage a new investment banking firm to represent PSBK's interests going forward.

On January 14, 2011, to assist PSBK in its negotiations with the OC Bank, and to act as advisor in the rights offering, as well as serve as a private placement agent in any nonpublic offering and financial advisor in any strategic transaction, PSBK engaged the services of Hovde Securities LLC, a Financial Industry Regulatory Authority (FINRA) registered broker-dealer (Hovde).

Not knowing if the OC Bank transaction would go forward, PSBK concurrently continued to pursue its rights and public offering. During January 2011, PSBK completed its offering documents for the rights and public offering and submitted those documents to the FDIC and DFI for review on January 26, 2011. The DFI advised PSBK that it would not issue a Stock Permit for a rights or public offering due to PSBK's poor financial condition. Only a private placement to accredited investors would be permitted. As a result, PSBK modified its offering documents and filed a Private Placement Memorandum (PPM) for a \$5 million nonpublic offering to accredited investors only with the FDIC on January 31 and with the DFI on February 1, 2011. On February 4, 2011, Hovde delivered a fairness opinion to the Board of Directors of PSBK that the offering price of \$2.50 per share (including a warrant to purchase one share for every share purchased for up to three years for \$2.50 per share) pursuant to the PPM was fair from a financial point of view to the original shareholders of PSBK, and the fairness opinion was filed with the DFI in support of the permit application for the \$5 million private placement.

On February 9, 2011, PSBK was notified by telephone that the OC Bank had decided to terminate merger discussions. A Termination of NDA was signed by the parties on February 11, 2011. While PSBK believed the transaction with the OC Bank would have been in the best interests of PSBK's shareholders at that time, PSBK was then free of the exclusivity provision in the OC Bank agreement and immediately began the process of finding another potential merger partner.

At the time the permit application for the \$5 million private placement was filed with the DFI on February 1, 2011, the audited financial statements for 2010 were not available, so the PPM was filed using September 30, 2010 unaudited financial statements. Since there were material changes to the financial condition of PSBK from September 30 to December 31, 2010, PSBK amended the PPM and used the December 31, 2010 audited financial statements which became available on February 9, 2011 to update the disclosures in the PPM from September 30 to December 31, 2010. That revision was completed and resubmitted to the DFI and the FDIC on February 22, 2011. A Stock Permit was issued by the DFI on February 25, 2011, authorizing the nonpublic offering to raise \$5 million to commence as of that date.

On April 13, 2011, PSBK signed an NDA with a Los Angeles-based bank (the L.A. Bank) for a proposed merger transaction. Discussions continued for four weeks, but PSBK was notified on May 10, 2011 that the L.A. Bank had elected not to proceed with a merger. As a result, PSBK began again to actively pursue other possible merger transactions. PSBK continued working with representatives of Hovde to find a possible merger partner, as well as concurrently assisting PSBK with the nonpublic offering.

After the close of the first quarter of 2011, PSBK, after consultation with Hovde, requested the DFI to amend the Stock Permit issued on February 25, 2011 to (a) increase the offering to up to \$10 million of common stock, and (b) change the selling price to \$2.00 per share. The DFI required PSBK to file an application for a new Stock Permit. An application was filed on June 9, 2011 and the DFI issued a new Stock Permit for the \$10 million offering on June 23, 2011. The offering was originally scheduled to close on July 29, 2011. That closing date was extended by PSBK to December 23, 2011. The Stock Permit expired on that date, and PSBK did not request an extension of the permit in view of the stale financial statements included in the offering and other factors, including then pending merger negotiations that PSBK believed would result in the signing of a

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definitive agreement by the end of February 2012. Because PSBK did not sell the minimum amount required by the offering, all subscriptions were returned when the offering expired.

In summary, after over a year of attempting to raise capital through a number of unsuccessful offerings, PSBK raised no capital and concluded that the only answer to its capital issues would be to effect a merger into a larger, well capitalized institution.

### **Discussions with FCAL**

In its efforts to introduce a viable merger partner to PSBK, Hovde explored many possible institutions. One of those institutions was FCAL. Representatives of Hovde called C. G. Kum at FCAL during the week of September 19, 2011 to discuss the possibility of a merger with PSBK. Hovde representatives advised the PSBK board of those discussions on September 22, 2011, and the board directed Mr. Pendergast and Hovde representatives to pursue those discussions. Conversations then continued between Mr. Kum and Hovde representatives. Hovde representatives arranged for a meeting on October 12, 2011 between Mr. Kum and Mr. Pendergast. At that meeting, FCAL and PSBK agreed to exchange basic information about each other and continue discussions and to speak again on October 26, 2011, before the PSBK board meeting on October 27, 2011.

Information was provided by PSBK to FCAL through Hovde during the week of October 17, 2011. Mr. Pendergast spoke to Mr. Kum on October 26, 2011 to discuss the status of FCAL's review of the PSBK information. Mr. Kum indicated that FCAL was not far enough along in its evaluation of the PSBK information to formally present anything to FCAL's board; however, Mr. Kum reported that the FCAL board had been apprised of the due diligence work that FCAL had done up to that point.

The continuing discussions with FCAL were reported by Mr. Pendergast and Hovde's representative, James T. Hill, to the PSBK board on October 27, 2011. Mr. Hill provided the board with extensive information about FCAL and its management, and recommended that the board authorize further discussions. He explained that Hovde did not believe a private placement by PSBK would likely be successful at this time, and that Hovde's efforts were now focused on finding an acceptable merger partner, with FCAL being the strongest candidate presently available. The Board discussed the matter at length and enthusiastically recommended that discussions with FCAL continue.

On November 15, 2011, Mr. Stream, Mr. Pendergast and Mr. Hill met with Mr. Kum and other representatives of FCAL and Keefe Bruyette & Woods ( KBW ), FCAL's investment banker, to discuss the possible merger. Extensive information about FCAL's performance, operations, management team and business philosophies were discussed at the meeting. At its November 16, 2011 meeting, the PSBK board authorized Mr. Stream and Mr. Pendergast to negotiate the terms of the preliminary letter of intent (the LOI ) from FCAL and authorized Mr. Stream and Mr. Pendergast to sign the LOI in the form approved by them after consultation with its advisors.

An LOI from FCAL, reflecting a purchase price of \$2.15 was received on December 5, 2011 by PSBK. PSBK signed and returned the LOI to FCAL on December 7, 2011. A due diligence list of items to be reviewed was provided by FCAL to PSBK on December 8, 2011.

FCAL commenced an on-site due diligence of PSBK on December 12, 2011, and completed that process on December 15, 2011. Subsequent to that date, FCAL requested more information concerning the PSBK loan concentrations and accruals.

On January 9, 2012, FCAL advised PSBK that its due diligence uncovered several issues that would affect the price per share previously discussed by the parties. FCAL reduced its offer price per share. After consideration of the matter by the PSBK representatives, Mr. Hill presented PSBK's response to KBW and

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FCAL countered revising its LOI on January 11, 2012 and advised PSBK that FCAL would now proceed with the drafting of a definitive agreement for the Merger.

On January 12, 2012, PSBK learned of the filing on that date of a Schedule 13D by James O. Pohlada, Robert C. Pohlada and William M. Pohlada, principal shareholders of FCAL, expressing their desire that FCAL engage an investment banker. PSBK was provided with a copy of FCAL's press release responding to the filing. PSBK inquired as to whether in light of the filing FCAL remained committed to a transaction with PSBK, and FCAL reaffirmed its commitment.

The PSBK board was informed of the changes in the pricing under the LOI, and the filing of the Schedule 13D, at a special meeting on January 18, 2012. The PSBK board continued to enthusiastically support the Merger. To provide for efficient discussions and negotiations with FCAL in its preparation of the definitive agreement for the Merger, the PSBK board appointed a committee (the PSBK Merger Committee) composed of Mr. Stream, Mr. Pendergast and Ms. Lee, to be advised by Mr. Knecht and Mr. Hill, to represent PSBK in discussions with FCAL.

On January 23, 2012, another Schedule 13D was filed, similar to the Pohlada filing, by Castine Capital Management, LLC, another shareholder of FCAL. A third 13D was filed on April 2, 2012, by Basswood Capital Management, LLC in support of the position taken by the Pohladas and Castine Capital Management, LLC. On May 14, 2012, Castine Capital Management, LLC, amended its 13D filing, indicating it reduced its FCAL shareholdings to less than 5%. A fourth Schedule 13D was filed, on May 29, 2012 and amended on June 25, 2012, by Loeb Offshore Management LP, also similar in substance to the Pohlada filing.

On January 25, 2012, Mr. Hill sent PSBK's proposed due diligence check list to KBW, and asked to arrange a date and time for PSBK's representatives to visit the FCAL headquarters office in Westlake Village for management interviews and an on-site due diligence. That visitation was arranged for February 2, 2012 and was attended on behalf of PSBK by Mr. Pendergast, Mr. Knecht and Mr. Hill. During the on-site due diligence session, each of the senior officers of FCAL was interviewed by PSBK, and a number of matters were discussed and reviewed, including the two Schedule 13D's filed prior to February 2, 2012, the pending litigation against FCAL, FCAL's problem assets, loan administration practices and procedures, consumer matters and other related issues. PSBK was satisfied with the information provided at the due diligence session. Copies of a number of additional items were provided to PSBK at the meeting, and subsequently reviewed by PSBK and its advisors. No issues were presented as a result of that review.

In the weeks following the PSBK on-site due diligence on February 2, 2012, FCAL and PSBK completed their due diligence with respect to each other and, through the course of numerous discussions and communications between the parties' investment bankers and attorneys, negotiated the draft Merger Agreement. The advisors to each party were satisfied with the draft by February 22, 2012 and the final forms of the Merger Agreement and related documents were sent to PSBK for presentation to its board at its regular meeting on February 23, 2012.

The PSBK board met with Mr. Hill and other representatives of Hovde and Mr. Knecht on February 23, 2012 to review the final forms of the Merger Agreement and related documents. Mr. Knecht reviewed the Merger Agreement and related documents in detail with the board. Mr. Hill presented Hovde's analysis of the final financial terms of the Merger Agreement and provided a copy of Hovde's draft opinion letter supporting the transaction. The final form of the Merger Agreement provided that FCAL could terminate the Merger Agreement if the Closing Price, as defined therein, was greater than \$5.03. After extensive discussion, the PSBK Board decided that it was in the best interests of PSBK and its shareholders to accept that provision and proceed to the signing of the Merger Agreement.

The Merger Agreement was signed by the parties on February 27, 2012 and announced publicly on February 28, 2012.

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Following the signing of the Merger Agreement, the market price of the FCAL Common Stock continued to increase, and exceeded \$5.03 per share. If the Closing Price remained at or above that level, FCAL and FCB would be entitled to terminate the Merger Agreement, as discussed above. PSBK believed it could not ask its shareholders to approve the Merger Agreement as originally signed, since under its terms FCAL and FCB would be entitled to terminate the agreement due to the increase in the market price of the FCAL Common Stock. If the \$5.03 collar remained in the Merger Agreement, the PSBK shareholders would not know with any certainty that the Merger would continue, even if approved by the PSBK shareholders, or what the final terms of the transaction would be. PSBK was also concerned with the date of August 31, 2012 in the Merger Agreement for completion of the transaction, since it did not seem likely the Merger would close before that date and FCAL and FCB would be entitled to terminate the Merger Agreement after that date. To address these issues, PSBK proposed, in discussions between Mr. Hill and KBW, that the parties amend the Merger Agreement to provide for a closing date of October 31, 2012, eliminate the collars on pricing as conditions to close, and fix the aggregate consideration to be received by the PSBK shareholders based on the \$5.03 price that had now been exceeded. Discussions of these points continued between Mr. Hill and KBW over several days with no resolution of these issues. After a number of discussions, FCAL notified PSBK that it was willing to amend the Merger Agreement to address the pricing issue. FCAL was not willing to increase the Merger consideration above \$2,000,000, as provided in the original agreement. FCAL was willing to amend the Merger Agreement based on a \$6.81 market value of the FCAL Common Stock (such value determined by reference to the approximate volume-weighted closing share price for the 20-trading day period ending on the tenth day preceding the completion of negotiations to amend the Merger Agreement), with proposed collars of \$7.83 and \$5.79, and resulting in a reduction in the number of shares of FCAL Common Stock to be received from 477,269 shares to 293,626 shares. FCAL also asked PSBK to consider a \$2,000,000 all cash transaction, which was not acceptable to PSBK.

On June 26, 2012, Mr. Pendergast and Ms. Lee met with Mr. Romolo Santarosa, FCAL's Chief Operating and Financial Officer, and other members of the FCAL team to discuss transition related matters and to begin to put in place a game plan for working through the numerous issues associated with the conversion of PSBK to the FCAL systems following the close of the Merger. At the conclusion of the meeting, Mr. Pendergast, Ms. Lee and Mr. Santarosa met and discussed the proposed changes to the Merger Agreement. During that meeting, Mr. Santarosa provided a list of the terms that were acceptable to FCAL.

Subsequent to the June 26, 2012 meeting, FCAL presented to PSBK a proposed Amendment to the Merger Agreement. Mr. Stream and Mr. Pendergast called Mr. Santarosa to discuss again PSBK's reasons for wanting to eliminate the collars as a condition to closing the Merger, and to express PSBK's willingness, if the Closing Price exceeded \$7.83, to reduce the final number of shares to be received by the PSBK shareholders based on the actual Closing Price. That change was not acceptable to FCAL. Mr. Stream and Mr. Pendergast concluded that they would recommend to the board that it approve the terms of the Amendment as proposed by FCAL. The terms were discussed with Mr. Hill and Mr. Knecht in a conference call on June 27, 2012, and they concurred that it was in the best interest of PSBK to proceed with the amendment. Mr. Hill advised Mr. Stream and Mr. Pendergast that Hovde would be willing to issue an updated fairness opinion addressing the new terms, which would conclude that the revised exchange ratio to be paid in connection with the Merger is fair from a financial point of view to PSBK's shareholders.

The Board of Directors of PSBK met on June 28, 2012 and discussed the proposed terms of the amendment to the Merger Agreement in detail with Mr. Stream, Mr. Pendergast and Mr. Knecht. Following that discussion, the PSBK Board unanimously approved the proposed terms, and FCAL was notified of PSBK's willingness to proceed. On July 9, 2012, the parties executed Amendment No. 1 to Agreement and Plan of Reorganization. The Merger Agreement was amended to: (a) fix the number of shares to be received by the PSBK shareholders at 293,626 shares, subject to adjustment in accordance with changes in PSBK's shareholders' equity as determined as of the last day of the calendar month immediately prior to the effective time of the Merger; (b) increase the threshold for FCAL's Closing Price from \$5.03 to \$7.83 at which price FCAL may terminate the Merger

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Agreement without liability and from \$3.35 to \$5.79 at which price PSBK may terminate the Merger Agreement without liability; and (c) extend the outside closing date for the Merger from August 31, 2012 to December 31, 2012.

**Structure of the Transaction**

The terms of the Merger are set forth in an Agreement and Plan of Merger, dated February 27, 2012, by and among FCAL, FCB and PSBK, as amended by Amendment No. 1 to Agreement and Plan of Merger, dated July 9, 2012 (the **Merger Agreement**) pursuant to which PSBK would be merged with and into FCB, the separate corporate existence of PSBK would cease and FCB would survive the Merger and continue commercial banking operations under its California banking charter. As a result of the Merger, FCAL will acquire all of the issued and outstanding shares of PSBK Common Stock in exchange for 293,626 shares of FCAL Common Stock, subject to adjustment as to the number of shares of FCAL Common Stock issuable in the Merger as set forth in the Merger Agreement.

The Articles of Incorporation and bylaws of FCB as in effect immediately prior to the effective time of the Merger will be the Articles of Incorporation and bylaws of the surviving bank, until thereafter amended as provided therein and by applicable law. The directors and executive officers of FCB immediately prior to the effective time of the Merger will become the directors and executive officers of the surviving bank, in each case until their respective successors are duly elected or appointed and qualified.

Following the effective time of the Merger, one former member of the PSBK Board of Directors will be invited by the boards of directors of FCAL and FCB to join their respective boards of directors to serve until their respective successors are duly elected or appointed and the remaining former PSBK board members will be invited to join as members of FCB's Regional Advisory Board. In addition, immediately after the effective time, Kerry L. Pendergast, PSBK's current President and Chief Executive Officer, will be invited by FCB to be an employee of FCB to serve as the Market President for the two branch offices of PSBK being acquired as part of the Merger and FCB's branch office in Redlands, California.

The Merger is structured so as to constitute a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code.

**PSBK's Reasons for the Merger and Factors Considered by PSBK's Board of Directors**

The PSBK board believes that the terms of the Merger are fair to, and are in the best interests of, PSBK and its shareholders and recommends that the shareholders of PSBK vote FOR adoption of the Merger Agreement.

At a meeting of PSBK's board of directors on February 23, 2012, after due consideration, the board:

determined that the Merger Agreement and the Merger are fair and in the best interests of PSBK and its shareholders; and

approved the Merger Agreement and the Merger.

In reaching its conclusion to proceed with the Merger and recommend adoption of the Merger Agreement to its shareholders, PSBK's board of directors considered information and advice from several specialists, including its investment banker and its legal advisor. All material factors considered by PSBK's board of directors have been disclosed. In approving the Merger Agreement, the board of directors considered a number of factors, including the following, without assigning any specific or relative weights to the factors:

Its understanding of PSBK's business, operations, financial condition, capital needs, earnings and prospects and of FCAL's business, operations, financial condition, capital resources, earnings and prospects, taking into account PSBK's due diligence review of FCAL.

Its view that the consideration provided for in the Merger Agreement represents fair consideration.

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Its view that the terms of the Merger Agreement and other documents to be executed in connection with the Merger, including the closing conditions and termination rights, are fair.

Its view that the capital of the consolidated institution will provide a better opportunity to expand and leverage the overall expense structure of the consolidated company.

The implied value represented by the Exchange Ratio provided for in the Merger Agreement relative to the current market price and historical trading prices of PSBK and FCAL and the board's determination that the implied value represented a fair value for PSBK's shareholders;

The current and prospective economic environment and increasing regulatory and competitive burdens and constraints facing financial institutions generally.

The consolidation occurring in the banking industry and the increased competition from other financial institutions in California.

The similarity of cultures and other attributes of PSBK and FCAL.

The liquidity of FCAL common stock.

The opportunity for PSBK shareholders to participate in the potential future growth in value of the combined company as shareholders of FCAL following the Merger.

The board of directors' review, with its legal and financial advisors, of alternatives to the Merger, the range and possible value to PSBK's shareholders obtainable through such alternatives and the timing and likelihood of the alternatives.

Presentations by members of PSBK's senior management, including the results of their due diligence review of FCAL.

The expected treatment of the Merger as a tax-free reorganization for U.S. federal income tax purposes, which the board concluded would be beneficial for PSBK's shareholders.

The expertise of FCAL's management, its competitive position in the geographic markets and the proximity and overlap of the geographic markets served by FCAL and PSBK.

The capacities of FCAL and PSBK for enhanced operating business, operations, financial condition, earnings and prospects efficiencies.

The financial analyses and presentation of PSBK's investment banking firm and its opinion that the Exchange Ratio, as defined in the Merger Agreement, to be received by PSBK shareholders in the Merger is fair, from a financial point of view, to those shareholders.

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The likelihood that the Merger will be completed on a timely basis, including the likelihood that the Merger will receive all necessary regulatory approvals.

The role PSBK's current management would play in the management of First California Bank, FCAL's wholly owned banking subsidiary, and that Mr. Stream would become a member of the FCAL board and the First California Bank board. The PSBK board of directors also identified and considered a number of risks and uncertainties in its deliberations concerning the Merger, including the following:

The possible disruption to PSBK's business that may result from the announcement of the transaction and the resulting distraction of its management's attention from the day-to-day operations of PSBK's business.

The difficulty inherent in integrating two businesses and the risk that the cost efficiencies, synergies and other benefits expected to be obtained in the transaction may not be fully realized.

The interests of PSBK's executive officers and directors with respect to the Merger apart from their interests as holders of PSBK common stock, and the risk that these interests might influence their decision with respect to the Merger.



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The restrictions contained in the Merger Agreement on the operation of PSBK's business during the period between the signing of the Merger Agreement and completion of the Merger.

The termination fee to be paid to FCAL if the Merger Agreement is terminated under certain circumstances and that such fee could have the effect of discouraging other parties that might be interested in a transaction with PSBK from proposing such a transaction.

The risk presented by provisions in the Merger Agreement that would permit FCAL to terminate the Merger Agreement in the event the market price of FCAL's Common Stock exceeded a threshold amount prior to the close of the Merger.

The possibility that the Merger might not be completed and the effect of the resulting public announcement of termination of the Merger Agreement on, among other things, PSBK's operating results, particularly in light of the costs incurred in connection with the transaction.

PSBK does not intend the foregoing discussion of the factors considered by the board of directors of PSBK to be exhaustive, but does believe it includes the material factors considered. The board of directors of PSBK did not attempt to analyze the fairness of the Exchange Ratio in isolation from its consideration of the businesses of PSBK and FCAL, the strategic merits of the Merger or the other considerations referred to above.

**Opinion of PSBK's Financial Advisor**

*The fairness opinion of PSBK's financial advisor, Hovde Securities, LLC, is described below. The description contains projections, estimates and other forward-looking statements about the future earnings or other measures of the future performance of PSBK. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. You should not rely on any of these statements as having been made or adopted by PSBK. You should review the copy of the Fairness Opinion, which is attached as **Appendix B**.*

Hovde Securities, LLC (Hovde), has acted as financial advisor to PSBK in connection with the Merger. PSBK selected Hovde because Hovde is a nationally recognized investment-banking firm with substantial experience in transactions similar to the Merger and is familiar with PSBK and its business. As part of its investment banking business, Hovde is continually engaged in the valuation of financial businesses and their securities in connection with, among other things, mergers and acquisitions.

On February 23, 2012, PSBK's board of directors, during its regular meeting held that date, reviewed and approved the Merger Agreement. At that meeting, Hovde presented its draft written opinion that, based upon and subject to the factors and assumptions set forth in its written opinion, the Exchange Ratio (as defined in the Merger Agreement), to be received by PSBK's shareholders in the Merger (an Exchange Ratio of 0.3784 of a share of FCAL Common Stock for each share of PSBK Common Stock outstanding) was fair to the PSBK shareholders from a financial point of view.

On July 9, 2012, the Merger Agreement was amended to: (a) fix the number of shares to be received by the PSBK shareholders at 293,626 shares, subject to adjustment in accordance with changes in PSBK's shareholders' equity as determined as of the last day of the calendar month immediately prior to the effective time of the Merger; (b) increase the upper threshold for FCAL's Closing Price, as defined in the Merger Agreement, to \$7.83 from \$5.03 where, if the Closing Price exceeds the upper threshold, FCAL may terminate the Merger Agreement without liability; (c) increased the lower threshold for FCAL's Closing Price to \$5.79 from \$3.35 where, if the Closing Price falls below the lower threshold, PSBK may terminate the Merger Agreement without liability; and (d) extend the outside closing date for the Merger from August 31, 2012 to December 31, 2012. As a result of the amendment to the Merger Agreement to fix the number of shares to be received by the PSBK shareholders at 293,626 shares, a new Exchange Ratio of 0.2328 was established.

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On July 9, 2012, Hovde provided PSBK with an updated written opinion that, based upon and subject to the factors and assumptions set forth in its written opinion, the Exchange Ratio (as defined in the Merger Agreement, as amended on July 9, 2012), to be received by PSBK's shareholders in the Merger (an exchange ratio of 0.2328 of a share of FCAL Common Stock for each share of PSBK Common Stock outstanding) was fair to the PSBK shareholders from a financial point of view. The full text of Hovde's written opinion, dated July 9, 2012, the date of the amendment of the Merger Agreement, is attached as Appendix B to this document and is incorporated herein by reference. The written opinion attached hereto as Exhibit B, supersedes and replaces Hovde's opinion dated February 27, 2012. PSBK shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by Hovde. The summary of the opinion of Hovde set forth in this proxy statement is qualified in its entirety by reference to the full text of the opinion.

Hovde's opinion is directed to the PSBK board and addresses only the fairness, from a financial point of view, of the Exchange Ratio to PSBK's shareholders. It does not address the underlying business decision to proceed with the Merger and does not constitute a recommendation to any PSBK shareholder as to how the shareholder should vote at the PSBK special meeting on the Merger Agreement or any related matter.

During the course of its engagement, and as a basis for arriving at its opinion, Hovde reviewed and analyzed material bearing upon the financial and operating conditions of PSBK and FCAL and material prepared in connection with the Merger, including, among other things, the following:

the Merger Agreement, as amended;

certain historical publicly available business and financial information concerning PSBK and FCAL;

certain internal financial statements and other financial and operating data concerning PSBK and FCAL;

financial projections prepared by certain members of PSBK's and FCAL's senior management;

discussed with certain members of PSBK's and FCAL's senior management, the business, financial condition, results of operations and future prospects of PSBK and FCAL;

the terms of recent merger, acquisition and control investment transactions, to the extent publicly available, involving financial institutions and financial institution holding companies that Hovde considered relevant;

assessed the general economic, market and financial conditions;

considered its experience in other similar transactions and securities valuations as well as its knowledge of the financial services industry; and

performed such other analyses and considered such other factors as it deemed appropriate.

In conducting its review and arriving at its opinion, Hovde relied upon and assumed, without independent verification, the accuracy and completeness of all of the financial and other information provided to or otherwise made available to Hovde or that was discussed with, or reviewed by or for Hovde, or that was publicly available. Hovde did not assume any responsibility to verify such information independently. Hovde assumed that the financial and operating forecasts for PSBK and FCAL provided by managements of PSBK and FCAL have been reasonably prepared and reflect the best currently available estimates and judgments of senior management of PSBK and FCAL as to the future financial and operating performance of PSBK and FCAL. Hovde assumed, without independent verification, that the representations and

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financial, legal, regulatory, tax, accounting and other information provided to it by the parties to the Merger Agreement, which formed a substantial basis for its opinion, are true and complete. In that regard, Hovde assumed that the financial forecasts, including, without limitation, the projections regarding non-performing assets, loan loss reserves and net charge-offs, have been reasonably prepared by PSBK and FCAL on a basis reflecting the best currently available information and

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PSBK's and FCAL's judgments and estimates. Further, Hovde assumed that such forecasts would be realized in the amounts and at the times contemplated thereby. Hovde is not an expert in the evaluation of loan and lease portfolios for purposes of assessing the adequacy of the allowances for loan losses with respect thereto. Hovde assumed that such allowances for PSBK and FCAL are, in the aggregate, adequate to cover such losses. Hovde was not retained to, and did not conduct, a physical inspection of any of the properties or facilities of PSBK or FCAL. In addition, Hovde did not review individual credit files or make an independent evaluation or appraisal of the assets and liabilities of PSBK or FCAL.

For purposes of rendering its opinion, Hovde assumed that, in all respects material to its analyses:

the Merger will be completed substantially in accordance with the terms set forth in the Merger Agreement;

the Merger is and will be, in compliance with all laws and regulations that are applicable to the parties to the Merger Agreement;

there are no factors that would impede any necessary regulatory or governmental approval of the Merger;

in the course of obtaining the necessary regulatory and governmental approvals, no restrictions will be imposed on the parties that would have a material adverse effect on the contemplated benefits of the Merger; and

there would be no change in applicable law or regulation that would cause a material adverse change in the prospects or operations of the combined institutions after the Merger.

In performing its analyses, Hovde made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Hovde, PSBK and FCAL. Any estimates contained in the analyses performed by Hovde are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold or the prices at which any securities may trade at any time in the future. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. Hovde's opinion does not address the relative merits of the Merger as compared to any other business combination in which PSBK might engage. In addition, the Hovde opinion was among several factors taken into consideration by the PSBK board of directors in making its determination to approve the Merger Agreement, as amended, and the Merger. Consequently, the analyses described below should not be viewed as solely determinative of the decision of the PSBK board or management of PSBK with respect to the fairness of the Exchange Ratio.

Hovde further considered the fact that PSBK is currently subject to a Cease and Desist Order ( C&D ) by the FDIC and the Department of Financial Institutions in the State of California ( CDFI ), and that PSBK is not in compliance with certain requirements of the C&D, including capital requirements. Hovde also considered that PSBK does not expect to have, on a standalone basis, access to capital arrangements necessary to address its short- and long-term capital needs. PSBK also does not expect to be able to raise equity or regulatory capital through the capital markets or from other investors in amounts sufficient to meet such capital needs, and, absent a definitive transaction such as the Merger, PSBK expects that its capital position would become severely strained. Hovde also considered recent instances where concerns regarding the liquidity, earnings or capital position of a bank or financial institution triggered a significant deterioration of the institution's financial condition, necessitating government intervention or bankruptcy protection, and, as a result of which, the common equity holders of the institution are likely to receive substantially diminished value, if any at all, for their equity. In light of the facts and circumstances, Hovde assumed that if PSBK's banking assets were taken over by the United States federal banking regulators, the shareholders of PSBK would likely receive no material value for the shares of the PSBK's Common Stock.

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PSBK and Hovde entered into an engagement agreement dated January 14, 2011 relating to the services to be provided by Hovde in connection with the Merger. Pursuant to that engagement agreement, PSBK paid Hovde an initial fee of \$25,000 for rendering advisory services to PSBK. Pursuant to the Hovde engagement agreement, PSBK has also paid Hovde a fee of \$25,000 for the Fairness Opinion issued on February 4, 2011 in connection with its 2011 non-public offering, \$25,000 for a Fairness Opinion issued in August 2011 in connection with PSBK's revised non-public offering, \$25,000 for the Fairness Opinion issued on February 27, 2012 in connection with the Merger transaction, and an additional \$25,000 for the updated Fairness Opinion issued in connection with the amendment to the Merger Agreement made on July 9, 2012. PSBK will also pay to Hovde at the time the Merger is completed a cash fee equal to \$200,000. In addition to its fees and regardless of whether the Merger is consummated, PSBK has also agreed to reimburse Hovde for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention, including \$51,272 paid to Hovde in August 2011 to reimburse Hovde for the costs associated with its engagement of Credit Risk Management for a credit review, and to indemnify Hovde against certain liabilities, including liabilities under the federal securities laws arising out of the Merger or Hovde's engagement.

The following is a summary of the material analyses provided by Hovde to PSBK in connection with its written opinion delivered on July 9, 2012. The summary is not a complete description of the analyses underlying the Hovde opinion, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Hovde did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. The analyses and the summary of the analyses must be considered as a whole and selecting portions of the analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying the analyses and opinion of Hovde. The tables alone are not a complete description of the financial analyses.

***Analysis of Selected Mergers and Acquisitions.***

As part of its analysis, Hovde reviewed publicly available information related to a group of comparable merger and acquisition transactions for banks and thrifts located in the Western United States. The Western peer group included select transactions, which have occurred since January 1, 2010 through July 5, 2012, that involved target banks & thrifts that had total assets under \$2.5 billion with non-performing assets to total assets (NPAs to Assets) greater than 6.0%, which were subject to a regulatory enforcement order and had a Texas Ratio in excess of 95% (the Western Merger Peer Group). This Western Merger Peer Group consisted of the following seven transactions:

**Buyer**

SKBHC Holdings LLC (AZ)  
 First General Bank (CA)  
 Opus Bank (CA)  
 Private Investor Merton Allan Lund (SD)  
 SKBHC Holdings LLC (CA)  
 FRB Investments Inc. (CO)  
 SCJ Inc.

**Seller**

Viking Financial Services Corp. (WA)  
 Golden Security Bancorp (CA)  
 Cascade Financial Corp. (WA)  
 First Midwest Bank (SD)  
 AmericanWest Bank (WA)  
 OMEGA Capital Corp. (CO)  
 Santa Lucia Bancorp (CA)

Hovde calculated the following relevant median and average transaction ratios in the Western Merger Peer Group: the multiple of the offer value to the acquired institution's tangible book value; the multiple of the offer value to the acquired institution's total assets; and the core deposit premium represented by the offer value. As

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used herein, the core deposit premium represents the aggregate amount of the offer value or market price, as applicable, in excess of the institution's tangible book value divided by the institution's core deposits with the result expressed as a percentage. Hovde compared these multiples with the corresponding multiples for the Merger. In calculating the multiples for the Merger, Hovde used PSBK's balance sheet information as of March 31, 2012. The results of this analysis are as follows:

	Tangible Book Value (%)	Offer Value to: Assets (%)	Core Deposit Premium (%)
Implied Purchase Price (\$1.59 Per PSBK share)	31.79%	1.44%	-3.84%
Western Merger Peer Group Median	26.63%	1.45%	-2.72%
Western Merger Peer Group Average	36.40%	1.56%	-2.89%

Using publicly available information, Hovde compared PSBK's financial performance with that of the median and average of the Western Merger Peer Group. PSBK's financial metrics highlights set forth below are based on PSBK's quarter information at March 31, 2012.

	LTM ROAA	LTM ROAE	LTM Efficiency Ratio	Core Deposits/Total Deposits	NPAs/Assets	LLR/NPAs
PSBK	-1.23%	-15.72%	90.41%	95.14%	6.34%	47.07%
Western Merger Peer Group:						
Median						
Average	-3.10%	-49.72%	93.65%	85.54%	10.15%	43.07%
	-2.92%	-55.61%	109.98%	86.01%	10.26%	44.68%

Hovde calculated the implied value of PSBK in an acquisition transaction based upon the median price to tangible book value and price to assets multiples derived from the Western Merger Peer Group and weighted the resultant values 80% for the price to tangible book value multiple and 20% for the price to assets multiple. This resulted in an implied acquisition value for PSBK of approximately \$1,744,000 which represented \$1.38 per share of PSBK common stock and approximately 27.7% of PSBK's March 31, 2012 tangible book value per share of \$4.99.

No company or transaction used as comparison in the above analysis is identical to PSBK, and no transaction was consummated on terms identical to the terms of the Merger. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

**Analysis of Failures.** Hovde noted the low equity/assets ratio that PSBK would likely continue to be faced with in 2012 and noted that such capital levels combined with continued loan loss provisions and asset write-downs, as well as its lack of access to additional capital sources, would increase the likelihood of the FDIC placing PSBK in receivership.

Hovde provided a Texas Ratio list of all banks and thrifts in the six county Southern California area (Los Angeles, Orange, San Diego, San Bernardino, Riverside and Ventura counties) with Texas Ratios over 75% which compared the asset quality of these institutions (based on all OREO, non-accrual, restructured, and 90 days+ past due and performing loans) to its capital levels (based on tangible equity and loan loss reserves, excluding TARP preferred equity). Hovde reported that based on March 31, 2012 data, PSBK's Texas Ratio of 97.50% was the sixth highest of the nine institutions listed. Hovde noted that typically a Texas Ratio in excess of approximately 100% significantly increases the likelihood of a failure.

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Additionally, Hovde provided a list of all failed banks in the six counties constituting Southern California. From January 1, 2008 through July 6, 2012, there were 21 such financial institutions with 14 of the institutions subject to loss share agreements with the FDIC. Hovde evaluated and described the anticipated regulatory costs expected with the closings of these institutions and the premiums paid by the assuming institutions. Hovde noted that the median cost to regulatory agencies as a percent of failed bank assets was 22.63%, implying that, should PSBK fail, it would cost the FDIC in excess of approximately \$31 million. Additionally, Hovde noted that the average premium paid as a percentage of the failed bank's total assets was approximately 0.63% which would imply a premium for PSBK in an FDIC assisted transaction of approximately \$706,000 or \$0.56 per PSBK share. However, Hovde pointed out that in an FDIC assisted transaction, the shareholders of PSBK would likely receive no consideration for their shares.

**Analysis of Public Peers of FCAL.** As part of its analysis, Hovde reviewed a selected group of financial institutions deemed to be comparable publicly traded peers of FCAL. The peer group included institutions trading on the OTCBB, Pink Sheets, and NASDAQ exchanges with total assets between \$1.5 and \$2.5 billion, return on average assets (ROAA) greater than 0.50%, return on average equity (ROAE) greater than 4.0%, and NPAs to Assets less than 3.0% (the FCAL Trading Peer Group). This FCAL Trading Peer Group consisted of the following 21 institutions:

Institution Name	Ticker
Arrow Financial Corporation	AROW
Bank of Kentucky Financial Corporation	BKYF
Bryn Mawr Bank Corporation	BMTC
Camden National Corporation	CAC
Canandaigua National Corporation	CNND
CNB Financial Corporation	CCNE
Dacotah Banks, Inc.	DBIN
Farmers & Merchants Bancorp	FMCB
Financial Institutions, Inc.	FISI
First Community Bancshares, Inc.	FCBC
First Mid-Illinois Bancshares, Inc.	FMBH
First of Long Island Corporation	FLIC
German American Bancorp, Inc.	GABC
Hills Bancorporation	HBIA
Merchants Bancshares, Inc.	MBVT
MidWestOne Financial Group, Inc.	MOFG
Peapack-Gladstone Financial Corporation	PGC
S.Y. Bancorp, Inc.	SYBT
Southeastern Bank Financial Corporation	SBFC
STAR Financial Group, Inc.	SFIGA
Univest Corporation of Pennsylvania	UVSP

Hovde also calculated the median and average of the following relevant transaction ratios in the FCAL Trading Peer Group: price to tangible book value multiple, the price to latest twelve months earnings per share multiple and the core deposit premium. The results as of this analysis are as follows:

	Tangible Book Value (%)	Price To:	
		LTM EPS (X)	Core Deposit Premium (%)
FCAL Trading Peer Group Median	146.8%	12.9X	4.4%
FCAL Trading Peer Group Average	150.3%	12.5X	3.9%

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Using publicly available information, Hovde compared FCAL's financial performance with that of the median and average of the FCAL Trading Peer Group. FCAL's financial metrics highlights below are based on FCAL's and the peer group banks' quarter information at March 31, 2012.

	ROAA	ROAE	Efficiency Ratio	Non-Interest Income/Average Assets	NPAs/Assets	LLR/Loans
FCAL	0.57%	4.71%	71.89%	0.79%	1.98%	1.59%
FCAL Trading Peer Group:						
Median	1.00%	11.02%	59.36%	1.03%	1.38%	1.56%
Average	1.01%	11.07%	58.99%	1.13%	1.38%	1.69%

Hovde calculated the implied trading value of FCAL based upon the median price to tangible book value multiple, price to latest twelve month earnings multiple and core deposit premium derived from the FCAL Trading Peer Group and weighted the resultant values 50% for the price to tangible book value multiple, 30% for the price to latest twelve month earnings multiple, and 20% for the core deposit premium. This resulted in an implied weighted trading value for FCAL of approximately \$185,353,000 which represented \$6.34 per share of FCAL common stock. Based upon the Exchange Ratio of 0.2328 shares of FCAL common stock for each share of PSBK common stock, this resulted in an implied value of FCAL stock to be received in the Merger by the shareholders of PSBK of approximately \$1.48 per share of PSBK common stock which would equate to approximately 29.6% of PSBK's tangible book value per share as of March 31, 2012.

No company used as comparison in the above analysis is identical to FCAL. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

**Analysis of Selected Mergers Involving Banking Institutions Comparable to FCAL.** As part of its analysis, Hovde reviewed a selected group of nationwide merger and acquisition transactions in which the target banking institution was deemed to be comparable to FCAL (the FCAL Merger Peer Group). The FCAL Merger Peer Group included select transactions which have occurred since January 1, 2008 through July 5, 2012 that involved target banks & thrifts that had total assets between \$1.0 and \$6.0 billion with ROAA greater than 0.00% and ROAE greater than 1.0%. This FCAL Merger Peer Group consisted of the following 16 transactions:

Buyer	Buyer State	Seller	Seller State
Berkshire Hills Bancorp, Inc.	MA	Beacon Federal Bancorp, Inc.	NY
Trustmark Corporation	MS	BancTrust Financial Group, Inc.	AL
Hilltop Holdings Inc.	TX	PlainsCapital Corporation	TX
Capital Bank Financial Corporation	FL	Southern Community Financial Corporation	NC
Cadence Bancorp, LLC	TX	Encore Bancshares, Inc.	TX
Tompkins Financial Corporation	NY	VIST Financial Corp.	PA
Prosperity Bancshares, Inc.	TX	American State Financial Corporation	TX
F.N.B. Corporation	PA	Parkvale Financial Corporation	PA
Valley National Bancorp	NJ	State Bancorp, Inc.	NY
Brookline Bancorp, Inc.	MA	Bancorp Rhode Island, Inc.	RI
United Bankshares, Inc.	WV	Centra Financial Holdings, Inc.	WV
Eastern Bank Corporation	MA	Wainwright Bank & Trust Company	MA
First Niagara Financial Group, Inc.	NY	Harleysville National Corporation	PA
Hampton Roads Bankshares, Inc.	VA	Gateway Financial Holdings, Inc.	VA
Wells Fargo & Company	CA	Century Bancshares, Inc.	TX
Caja de Ahorros y Monte de Piedad de Madrid	Foreign	City National Bancshares, Inc.	FL



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Hovde calculated the median and the average of the following relevant transaction ratios in the FCAL Merger Peer Group: the multiple of the offer value to the acquired institution's tangible book value; the multiple of the offer value to the acquired institution's latest twelve month earnings per share; and the core deposit premium represented by the offer value. In calculating the multiples, Hovde used FCAL's balance sheet information as of March 31, 2012. The results of this analysis are as follows:

	Tangible Book Value (%)	Offer Value to: LTM EPS (X)	Core Deposit Premium (%)
FCAL Merger Peer Group Median	162.0%	22.4%	5.21%
FCAL Merger Group Average	159.1%	19.29%	8.16%

Using publicly available information, Hovde compared FCAL's financial performance with that of the median and average of the FCAL Merger Peer Group. FCAL's performance highlights are based on FCAL's quarter information at March 31, 2012.

	LTM ROAA	LTM ROAE	LTM Efficiency Ratio	Core Deposits/ Total Deposits	NPAs/ Assets	LLR/ NPLs
FCAL	0.57%	4.71%	71.89%	81.24%	1.98%	98.55%

*FCAL Merger**Peer Group:*

Median	0.53%	6.95%	68.62%	81.99%	1.62%	70.60%
Average	0.74%	8.12%	66.99%	81.40%	2.28%	101.70%

Hovde calculated the implied value of FCAL in an acquisition transaction based upon the median values for price to tangible book value, price to latest twelve month earnings per share and the core deposit premium derived from the FCAL Merger Peer Group and weighted the resultant values 50% for the price to tangible book value multiple, 30% for the price to latest twelve month earnings per share multiple, and 20% for the core deposit premium. This resulted in an implied acquisition value for FCAL of approximately \$221,894,000 which represented \$7.59 per share of FCAL common stock. Based upon the Exchange Ratio of 0.2328 shares of FCAL common stock for each share of PSBK common stock, this resulted in an implied value of FCAL stock to be received in the Merger by the shareholders of PSBK as a result of an acquisition of FCAL by another banking institution of approximately \$1.77 per share of PSBK common stock which would equate to approximately 35.4% of PSBK's tangible book value per share as of March 31, 2012.

No company or transaction used as comparison in the above analysis is identical to FCAL, and no transaction was consummated on terms identical to the terms of the Merger. Accordingly, an analysis of these results is not strictly mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

**Mark-to-Market Analysis:** As part of its analysis, Hovde also calculated the estimated liquidation value of PSBK based on the estimated value of its component assets and liabilities. The value to common equity was adjusted to reflect estimated values for premiums paid to retire existing borrowings including deposit premiums, marked-to-market adjustments on the loan and investment portfolios, and appraisals of fixed assets. Hovde noted the extreme uncertainty in ascertaining the secondary market values for classified credits, and higher risk commercial real estate and construction and development performing loans. Additionally, Hovde noted that the values considered in this analysis were ones which Hovde considered representative of values other parties have taken in like circumstances, but do not reflect any actual evaluation or appraisal of any asset or liabilities of

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PSBK and are not intended to represent any specific analysis, review or appraisal of any target portfolio. This analysis imputed a total imputed mark-to-market equity value of approximately \$632,000 or \$0.50 per share of PSBK common stock.

**Discounted Cash Flow Analysis.** Hovde estimated the present value of PSBK by estimating the value of PSBK's estimated future earnings stream beginning in 2012. Hovde assumed net income in 2012, 2013, 2014, 2015 and 2016 of (-\$2.077 million), (-\$1.627 million), (-\$1.010 million), (-\$0.128 million), and (\$1.168 million), respectively. The present value of these earnings was calculated based on a weighted average cost of capital calculated for PSBK of 16.0%. In order to derive the terminal value of PSBK beyond 2016, Hovde assumed a terminal value based on a multiple of 14.00 times the PSBK projected net income in 2016. These rates and values were chosen to reflect different assumptions regarding the required rates of return of holders or prospective buyers of PSBK's common stock. This analysis and its underlying assumptions yielded an implied equity value for all the shares of common stock of PSBK of approximately \$157,000 or approximately \$0.12 per share of PSBK common stock.

Hovde noted that while the discounted cash flow present value analysis is a widely used valuation methodology, it relies on numerous assumptions, including asset and earnings growth rates, terminal values and discount rates. Hovde further assumed for purposes of its analysis that PSBK would continue to operate as a going concern. Hovde's analysis does not purport to be indicative of the actual values or expected values of PSBK's common stock.

**Other Factors and Analyses.** Hovde took into consideration various other factors and analyses, including but not limited to: current market environment; merger and acquisition environment; capital raising environment; movements in the common stock valuations of selected publicly traded banking companies; and movements in the S&P 500 Index and the NASDAQ Composite Index.

**Conclusion.** Based upon the foregoing analyses and other investigations and assumptions set forth in its opinion, without giving specific weightings to any one factor or comparison, Hovde determined that the Exchange Ratio to be paid in connection with the Merger is fair from a financial point of view to PSBK's shareholders. **Each shareholder is encouraged to read Hovde's fairness opinion in its entirety. The full text of this fairness opinion is included as Appendix B to this proxy statement/prospectus.**

### **FCAL's Reasons for the Acquisition of PSBK by Merger**

As part of FCAL's business strategy, FCAL routinely evaluates opportunities to acquire bank holding companies, banks and other financial institutions. The acquisition of Premier Service Bank is consistent with this strategy. The acquisition will increase FCAL's existing presence in California, provide opportunities for further growth and also result in a potential to realize economies of scale from a larger organization.

### **Director and Executive Officer Voting Agreements**

FCAL has entered into voting agreements with each of the directors and executive officers of PSBK in the form of Exhibit C to the Merger Agreement pursuant to which each such director and/or executive officer has agreed, among other things, to vote all shares of PSBK Common Stock owned by such person in favor of the approval of the Merger Agreement and the transactions contemplated thereby.

### **Non-Competition and Non-Solicitation Agreements**

As a condition of FCAL and FCB entering into the Merger Agreement with PSBK, each of the executive officers and directors of PSBK, has entered into a Non-Competition and Non-Solicitation Agreement pursuant to which each such director and/or executive officer has agreed, among other things, not to compete with FCB and FCAL for a period of two (2) years within the City of Riverside and within a 50 mile radius of the city of Corona;

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provided, however, that Jessica W. Lee, PSBK's Chief Financial Officer, has entered into a modified Non-Competition and Non-Solicitation Agreement that does not preclude her from being employed with a competitor that provides financial services in the restricted territory.

**Merger Consideration to the Shareholders of PSBK*****Stock Consideration***

The consideration to be paid by FCAL for all outstanding shares of PSBK Common Stock will be shares of FCAL Common Stock determined in accordance with a formula set forth in the Merger Agreement. FCAL has agreed to issue 293,626 shares of FCAL Common Stock as consideration for all outstanding PSBK Common Stock (the **Stock Consideration**), subject to adjustment as to the number of shares of FCAL Common Stock issuable in the Merger as set forth in the Merger Agreement. Assuming no adjustment and based on the trading price of FCAL Common Stock as of [ ], 2012, the approximate deal value is \$2.0 million, or \$1.59 per share of PSBK Common Stock in the form of FCAL Common Stock resulting in an exchange ratio of 0.2328 shares of FCAL Common Stock for each share of PSBK Common Stock outstanding.

The Stock Consideration will be adjusted (the **Adjusted Stock Consideration**) in the following events:

Should PSBK Closing Shareholders' Equity be less than \$7.9 million (the **PSBK Threshold Capital**), the Stock Consideration will be adjusted (the **Adjusted Stock Consideration**) and will be determined in accordance with the following formula:

$$\frac{\$2.0 \text{ million} - 0.60(\$7.9 \text{ million} - \text{PSBK Closing Shareholders' Equity})}{\$6.81}$$

In the event the PSBK Closing Shareholders' Equity is less than \$7.5 million, then either party may terminate the Merger Agreement in their sole discretion.

In the event the Closing Price is greater than \$7.83, then FCAL and FCB have the right, in their sole discretion, to terminate the Merger Agreement.

In the event the Closing Price is less than \$5.79, then PSBK has the right, in its sole discretion, to terminate the Merger Agreement. The term **PSBK Closing Shareholders' Equity** is defined in the Merger Agreement as sum of PSBK's Total Risk-Based Capital (as that term is defined by regulations promulgated by the FDIC), plus the remainder of the ALLL not otherwise included in PSBK's Total Risk-Based Capital, excluding the Preferred Stock, after reflecting all accruals required by GAAP, and after adding back the PSBK Transaction Expenses accrued or paid net of taxes using an effective tax rate of forty percent (40%), all determined as the last day of the calendar month immediately prior to the effective time of the Merger.

The term **Closing Price** is defined in the Merger Agreement as the volume weighted average of the trading price of FCAL Common Stock determined to the nearest one cent over the 20 trading-day period ending on the 10th day immediately preceding the effective time of the Merger.

***Per Stock Consideration***

Except for shares of PSBK Common Stock held in its treasury (other than shares representing restricted shares of PSBK Common Stock awarded in accordance with its equity plans) (**excluded shares**) and dissenting shares, at the closing of the Merger, each share of PSBK Common Stock outstanding immediately prior to the effective time of the Merger will be converted into the right to receive the number of shares of FCAL Common Stock determined by dividing: (i) either the stock consideration or the adjusted stock consideration, as applicable; by (ii) the shares of PSBK Common Stock outstanding immediately prior to the effective time including without limitation, dissenting shares but excluding excluded shares. This number is referred to as the



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**per share stock consideration.** The per share stock consideration, expressed as a ratio, is referred to as the **exchange ratio.**

***Fractional Shares***

No fractional shares of FCAL Common Stock will be issued, and in lieu thereof, each holder of PSBK Common Stock who would otherwise be entitled to a fractional share interest will receive an amount in cash determined by multiplying such fractional interest by the Closing Price.

***Examples***

The following examples illustrate the per share stock consideration to be received by a shareholder of PSBK holding 1,000 shares of PSBK Common Stock immediately prior to the effective time of the Merger under different scenarios and assumes, for purposes of these examples only, that 1,261,281 shares of PSBK Common Stock are issued and outstanding immediately prior to the effective time of the Merger and that the Closing Price of the FCAL Common Stock is \$7.00 per share.

***Example 1:*** *The PSBK Closing Shareholders Equity, as determined in accordance with the Merger Agreement, is greater than or equal to \$7.9 million, the PSBK Threshold Capital.*

Because the PSBK Closing Shareholders equity is greater than or equal to \$7.9 million, the PSBK Threshold Capital, there is no adjustment to the Stock Consideration of 293,626 shares of FCAL Common Stock. Accordingly, the per share consideration is 0.2328 shares of FCAL Common Stock being issued for each share of PSBK Common Stock calculated by dividing the Stock Consideration by the number of shares of PSBK outstanding immediately prior to the effective time, or 293,626 shares of FCAL Common Stock divided by 1,261,281 shares of PSBK Common Stock. Therefore, the shareholder would be entitled to receive 232.80 shares of FCAL Common Stock for his or her 1,000 shares of PSBK Common Stock. Since FCAL will not issue fractional shares in the Merger, the shareholder will receive 232 shares of FCAL Common Stock and \$5.60 in cash for his or her 0.80 fractional interest determined by multiplying the fractional interest by \$7.00, the Closing Price, in exchange for his or her 1,000 shares of PSBK Common Stock.

***Example 2:*** *PSBK Closing Shareholders Equity is \$7,700,000.00*

Because the PSBK Closing Shareholders Equity is less than \$7.9 million, the PSBK Threshold Capital, but greater than \$7.5 million, the PSBK Minimum Capital, neither FCAL, FCB nor PSBK are entitled to terminate the Merger Agreement and the Stock Consideration will be adjusted in accordance with the Merger Agreement. Under the Merger Agreement, the Adjusted Stock Consideration will be 276,065 shares, determined in accordance with the following formula:

$$\text{Adjusted Stock Consideration} = \frac{\$2.0 \text{ million} - 0.60(\$7.9 \text{ million} - \$7.7 \text{ million})}{\$6.81}$$

Accordingly, the per share consideration to be received for the 1,000 shares of PSBK Common Stock held by the hypothetical shareholder is 0.2189 shares of FCAL Common Stock being issued for each share of PSBK Common Stock calculated by dividing the Adjusted Stock Consideration by the number of shares of PSBK outstanding immediately prior to the effective time, or 276,065 shares of FCAL Common Stock divided by 1,261,281 shares of PSBK Common Stock. Therefore, the shareholder would be entitled to receive 218 shares of FCAL Common Stock and \$6.16 in cash for his or her 0.88 fractional interest in exchange for his or her 1,000 shares of PSBK Common Stock.

***Example 3:*** *PSBK Closing Shareholders Equity is \$7,300,000.00*

Because the PSBK Closing Shareholders Equity is less than \$7.9 million, the PSBK Threshold Capital, and less than \$7.5 million, the PSBK Minimum Capital, either FCAL, FCB or PSBK are entitled to terminate the Merger

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Agreement. If the parties determine not to terminate the Merger Agreement and to proceed with the Merger, the Stock Consideration will be adjusted in accordance with the Merger Agreement. Under the Merger Agreement, the Adjusted Stock Consideration will be 240,822 shares, determined in accordance with the following formula:

$$\text{Adjusted Stock Consideration} = \frac{\$2.0 \text{ million} - 0.60(\$7.9 \text{ million} - \$7.3 \text{ million})}{\$6.81}$$

Accordingly, the per share consideration to be received for the 1,000 shares of PSBK Common Stock held by the hypothetical shareholder is 0.1909 shares of FCAL Common Stock being issued for each share of PSBK Common Stock calculated by dividing the Adjusted Stock Consideration by the number of shares of PSBK outstanding immediately prior to the effective time, or 240,822 shares of FCAL Common Stock divided by 1,261,281 shares of PSBK Common Stock. Therefore, the shareholder would be entitled to receive 190 shares of FCAL Common Stock and \$6.51 in cash for his or her 0.93 fractional interest in exchange for his or her 1,000 shares of PSBK Common Stock.

**Surrender of Certificates and Payment of the Merger Consideration to the Shareholders of PSBK**

Both FCAL and PSBK will mutually agree to the appointment of an exchange agent for purposes of coordinating and facilitating the exchange of PSBK Common Stock for the Merger consideration. The exchange agent will mail to holders of a certificate or certificates representing shares of PSBK Common Stock as of the effective time of the Merger a letter of transmittal which will specify that delivery will be effected, and risk of loss and title to the certificate or certificates will pass, only upon delivery of the certificate or certificates to the exchange agent, and instructions for use in effecting the surrender of the certificate or certificates in exchange for FCAL Common Stock (and cash in lieu of fractional shares).

If you are a record date holder of a certificate or certificates representing shares of PSBK Common Stock as of the effective time of the Merger and you surrender your certificates for exchange and cancellation to the exchange agent and provide the exchange agent with a duly completed and executed letter of transmittal, you will be entitled to receive in exchange for your certificate(s): (i) the Per Share Stock Consideration rounded down to the closest whole number and (ii) a check in the amount equal to the cash in-lieu of fractional shares, if any. Thereafter, your PSBK Common Stock certificate(s) will be cancelled.

As soon as practicable, but no later than eight (8) business days following receipt of the properly completed letter of transmittal and any necessary accompanying documentation, the exchange agent will distribute to you your share of the Stock Consideration or Adjusted Stock Consideration, as applicable, and cash in lieu of any fractional shares you otherwise would be entitled to.

**PSBK STOCK CERTIFICATES SHOULD NOT BE FORWARDED TO THE EXCHANGE AGENT UNTIL YOU HAVE RECEIVED THE LETTER OF TRANSMITTAL. STOCK CERTIFICATES MUST NOT BE RETURNED WITH THE ENCLOSED PROXY.**

**Rights of Holders of PSBK Stock Certificates Until Surrender**

If a dividend or other distribution on FCAL Common Stock is declared by FCAL with a record date after the effective time of the Merger, you will not receive that dividend or distribution until you surrender your PSBK stock certificate(s). If your stock certificate(s) are lost or destroyed, you must submit documentation acceptable to FCAL and the exchange agent of your ownership of PSBK Common Stock. Any dividends or distributions withheld from you ultimately will be remitted to you when you deliver your PSBK stock certificate(s) (or substitute documentation if your certificates are lost or destroyed), but they will be remitted to you without interest and less any taxes that may have been imposed.

Holders of unsurrendered certificates will be entitled to vote at any meeting of FCAL shareholders, regardless of whether the holders have exchanged their certificates.

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**Lost Certificates**

If you have lost or misplaced a certificate for shares of PSBK Common Stock, contact Ms. Jessica W. Lee Corporate Secretary at PSBK at (951) 274-2400, to begin the process of replacing the lost certificate before the date the transaction becomes effective. Procedures you should follow if you are unable to deliver your certificate(s) will be explained in the letter of transmittal, but shareholders of PSBK Common Stock will find it easier to complete the exchange process if they obtain a replacement certificate(s) before the transaction becomes effective.

**PSBK Stock Options**

Prior to and effective as of the effective time of the Merger, PSBK will have taken all action that is necessary to terminate PSBK's 2000 Stock Option Plan (and any amendments thereto) and will have provided written notice to each holder of then outstanding options granted under this plan (whether or not such option is then vested or exercisable), that such option will be exercisable in full, and that such option will terminate at the effective time of the Merger, if the option is not exercised or otherwise terminated on or before the effective time of the Merger.

Such holder of an option will be entitled to receive in cancellation of each option, payment in the form of shares of FCAL Common Stock calculated in accordance with the following formula:

$$\frac{(A \times B \times \$6.81) - C}{\$6.81}$$

- where A = the number of shares of PSBK Common Stock subject to such option;
- B = the exchange ratio
- C = the aggregate option exercise price of such option

FCAL will not issue fractional shares, and in lieu thereof, each holder of such PSBK option will receive an amount in cash determined by multiplying the fractional interest by the Closing Price.

Since the exercise price for each of the PSBK options currently outstanding far exceeds the value of the Stock Consideration which would be received upon exercise of the stock option, it is not anticipated that any of the options will be exercised. PSBK will request all the optionees to cancel their options prior to the effective time of the Merger.

**The Exchange Agent**

The parties will mutually agree to the appointment of an exchange agent with respect to the payment of the merger consideration to PSBK shareholders.

**Dissenters' Rights of PSBK Shareholders**

The shareholders of PSBK will be given the opportunity to exercise dissenters' rights in accordance with certain procedures specified in California Corporations Code Sections 1300, et. seq., which sections are attached hereto as Appendix C and incorporated herein by reference. Please note that the description below does not purport to be a complete statement of the law relating to dissenters' rights and is qualified in its entirety by reference to Sections 1300, 1301, 1302, 1303 and 1304 of the California Corporations Code, which sections are attached hereto as Appendix C.

PSBK Common Stock shareholders voting against the Merger may demand, in accordance with California Corporations Code Sections 1300, et. seq., that PSBK acquire their shares for cash at their fair market value as of

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February 27, 2012, the day before the first announcement of the terms of the Merger, excluding any appreciation or depreciation in consequence of the Merger.

***Submit a Written Demand***

In order to exercise dissenters' rights, a PSBK shareholder must not vote in favor of the Merger Agreement and the Merger and make a written demand for purchase of his or her shares of PSBK Common Stock in cash for the fair market value and have the demand received by PSBK within 30 days after the date on which notice of the approval of the Merger Agreement and the Merger is mailed to the shareholder. The written demand must state the number of shares held of record by such PSBK shareholder for which demand for purchase for cash is being made and it must contain a statement of the amount which such PSBK shareholder claims to be the fair market value of the shares as of February 27, 2012, the day before the announcement of the Merger. That statement will constitute an offer by the PSBK shareholder to sell his or her shares to PSBK at that price. A PSBK shareholder may not withdraw such demand unless PSBK consents thereto.

***Surrender Stock Certificates***

Thereafter, a PSBK shareholder must also deliver his or her share certificate(s) for receipt by PSBK within 30 days after the date on which notice of the closing of the Merger was mailed. PSBK will stamp or endorse the certificate(s) with a statement that the shares are dissenting shares and return the certificate(s) to such PSBK shareholder.

Any demands, notices, certificates or other documents delivered to PSBK may be sent to Jessica W. Lee, Corporate Secretary, Premier Service Bank, 3637 Arlington Avenue, Suite B, Riverside, California 92506, Telephone Number (951) 274-2400.

***Determination of Value of PSBK Common Stock***

The purchase price for shares of PSBK Common Stock that dissent to the Merger Agreement will be the fair market value for such shares as of February 27, 2012, the day before the announcement of the Merger. The Board of Directors of PSBK has determined that the fair market value of a share of PSBK Common Stock as of February 27, 2012 was \$1.01, the closing price per share of PSBK Common Stock as reported on the OTCBB. If there is a disagreement between the PSBK shareholder and PSBK regarding the proposed purchase price or if PSBK denies that such shares constitute dissenting shares, the PSBK shareholder and PSBK each have the right for six (6) months following the date on which notice of the closing of the Merger was mailed to file a lawsuit in the Superior Court of the County of Orange to have the fair market value determined by a court or to determine whether such shares are dissenting shares or both, as the case may be.

***Condition to Closing***

It is a condition of the obligation of FCAL and FCB to close the Merger that dissenters' rights are not perfected and exercised with respect to more than 5% of the outstanding shares of PSBK Common Stock.

**Interests of Directors and Officers in the Transaction**

**Employment of Kerry L. Pendergast by FCAL after the Merger**

Immediately after the effective time of the Merger, Kerry L. Pendergast will be invited by FCB to be an employee of FCB to serve as Market President, a non-executive officer position, for two branch offices of PSBK being acquired as part of the Merger and FCB's branch office in Redlands, California to be effective immediately after the effective time of the Merger. It is anticipated that Mr. Pendergast's salary and benefits will be similar to his present salary and benefits at PSBK. In addition, the obligations of PSBK will be assumed by FCAL after the



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Merger under (a) PSBK's Split Dollar Agreement with Mr. Pendergast dated September 5, 2006, which provides an insurance benefit to Mr. Pendergast's heirs in the amount of \$400,000 upon his death, and (b) the Executive Supplemental Compensation Agreement dated September 5, 2006, which provides for an annual retirement benefit of \$50,000 per year for 10 years after his separation of service, funded by life insurance benefits payable to PSBK or its successor.

### **Benefits payable to Jessica W. Lee upon Close of the Merger**

It is anticipated that Ms. Lee will not be employed by FCAL after the close of the Merger. Her benefits under her Split Dollar Agreement dated December 2, 2008, providing her heirs with an insurance benefit of \$310,000 upon her death, will be assumed by FCAL after the close. In addition, she will be entitled to receive (a) a lump sum payment of \$334,760.69 after her separation of service from FCAL under the terms of her Executive Supplemental Compensation Agreement dated December 2, 2008, as amended on June 2, 2010, and (b) severance under her Employment Agreement dated June 1, 2010 in an amount equal to 12 months of her base salary (\$165,000), payable over 12 months from the date of separation in 12 equal payments. Because Ms. Lee's rights under her Executive Supplemental Compensation Agreement are 100% vested and are not dependent upon or triggered by the closing of the Merger, those benefits are not included in determining whether her aggregate payments should be considered golden parachute payments. After excluding those benefits, the remaining payments would not equal or exceed three times her average W-2 income during the period commencing with the date of her employment by the Bank and ending December 31, 2011, and would therefore not constitute golden parachute payments.

### **Continuing Role of Directors and Officers**

Immediately after the effective time of the Merger, Kenneth B. Stream, Jr., provided he is approved by the boards of directors of FCAL and FCB, in their discretion, will be invited by the boards of directors of FCAL and FCB to join the boards of directors of FCAL and the FCB, as the surviving bank, to serve until his respective successor is duly elected or appointed. If Kenneth B. Stream Jr., is unwilling or unable to serve, or is not approved by the boards of directors of FCAL and FCB then an appointee will be selected from the other members of the PSBK Board of Directors.

Following is information concerning Mr. Stream:

Mr. Stream currently serves as Chairman of the Board of PSBK, a position he has held since the inception of the Bank in 2001. He is an attorney and shareholder of the firm of Gresham, Savage, Nolan & Tilden, Riverside, California, which is the successor to a firm he founded in 1976. At PSBK, Mr. Stream, in addition to his responsibilities as Chairman of the Board, served as Chairman of the Executive Committee, Chairman of the Audit Committee, member of the Loan Committee, member of the Asset & Liability Committee, and member of the Nomination & Governance Committee. His age as of the Record Date is 67. He beneficially owns 38,293 shares of PSBK Common Stock, including 1,000 options which currently have no value. His stock ownership represents approximately 3% of the issued and outstanding shares of PSBK Common Stock. Mr. Stream has no family relationship with any of the directors or executive officers of FCAL. His compensation as a director of FCAL has not been discussed, and will be determined by FCAL after the close of the Merger and his appointment to the FCAL and FCB boards. Mr. Stream will be considered an independent director of FCAL, based on the rules for determining independence followed by FCAL.

Also, immediately after the effective time of the Merger, it is presently anticipated that the other directors of PSBK will be invited to join as members of FCB's Regional Advisory Board.

As noted above, immediately after the effective time of the Merger, Kerry L. Pendergast will be invited by FCB to be an employee of FCB to serve as Market President, a non-executive officer position, for two branch offices of PSBK being acquired as part of the Merger and FCB's branch office in Redlands, California to be effective immediately after the effective time of the Merger.

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### **Shareholder Agreements**

Each of the directors of PSBK and Ms. Lee, in their capacities as shareholders of PSBK, have separately entered into shareholder agreements with FCAL in which they have agreed to vote all shares of PSBK Common Stock that they owned as of the date of their respective agreements, and that they may subsequently acquire, in favor of adoption of the Merger Agreement and the transactions contemplated therein. As of the record date, these shareholders owned, in the aggregate, 250,651 of the outstanding shares of the common stock of PSBK, allowing them to exercise approximately 19.87 % of the voting power of PSBK Common Stock.

### **Indemnification; Directors and Officers Insurance**

For a period of four years following the effective time of the Merger, FCAL has agreed to indemnify present and former directors and officers of PSBK in connection with any claim arising out of actions or omissions occurring at or prior to the effective time to the fullest extent that PSBK is permitted to indemnify its directors and officers. In addition, FCAL is obligated, for four years from the effective time, to use its commercially reasonable efforts to provide the portion of directors and officers liability insurance that serves to reimburse the present and former directors and officers of PSBK on terms and conditions comparable to those provided by PSBK; provided, however, that FCAL is not required to spend any more than \$200,000 to procure such insurance coverage.

### **Federal Income Tax Consequences**

#### ***General***

The following discussion is a summary of the material United States federal income tax consequences to shareholders of PSBK as a result of the Merger. This discussion is based on the Internal Revenue Code of 1986, as amended, United States Treasury Regulations promulgated under the Internal Revenue Code, administrative rulings and pronouncements and judicial decisions as of the date hereof, all of which are subject to change, possibly with retroactive effect. Any such change could alter the tax consequences discussed in this proxy statement-prospectus.

As used in this section, the term PSBK shareholder refer to (i) an individual who is a citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) organized under the laws of the United States or any State or the District of Columbia; (iii) an estate the income of which is subject to United States federal income taxation regardless of its source; or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust, and (b) one or more United States persons have the authority to control all substantial decisions of the trust.

This discussion does not address the effects of any state, local, or non-United States tax laws. This discussion does not discuss the tax consequences of transactions effectuated prior or subsequent to, or concurrently with, the Merger. Furthermore, this discussion relates only to PSBK shareholders who will receive shares of FCAL Common Stock in consideration for their shares of PSBK Common Stock in the Merger. The tax treatment may vary depending upon such shareholder's particular situation, and certain shareholders may be subject to special rules not discussed below. Such shareholders would include, for example, insurance companies, tax-exempt organizations, financial institutions, investment companies, broker-dealers, domestic shareholders whose functional currency is not the United States dollar, shareholders who hold PSBK Common Stock as part of a hedge, straddle, constructive sale or conversion transaction, and individuals who receive FCAL Common Stock pursuant to the exercise of employee stock options or otherwise as compensation.

***You are strongly urged to consult with your tax advisor with respect to the tax consequences to you of the Merger in light of your own particular circumstances, including tax consequences under state, local, foreign and other tax laws and the possible effects of changes in United States federal or other tax laws.***

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***Tax Consequences of the Merger***

The Merger will constitute a reorganization for United States federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code. Subject to the limitations and qualifications referred to herein, the following material United States federal income tax consequences will result from qualification of the Merger as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code:

**PSBK Shareholders Receive Shares of FCAL Common Stock as Consideration in Exchange for PSBK Common Stock.** In consideration for their shares of PSBK Common Stock, PSBK shareholders will receive (i) shares of FCAL Common Stock according to the exchange ratio specified in the Merger Agreement and (ii) an amount in cash in lieu of any fractional shares of FCAL Common Stock the shareholders of PSBK Common Stock would otherwise be entitled to equal to such fractional interest multiplied by the volume weighted average of the closing price of FCAL Common Stock determined to the nearest one cent over the 20 trading-day period ending on the 10th day immediately preceding the effective time of the merger agreement. Therefore, shareholders of PSBK Common Stock will not recognize capital gain or capital loss for U.S. federal income tax purposes upon the receipt of shares of FCAL Common Stock and the tax basis of the shares of FCAL Common Stock will be the same as the tax basis in the shares of PSBK Common Stock. The shareholders of PSBK will recognize capital gain or capital loss for U.S. federal income tax purposes with respect to the receipt of cash in lieu of fractional shares. The capital gain or loss will be long-term capital gain or loss if the shares of PSBK Common Stock were held for more than one year at the effective time of the Merger. Long-term capital gain of a non-corporate U.S. shareholder generally qualifies for a maximum regular U.S. federal income tax rate of 15 percent.

**PSBK Shareholders Who Dissent from the Merger and Receive Cash.** If a PSBK shareholder receives cash pursuant to the exercise of dissenters' rights, that shareholder generally will recognize gain or loss measured by the difference between the cash received and the adjusted tax basis in the shareholder's shares of PSBK Common Stock. This gain will be long-term capital gain or loss if the shareholder's holding period is greater than one year.

The discussion assumes that FCAL will not terminate the Merger pursuant to Section 9.2.7 of the Merger Agreement, which provides that dissenters' rights shall not have been exercised and perfected by in excess of 5% of PSBK's outstanding shares. If dissenters' rights are perfected and exercised with respect to more than 10% of the outstanding shares of PSBK Common Stock, the Merger may fail to qualify as a tax-free reorganization under the Code, in which case, the tax implications discussed in this section may not be applicable.

The foregoing discussion is not intended to be a complete analysis or description of all potential federal income tax consequences of the Merger. In addition, the discussion does not address tax consequences which may vary with, or are contingent on, your individual circumstances. Moreover, the discussion does not address any non-income tax or any foreign, state or local tax consequences of the Merger. Accordingly, you are strongly urged to consult with your tax advisor to determine the particular federal, state, local or foreign income or other tax consequences to you of the Merger.

***Tax Treatment of FCAL***

No taxable gain or loss will be recognized by FCAL as a result of the Merger.

***Backup Withholding***

Any cash payments to PSBK shareholders that dissent to the Merger may be subject to backup withholding at a rate of 28% on a shareholder's receipt of cash, unless such shareholder furnishes a correct taxpayer identification number and certifies that he or she is not subject to backup withholding. Any amount withheld

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under the backup withholding rules will generally be allowed as a refund or credit against the shareholder's U.S. federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

**THE FOREGOING IS A SUMMARY OF THE ANTICIPATED FEDERAL INCOME TAX CONSEQUENCES OF THE PROPOSED MERGER UNDER THE INTERNAL REVENUE CODE. IT DOES NOT DISCUSS THE CONSEQUENCES OF STATE, LOCAL OR OTHER TAX LAWS OR SPECIAL CONSEQUENCES TO PARTICULAR SHAREHOLDERS HAVING SPECIAL SITUATIONS. YOU SHOULD CONSULT WITH YOUR TAX ADVISOR REGARDING SPECIFIC TAX CONSEQUENCES OF THE MERGER TO YOU, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE AND LOCAL TAX LAWS AND TAX CONSEQUENCES OF SUBSEQUENT SALES OF FCAL COMMON STOCK.**

### **Accounting Treatment of the Transaction**

FCAL must account for the Merger under the acquisition method of accounting. Under this method, the consideration transferred and assets acquired and liabilities assumed will be recorded at their estimated fair values as of the completion of the Merger. Deferred tax assets and liabilities will be adjusted for the difference between the tax basis of the assets and liabilities and their estimated fair values. The excess, if any, of the total fair value of the consideration transferred over the fair values of the net assets acquired will be recorded as goodwill. To the extent the assigned fair values of the net assets acquired is greater than the total fair value of the consideration transferred, a bargain purchase gain will be recorded. FCAL's financial statements issued after completion of the Merger will reflect these values, but historical data are not restated retroactively to reflect the combined historical financial position or results of operations of FCAL and PSBK.

### **Regulatory Approvals**

The Merger requires the approvals of the FDIC and the DFI. Applications for the necessary approvals were filed on April 30, 2012 and are now pending before those regulatory agencies. In reviewing the applications, those regulatory agencies take into consideration, among other things, competition, the financial and managerial resources and future prospects of the companies, and the convenience and needs of the communities to be served. Federal law prohibits these federal regulatory agencies from approving the Merger if the Merger would result in undue concentration of resources or decreased or unfair competition, unless the anti-competitive effects of the Merger are clearly outweighed by the benefits to the public.

The federal banking agencies have the authority to deny the application for approval of the transaction if it concludes that the combined organization would have an inadequate capital structure, taking into account, among other factors, the level of problem assets, the nature of the business and operations and plans for expansion. Furthermore, these agencies must also evaluate the records of FCB and PSBK in meeting the credit needs of their community, including low- and moderate-income neighborhoods, consistent with safe and sound operation. Currently FCB and PSBK have Satisfactory Community Reinvestment Act evaluations.

Similarly, the DFI has the authority to deny the application for approval of the Merger if it finds any of the following: (i) the Merger will result in a monopoly or is in furtherance of a conspiracy to monopolize the banking business in California; (ii) the Merger will substantially lessen competition or otherwise restrain trade or the anticompetitive effects of the Merger outweigh the benefits of the Merger in meeting the convenience and needs of the communities to be served by FCB, as the surviving bank; (iii) the shareholders' equity of FCB will not be adequate or the financial condition of FCB will be unsatisfactory; (iv) the directors and management of FCB will be unsatisfactory; (v) FCB cannot provide the DFI with a reasonable promise of successful operation or that FCB will be operated in a safe and sound manner in compliance with all applicable laws; or (vi) the Merger is not fair, just or equitable.

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### **Statutory Waiting Period**

Under federal banking laws, a 30-day waiting period must expire following the FDIC's approval of the Merger. Within that 30-day waiting period the Department of Justice may file objections to the Merger under federal antitrust laws. The FDIC may reduce the waiting period to 15 days with the concurrence of the Department of Justice. The Department of Justice could take such action under antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the Merger unless divestiture of an acceptable number of branches to a competitively suitable purchaser can be made. If the Department of Justice commences an action challenging the Merger on antitrust grounds during either the 30-day or 15-day waiting periods, commencement of that action would stay the effectiveness of the regulatory approvals, unless a court of competent jurisdiction specifically orders otherwise.

The Merger cannot proceed in the absence of the regulatory approvals and the expiration of the statutory waiting period. The parties are not aware of any reasons why regulatory approvals will not be received and have agreed to use their reasonable best efforts to obtain all necessary regulatory approvals. *However, there can be no assurance that approvals will be obtained, nor can there be assurance as to the date of any approval. There also can be no assurance that any approvals will not contain unacceptable conditions or requirements.*

### **Resale of FCAL Common Stock**

The shares of common stock of FCAL that PSBK shareholders receive as a result of the Merger will be registered under the Securities Act. You may freely trade these shares of FCAL Common Stock if you are not considered an affiliate of FCAL, as that term is defined in the federal securities laws. Generally, affiliates include directors, certain executive officers and holders of 10% or more of the outstanding common stock.

FCAL's affiliates may not sell their shares of FCAL Common Stock acquired in the Merger, unless those shares are registered under an effective registration statement under the Securities Act, or by complying with Securities Act Rule 145 or another applicable exemption from the registration requirements of the Securities Act. FCAL may also place restrictive legends on certificates representing shares of FCAL Common Stock issued to all persons who will be considered affiliates of FCAL.

### **Certain Effects of the Merger**

The Merger Agreement requires PSBK to merge with and into FCB with FCB as the surviving bank and wholly-owned subsidiary of FCAL. Following the Merger, FCAL and FCB, as the surviving bank, will continue operating from their headquarters located at 3027 Townsgate Road, Suite 300, Westlake Village, California 91361.

After the Merger, there will be no more trading in the common stock of PSBK. Each PSBK shareholder will receive instructions from FCAL or the exchange agent regarding exchanging their stock certificates for FCAL stock certificates.

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**THE MERGER AGREEMENT**

**Representations and Warranties**

The Merger Agreement contains various customary representations and warranties that PSBK jointly and severally make for the benefit of FCAL and that FCAL jointly and severally make for the benefit of PSBK. The representations and warranties relate to, among other things:

corporate organization and similar corporate matters;

capital structure;

authorization and enforceability of the Merger Agreement and related matters;

conflicts under charter documents, required consents or approvals, and violations of any agreements or law;

licenses and permits;

financial statements;

tax returns and audits;

absence of certain material adverse events, changes, effects or undisclosed liabilities;

material contracts and leases;

ownership of property and insurance coverage;

legal proceedings;

compliance with applicable laws;

employee benefit plans;

brokers, finders and financial advisors;

environmental matters;

loans and investments;

compliance with securities laws;

transactions with affiliates;

deposits;

antitakeover provisions in charter documents and required shareholder votes;

risk management instruments;

fairness opinions of financial advisors;

intellectual property;

compliance with laws regarding employment and employment practices;

regulatory orders issued by bank regulators or other governmental entities; and

accuracy and completeness of documents filed with government agencies and bank regulatory agencies.

The foregoing is an outline of the representations and warranties made respectively by PSBK and by FCAL contained in the Merger Agreement attached as Appendix A. You should carefully review the entire Merger Agreement, and in particular Articles IV and V, containing the detailed representations and warranties of the parties.

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### **Conduct of PSBK Until the Merger Becomes Effective**

Except as provided in the Merger Agreement or with the prior approval of FCAL and FCB, PSBK has agreed to do the following:

operate its businesses, in the usual, regular and ordinary course of business; use commercially reasonable efforts to preserve intact their business organization, employees and advantageous customer relationships and to continue to develop such customer relationships and retain the services of its officers and key employees;

maintain and keep its properties in as good repair and condition as at present except for obsolete properties and for deterioration due to ordinary wear and tear;

maintain in full force and effect insurance comparable in amount and scope of coverage to that now maintained by it;

perform in all material respects all of its obligations under contracts, leases and obligations relating to and affecting its assets, properties and businesses except such obligations as it may in good faith reasonably dispute;

maintain its rights and franchises; and voluntarily take no action which would (i) result in PSBK incurring material losses; (ii) adversely affect the ability of the parties to obtain any Regulatory Approval or other approvals of Governmental Entities required for the transactions contemplated hereby or materially increase the period of time necessary to obtain such approvals, or (iii) adversely affect its ability to perform its covenants and agreements under this Agreement;

maintain its allowance for loan and lease losses ( ALLL ) substantially in accordance with past practices and methodology and GAAP (providing however, that any changes in practices or methodology shall be attributable to accounting or GAAP changes, or changes required by its bank regulators, only);

charge off all loans, leases and other assets, or portions thereof, deemed uncollectible or classified as loss in accordance with GAAP or applicable law or regulation, or as directed by its bank regulators;

give notice to and consult with FCAL prior to hiring any employees or independent contractors;

give notice to and consult with FCAL before acquiring any security or investment for the PSBK investment portfolio with a term of over one year;

substantially comply with and perform all material obligations and duties imposed upon it by all federal and state laws, statutes and rules, regulations and orders imposed by any Governmental Entity applicable to its business; and

use commercially reasonable efforts to maintain loan classification policies and procedures in accordance with industry best practices consistent with past practice and, from and after the date of this Agreement to the Closing Date, provide FCAL and FCB by no later than the 21st day of each month, a written report setting forth all loans classified as Substandard, Doubtful, Loss and Other Loans Especially Mentioned.

In addition, the Merger Agreement restricts PSBK from taking the following actions until the Merger becomes effective:



change or waive any provision of its articles of incorporation or bylaws except as required by law, or appoint any new director to the board of directors, except to replace any vacant director position(s), provided, however, that such new director execute and thereby agree to be bound by the terms and conditions of the PSBK voting agreement and the PSBK non-competition and non-solicitation Agreement;

change the number of authorized or issued shares of its capital stock, issue any shares of PSBK Common Stock, or issue or grant any right or agreement of any character relating to its authorized or

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issued capital stock or any securities convertible into shares of such stock, make any grant or award under the PSBK equity plans, or split, combine or reclassify any shares of capital stock, or declare, set aside or pay any dividend or other distribution in respect of capital stock, or redeem or otherwise acquire any shares of capital stock, except that PSBK may (i) issue shares of PSBK Common Stock upon the valid exercise, in accordance with the information set forth in PSBK's disclosure schedules, of presently outstanding PSBK options issued under the PSBK equity plans and (ii) pay dividends in respect of the capital stock of PSBK;

terminate any outstanding stock options with the exception of options expiring by their own terms;

enter into, amend in any material respect or terminate any contract or agreement (including without limitation any settlement agreement with respect to litigation);

make application for the opening or closing of any, or open or close any, branch or automated banking facility;

grant or agree to pay any bonus, severance or termination to, or enter into, renew or amend any employment agreement, severance agreement and/or supplemental executive agreement with, or increase in any manner the compensation or fringe benefits of, any of its directors, officers or employees, except (i) as may be required pursuant to commitments existing on the date of the Merger Agreement and set forth on PSBK's disclosure schedules to the Merger Agreement, and (ii) pay increases in the ordinary course of business consistent with past practice to non-officer employees in excess of 3% annually, provided however, that PSBK shall only authorize and effectuate pay increases in 2012 not more frequently than one time per employee. PSBK shall not hire or promote any employee to a rank having a title of vice president or other more senior rank or hire any new employee at an annual rate of compensation in excess of \$60,000, provided that PSBK may hire at-will, non-officer employees to fill vacancies that may from time to time arise in the ordinary course of business;

enter into or, except as may be required by law, materially modify any pension, retirement, stock option, stock purchase, stock appreciation right, stock grant, savings, profit sharing, deferred compensation, supplemental retirement, consulting, bonus, group insurance or other employee benefit, incentive or welfare contract, plan or arrangement, or any trust agreement related thereto, in respect of any of its directors, officers or employees; or make any contributions to any defined contribution plan not in the ordinary course of business consistent with past practice;

merge or consolidate PSBK with any other corporation; sell or lease all or any substantial portion of the assets or business of PSBK; make any acquisition of all or any substantial portion of the business or assets of any other person, firm, association, corporation or business organization other than in connection with foreclosures, settlements in lieu of foreclosure, troubled loan or debt restructuring, or the collection of any loan or credit arrangement between PSBK and any other person; enter into a purchase and assumption transaction with respect to deposits and liabilities; or file an application for the relocation of, any existing branch office, or file an application for a certificate of authority to establish a new branch office;

sell or otherwise dispose of the capital stock of PSBK or sell or otherwise dispose of any asset of PSBK other than in the ordinary course of business consistent with past practice and other than in accordance with their respective obligations under certain sections of the Merger Agreement; except for transactions with the Federal Reserve System or the Federal Home Loan Bank of San Francisco, subject any asset of PSBK to a lien, pledge, security interest or other encumbrance (other than in connection with deposits, repurchase agreements, bankers acceptances, treasury tax and loan accounts established in the ordinary course of business and transactions in federal funds and the satisfaction of legal requirements in the exercise of trust powers) other than in the ordinary course of business consistent with past practice; incur any indebtedness for borrowed money (or guarantee any indebtedness for borrowed money), except in the ordinary course of business consistent with past practice;

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intentionally take any action which would result in any of the representations and warranties of PSBK set forth in this Agreement becoming untrue as of any date after the date of the Merger Agreement or in any of the conditions set forth in Article IX hereof not being satisfied, except in each case as may be required by applicable law;

change any method, practice or principle of accounting, except as may be required from time to time by GAAP (without regard to any optional early adoption date) or any bank regulator responsible for regulating PSBK;

waive, release, grant or transfer any material rights of value or modify or change in any material respect any existing material agreement or indebtedness to which PSBK is a party, other than in the ordinary course of business, consistent with past practice;

(i) Other than in the ordinary course of business consistent with past practice in individual amounts not to exceed \$100,000 or in securities transactions as provided in subsection (ii) below, make any investment either by contributions to capital, property transfers or purchase of any property or assets of any Person or (ii) other than purchases of direct obligations of the United States of America or obligations of U.S. government agencies which are entitled to the full faith and credit of the United States of America, in any case with a remaining maturity at the time of purchase of one (1) year or less, purchase or acquire securities of any type; provided, however, that in the case of investment securities, PSBK may purchase investment securities if, within three (3) business days after PSBK requests in writing (which shall describe in detail the investment securities to be purchased, the due diligence performed on the security and the price thereof) that FCAL consent to the making of any such purchase, FCAL has approved such request in writing or has not responded in writing to such request;

(i) File or amend any material Tax Return except in the ordinary course of business; (ii) settle or compromise any material Tax liability; (iii) make, change or revoke any material Tax election except to the extent consistent with past practice or as required by law; (iv) change any material method of Tax accounting, except as required by law; or (v) take any action which would materially adversely affect the Tax position of PSBK, or its successors after the Merger;

except for commitments issued or proposals pending prior to the date of this Agreement and which have been disclosed on the PSBK Disclosure Schedule 6.1.2(O), and the renewal of existing lines of credit, make any new loan or other credit facility commitment (including without limitation, lines of credit and letters of credit) in an amount in excess of \$100,000 for a new customer or \$200,000 for any existing customer without submitting complete loan package information to the Chief Credit Officer of FCAL (or his designee) for review with a right of comment at least three (3) full business days prior to taking such action. If after three (3) business days FCAL has not responded in writing to such request, such loans may be granted in PSBK's discretion;

make any loan or other extension of credit, loan commitment or letter of credit or similar commitment or renewal or extension thereof to any Person that is graded less than pass without submitting a complete loan package information to the chief credit officer of FCAL for review with a right of comment at least three (3) full business days prior to taking such action. If after three (3) business days FCAL has not responded in writing to such request, such loans may be granted in PSBK's discretion;

except as set forth on the PSBK's disclosure schedules, enter into, renew, extend or modify any other transaction (other than a deposit transaction) with any affiliate;

enter into (or renew) any futures contract, option, interest rate caps, interest rate floors, interest rate exchange agreement or other agreement or take any other action for purposes of hedging the exposure of its interest-earning assets and interest-bearing liabilities to changes in market rates of interest; enter into (or renew) any structured financing transaction;

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incur any indebtedness for borrowed money (other than deposits, Federal Funds borrowings and borrowings from the Federal Home Loan Bank of San Francisco or otherwise in the ordinary and usual

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course consistent with PSBK's past practice of 90 day or less maturity) or assume, guarantee, endorse or otherwise as an accommodation become responsible for the obligations of any other Person.

except for the execution of this Agreement, and actions taken or which will be taken in accordance with this Agreement and performance thereunder, take any action that would give rise to a right of payment to any individual under any employment agreement outside of the ordinary course of business;

make any material change in policies in existence on the date of this Agreement with regard to: the extension of credit, or the establishment of reserves with respect to the possible loss thereon or the charge off of losses incurred thereon; investments; asset/liability management; or other material banking policies except as may be required by changes in applicable law or regulations or by a bank regulator;

except for the execution of this Agreement, and the transactions contemplated herein, take any action that would give rise to an acceleration of the right to payment to any individual under any PSBK Equity Plan;

except as set forth in PSBK's disclosure schedules, make any capital expenditures in excess of \$25,000 individually or \$50,000 in the aggregate, other than pursuant to binding commitments existing on the date of the Merger Agreement and other than expenditures necessary to maintain existing assets in good repair;

except as set forth in PSBK's disclosure schedules, purchase or otherwise acquire, or sell or otherwise dispose of, any assets or incur any liabilities other than in the ordinary course of business consistent with past practices and policies;

acquire a participation interest in any new loan or sell any participation interest in any loan, except for the sale of a participation interest in the maximum amount of \$250,000 (provided that FCAL or FCB will be given the first opportunity to purchase any non Small Business Administration loan participation being sold);

sell a pool of loans or interests in a pool of loans which individually or in the aggregate is in excess of \$250,000;

sell OREO properties for less than the value held on the books of PSBK as of the date of this Agreement;

undertake or enter into any lease, contract or other commitment for its account, other than in the normal course of providing credit to customers as part of its banking business, involving a payment by PSBK of more than \$50,000 annually, or containing any financial commitment extending beyond 12 months from the date of the Merger Agreement;

pay, discharge, settle or compromise any claim, action, litigation, arbitration or proceeding, other than any such payment, discharge, settlement or compromise in the ordinary course of business consistent with past practice that involves solely money damages in the amount not in excess of \$25,000 individually or \$50,000 in the aggregate, and that does not create negative precedent for other pending or potential claims, actions, litigation, arbitration or proceedings;

go to sale on notice of default or take a deed or title to any commercial real estate without first conducting a Phase I environmental assessment of the property if such environmental assessment indicates the presence of a Materials of Environmental Concern;

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purchase or sell any mortgage loan or Small Business Administration loan servicing rights;

borrow or otherwise enter into any agreement (including but not limited to structured borrowings or any indebtedness the maturity date of which is in excess of 12 months) to increase the indebtedness of PSBK or any of its subsidiaries except for liquidity and operational purposes;

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issue any broadly distributed communication of a general nature to employees (including general communications relating to benefits and compensation) without prior consultation with FCAL and, to the extent relating to post-Closing employment, benefit or compensation information without the prior consent of FCAL (which shall not be unreasonably withheld) or issue any broadly distributed communication of a general nature to customers without the prior approval of FCAL (which shall not be unreasonably withheld), except as required by law or for communications in the ordinary course of business consistent with past practice that do not relate to the Merger or other transactions contemplated hereby;

issue any press release other than in accordance with past practice;

extend or allow an automatic extension of any contract in excess of twelve (12) months;

renew or issue certificates of deposit through CDARS or any national rate quotation service with a term exceeding twelve (12) months;

enter into any additional deferred compensation agreements or arrangements; or

agree to do any of the foregoing.

PSBK has also agreed to cause one or more of its representatives to confer with representatives of FCAL and report the general status of its ongoing operations and to provide FCAL with monthly reports detailing the following:

Past due loans;

Any changes to the risk grading of loans;

List of impaired loans and information relative to such loans;

New and renewed loans;

Trial balance by risk code;

Detailed balance sheet and income statement along with detailed general ledger;

Personnel changes;

Monthly board package including detailed financial statements for PSBK;

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Loan committee packages;

ALCO packages;

Large Loan and Deposit Customers (over \$250,000 in aggregate relationship) and variances from prior month;

Allowance for Loan and Lease Loss Reports;

External audit reports (including loan review and other reviews or examination);

Problem loan reports and problem loan committee packages; and

Such other reports and information as FCAL may reasonably request.

### **No Solicitation of Alternative Transactions**

In connection with the Merger, PSBK has agreed with FCAL and FCB that it will not, and will cause its representatives not to, directly or indirectly:

initiate, solicit, induce or knowingly encourage, or take any action to facilitate the making of, any inquiry, offer or proposal which constitutes, or could reasonably be expected to lead to, an Acquisition Proposal (defined below);



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participate in any discussions or negotiations regarding any Acquisition Proposal or furnish, or otherwise afford access, to any person (other than FCAL) any information or data with respect to PSBK or otherwise relating to an Acquisition Proposal;

release any person from, waive any provisions of, or fail to enforce any confidentiality agreement or standstill agreement to which PSBK is a party; or

enter into any agreement, agreement in principle or letter of intent with respect to any Acquisition Proposal or approve or resolve to approve any Acquisition Proposal or any agreement, agreement in principle or letter of intent relating to an Acquisition Proposal.

An Acquisition Proposal means any inquiry, offer or proposal (other than an inquiry, offer or proposal from FCAL or FCB), whether or not in writing, contemplating, relating to, or that could reasonably be expected to lead to, any of the following transactions, each of which will be deemed an Acquisition Transaction : (i) any transaction or series of transactions involving any merger, consolidation, recapitalization, share exchange, liquidation, dissolution or similar transaction involving PSBK; (ii) any transaction pursuant to which any third party or group acquires or would acquire (whether through sale, lease or other disposition), directly or indirectly, any assets of PSBK representing, in the aggregate, fifteen percent (15%) or more of the assets PSBK on a consolidated basis; (iii) any issuance, sale or other disposition of (including by way of merger, consolidation, share exchange or any similar transaction) securities (or options, rights or warrants to purchase or securities convertible into, such securities) representing ten percent (10%) or more of the votes attached to the outstanding securities of PSBK; (iv) any tender offer or exchange offer that, if consummated, would result in any third party or group beneficially owning ten percent (10%) or more of any class of equity securities of PSBK; or (v) any transaction which is similar in form, substance or purpose to any of the foregoing transactions, or any combination of the foregoing.

Notwithstanding the foregoing however, the Merger Agreement permits PSBK to take any of the above actions if, but only if:

PSBK has received a bona fide unsolicited written Acquisition Proposal that did not result from a breach of the Merger Agreement;

PSBK's board determines in good faith, after consultation with, and having considered the advice of, its outside legal counsel and its independent financial advisor, that (i) such Acquisition Proposal constitutes, or is reasonably likely to lead to, a Superior Proposal (defined below) and (ii) the failure to take such actions would be inconsistent with its fiduciary duties to PSBK's shareholders under applicable law;

PSBK has provided FCAL with at least five (5) business days' prior notice of such determination; and

prior to furnishing or affording access to any information or data with respect to PSBK or otherwise relating to an Acquisition Proposal, PSBK receives from such person a confidentiality agreement with terms no less favorable to PSBK than those contained in the confidentiality agreement. PSBK will promptly provide to FCAL and FCB any non-public information regarding PSBK provided to any other person that was not previously provided to FCAL or FCB, such additional information to be provided no later than the date of provision of such information to such other party.

A Superior Proposal means any bona fide written proposal made by a third party to enter into an acquisition transaction on terms that PSBK's board determines in its good faith judgment, after consultation with and having considered the advice of outside legal counsel and a financial advisor: (i) would result in a transaction that (A) involves consideration to the holders of the shares PSBK Common Stock that is more favorable, from a financial point of view, than the consideration to be paid to PSBK's shareholders pursuant to the Merger Agreement, considering, among other things, the nature of the consideration being offered and any material regulatory approvals or other risks associated with the timing of the proposed transaction beyond or in addition to those specifically contemplated by the Merger Agreement, and which proposal is not conditioned upon obtaining

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additional financing and (B) is, in light of the other terms of such proposal, more favorable to PSBK's shareholders than the Merger; and (ii) is reasonably likely to be completed on the terms proposed, in each case taking into account all legal, financial, regulatory and other aspects of the proposal.

**Conduct of FCAL and FCB Until the Merger Becomes Effective**

Except as provided in the Merger Agreement or with the prior approval of PSBK, FCAL and FCB have agreed to do the following:

Operate their respective businesses, in the usual, regular and ordinary course of business; use commercially reasonable efforts to preserve intact their business organization, employees and advantageous customer relationships and to continue to develop such customer relationships and retain the services of its officers and key employees;

maintain and keep their properties in as good repair and condition as at present except for obsolete properties and for deterioration due to ordinary wear and tear;

maintain in full force and effect insurance comparable in amount and scope of coverage to that now maintained by it;

perform in all material respects all of their obligations under contracts, leases and obligations relating to and affecting their assets, properties and businesses except such obligations as it may in good faith reasonably dispute;

maintain their respective rights and franchises; and voluntarily take no action which would (i) result in FCAL or FCB incurring material losses; (ii) adversely affect the ability of the parties to obtain any Regulatory Approval or other approvals of Governmental Entities required for the transactions contemplated hereby or materially increase the period of time necessary to obtain such approvals, or (iii) adversely affect their ability to perform their covenants and agreements under this Agreement;

maintain FCB's ALLL substantially in accordance with past practices and methodology and GAAP;

charge off all loans, leases and other assets, or portions thereof, deemed uncollectible or classified as loss in accordance with GAAP or applicable law or regulation, or as directed by its regulators;

substantially comply with and perform all material obligations and duties imposed upon it by all federal and state laws, statutes and rules, regulations and orders imposed by any Governmental Entity applicable to its business;

use commercially reasonable efforts to maintain loan classification policies and procedures in accordance with industry best practices consistent with past practice; and

from and after the date of this Agreement to the Closing Date, provide PSBK by no later than the 25th day of the month immediately following each quarter, a written report setting forth all loans classified as Substandard, Doubtful, and Loss.

In addition, the Merger Agreement restricts FCAL and FCB from taking the following actions until the Merger becomes effective:

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intentionally take any action which would result in any of the representations and warranties of FCAL or FCB set forth in this Agreement becoming untrue as of any date after the date of the Merger Agreement or in any of the conditions set forth in the Merger Agreement hereof not being satisfied, except in each case as may be required by applicable law;

change any method, practice or principle of accounting, except as may be required from time to time by GAAP (without regard to any optional early adoption date) or any bank regulator responsible for regulating FCAL or FCB;

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issue any press release regarding the Merger other than in accordance with past practice; or

agree to do any of the foregoing.

**Conditions to Both Parties Obligations Under the Merger Agreement**

The respective obligations of each party under the Merger Agreement are subject to the fulfillment at or prior to the closing date of the following conditions, none of which may be waived:

the Merger Agreement and the transactions contemplated thereby will have been approved by the requisite vote of the shareholders of PSBK;

none of the parties to the Merger Agreement will be subject to any order, decree or injunction of a court or agency of competent jurisdiction that enjoins or prohibits the consummation of the Merger and no statute, rule or regulation will have been enacted, entered, promulgated, interpreted, applied or enforced by any governmental entity or bank regulator, that enjoins or prohibits the consummation of the Merger;

all regulatory approvals and other necessary approvals, authorizations and consents of any governmental entities required to consummate the transactions contemplated by the Merger Agreement will have been obtained and will remain in full force and effect and all waiting periods relating to such approvals, authorizations, or consents will have expired; and no such approval, authorization or consent will include any condition or requirement, excluding standard conditions that are normally imposed by bank regulators in bank merger transactions and other reasonable conditions as determined by FCAL and/or FCB in their sole and absolute discretion.; and

the registration statement registering the shares of FCAL Common Stock to be issued in the Merger will have become effective under the Securities Act and no stop order suspending the effectiveness of the registration statement will have been issued, and no proceedings for that purpose will have been initiated or threatened by the SEC and, if the offer and sale of FCAL Common Stock is subject to the blue sky laws of any state, such offer and sale will not be subject to a stop order of any state securities commissioner.

**Conditions to the Obligations of FCAL and FCB Under the Merger Agreement**

The obligations of FCAL and FCB under the Merger Agreement are also subject to the satisfaction of the following conditions set forth at or prior to the closing date:

Each of the representations and warranties of PSBK set forth in the Merger Agreement will be true and correct as of the Merger Agreement and upon the closing date of the Merger Agreement with the same effect as though all such representations and warranties had been made on the closing date (except to the extent such representations and warranties speak as of an earlier date). For the purposes of this paragraph, such representations and warranties will be deemed to be true and correct in all material respects, either individually or in the aggregate, and without giving effect to any materiality, material adverse effect or similar qualifications set forth in such representations and warranties, will have or would be reasonably expected to have a material adverse effect on PSBK. PSBK will have delivered to FCAL a certificate to such effect signed by the Chief Executive Officer and the Chief Financial Officer of PSBK dated as of the closing date.

PSBK will have performed in all material respects all obligations and complied in all material respects with all agreements or covenants to be performed or complied with by them at or prior to the closing date, and FCAL will have received a certificate signed on behalf of PSBK by the Chief Executive Officer and Chief Financial Officer of PSBK to such effect dated as of the closing date.

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FCAL and FCB will have obtained any and all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the Merger.

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FCAL and FCB will have received a written resignation from each of the directors of PSBK , effective as of the closing date.

PSBK will have furnished FCAL and FCB with such certificates of its officers or others and such other documents to evidence fulfillment of certain closing conditions set forth the Merger Agreement as FCAL or FCB may reasonably request.

PSBK will have achieved the following thresholds as of the last day of the month immediately preceding the closing date:

PSBK will have paid or otherwise accrued all expenses as of the closing date in accordance with GAAP;

The percentage of the PSBK ALLL to PSBK total loans (as determined in accordance with GAAP) will not be less than 2.28%;

The PSBK ALLL will be adequate under GAAP and applicable regulatory requirements and there will have been no material increase in past due loans and/or non-accrual loans since the information provided by PSBK to FCB and/or FCAL as of December 31, 2011;

PSBK will have filed all such notices, applications and certifications as are appropriate and required by the U.S. Treasury including, without limitation, all certifications relating to compensation for all periods up to and including effective time of the Merger which are required to be provided to the Emergency Economic Stabilization Act of 2008, as amended by the American Recover and Reinvestment Act of 2009 and the implanting U.S. Treasury regulating and guidance promulgated thereunder, and PSBK will have obtained all necessary approvals by the U.S. Treasury and appropriate bank regulators to redeem the entire outstanding amount of Preferred Stock investment from the U.S. Treasury and will have consummated such redemption as soon as practically possible after receipt of all required Governmental Authority and Shareholder Approvals for the Merger (the TARP Redemption ) but in any event the TARP Redemption will have been consummated on or immediately prior to the effective time of the Merger and PSBK will have accrued amounts and expenses to make the full TARP Redemption; and

The PSBK Closing Shareholders Equity will not be less than \$7.5 million;

Dissenters rights will not have been exercised and perfected by in excess of five percent (5%) of PSBK s outstanding shares.

As of the date of the Merger Agreement: (A) Kerry L. Pendergast, PSBK s President and Chief Executive Officer, will have (i) acknowledged and agreed to the termination of his PSBK employment agreement and his employment by FCAL immediately following the closing date, (ii) acknowledged and agreed to the amount of benefits due thereunder and under any other agreements with PSBK, and (iii) entered into, executed, and delivered to PSBK and FCAL agreements, including general releases of PSBK and FCAL and their affiliates, directors, agents, representatives and attorneys with respect to the termination of his employment and all benefits and compensation to be paid to him by the parties to the Merger Agreement now or in the future, and the PSBK non-solicitation and the PSBK non-competition agreements, all satisfactory to FCAL and FCB, in their sole discretion, as of the date of the Merger Agreement which agreements will not have been revoked, rescinded or amended without FCAL s and FCB s prior written approval, in their sole discretion; and (B) Jessica W. Lee, PSBK s Chief Financial Officer, will have (i) acknowledged and agrees to termination of her PSBK Employment Agreement in consideration of the severance payment due to her thereunder, (ii) acknowledged and agreed to the amount of benefits due thereunder and under any other agreements with PSBK, and (iii) entered into, executed, and delivered to FCAL, and PSBK agreement, including general releases of FCAL, FCB, and PSBK and their affiliates, directors, agents, representatives and attorneys with respect to the termination of her employment and all benefits and compensation to be paid to her by the parties hereto



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now or in the future, and the PSBK Non-Competition and Non-Solicitation Agreement in the form of Exhibit B (as modified with respect to Ms. Lee), all satisfactory to FCAL and FCB, in their sole discretion, which agreements will not have been revoked, rescinded, or amended without FCAL's and FCB's prior written approval, in their sole discretion.

FCAL and FCB will have received executed copies of the non-competition and non-solicitation agreements in the form of Exhibit B attached to the Merger Agreement from each member of the PSBK board of directors as of the date of the Merger Agreement and anyone added to the PSBK Board of Directors as of the date of the Merger Agreement and from Pendergast. FCAL and FCB will have received an executed copy of the PSBK non-competition and non-solicitation agreement from Ms. Lee, with Section 2.4 thereof modified so as not to preclude in any way the employment Ms. Lee by a person that engages, in any manner, in the provision of financial services in the restricted territory (as those terms are defined in the PSBK non-competition and non-solicitation agreement.)

FCAL and FCB will have received a legal opinion, dated as of the closing date and in a form reasonably acceptable to them, to the effect that the Merger qualifies as a tax-free reorganization within the meaning of Section 368 of the Internal Revenue Code.

PSBK will have accrued the amounts and expenses to be made under its employment agreements change in control agreements, and FCAL will make such payments five (5) business days after the effective time with regard to all such PSBK employees.

The Closing Price will not be greater than \$7.83.

**Conditions to PSBK's Obligations Under the Merger Agreement**

The obligations of PSBK under the Merger Agreement are subject to the satisfaction of the following conditions at or prior to the closing date:

Each of the representations and warranties of FCAL and FCB set forth in the Merger Agreement are true and correct as of the date of the Merger Agreement and upon the closing date with the same effect as though all such representations and warranties had been made on the closing date (except to the extent such representations and warranties speak as of an earlier date); and FCAL and FCB will have delivered to PSBK a certificate to such effect signed by the Chief Executive Officer and the Chief Financial Officer of FCAL and FCB dated as of the closing date.

FCAL and FCB will have performed in all material respects all obligations and complied in all material respects with all agreements or covenants to be performed or complied with by it at or prior to the closing date, and PSBK will have received a certificate signed on behalf of FCAL by the Chief Executive Officer and Chief Financial Officer to such effect dated as of the closing date.

PSBK will have obtained any and all material permits, authorizations, consents, waivers, clearances or approvals required for the lawful consummation of the Merger.

FCAL will have delivered the Stock Consideration or the Adjusted Stock Consideration, as applicable, to the Exchange Agent and the Exchange Agent will have provided PSBK with a certificate evidencing such delivery.

FCAL and FCB will have furnished PSBK with such certificates of its officers or others and such other documents to evidence fulfillment of certain closing conditions set forth in the Merger Agreement as PSBK may reasonably request.



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The Merger Agreement and the transactions contemplated thereby will have been approved by the requisite vote of the shareholders of PSBK.

FCAL and FCB will have offered to appoint the PSBK Director Appointee to serve on their respective boards of directors immediately after the effective time.

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PSBK will have received an opinion, dated as of the closing date and in a form reasonably acceptable to PSBK to the effect that the Merger qualifies as a tax-free reorganization within the meaning of Section 368 of the Code.

If required by the parties, the Fairness Opinion of Hovde will have been either reissued or updated as of the date of the Proxy Statement/Prospectus is mailed to shareholders of PSBK for consideration of the Merger Agreement and the Merger.

The Closing Price will not be less than \$5.79.

The PSBK Closing Shareholders' Equity will not be less than \$7.5 million.

### **Termination**

The Merger Agreement may be terminated at any time prior to the closing date:

By the mutual written agreement of FCAL, FCB and PSBK;

By the boards of directors of either party (provided, that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement) if there has been a material breach of any of the representations or warranties set forth in the Merger Agreement on the part of the other party, which breach by its nature cannot be cured prior to December 31, 2012 or will not have been cured within 30 days after written notice of such breach by the terminating party to the other party; provided, however, that neither party will have the right to terminate the Merger Agreement unless the breach of representation or warranty, together with all other such breaches, would entitle the terminating party not to consummate the transactions contemplated by the Merger Agreement;

By the boards of directors of either party (provided, that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement) if there has been a material failure to perform or comply with any of the covenants or agreements set forth in the Merger Agreement on the part of the other party, which failure by its nature cannot be cured prior to December 31, 2012 or will not have been cured within 30 days after written notice of such failure by the terminating party to the other party; provided, however, that neither party will have the right to so terminate the Merger Agreement unless the breach of covenant or agreement, together with all other such breaches, would entitle the terminating party not to consummate the transactions contemplated by the Merger Agreement;

At the election of the boards of directors of either party if the closing will not have occurred by December 31, 2012, or such later date as will have been agreed to in writing by FCAL, FCB and PSBK;

Automatically and without any action on the part of any party if the shareholders of PSBK will have voted at the PSBK Special Shareholders' Meeting on the transactions contemplated by the Merger Agreement and such vote will not have been sufficient to approve such transactions;

By the boards of directors of either party if: (i) final action has been taken by a bank regulator whose approval is required in connection with the Merger Agreement and the transactions contemplated thereby, which final action (x) has become nonappealable and (y) does not approve the Merger Agreement or the transactions contemplated thereby, or (ii) any court of competent jurisdiction or other governmental entity will have issued an order, decree, ruling or taken any other action restraining, enjoining or otherwise prohibiting the Merger and such order, decree, ruling or other action will have become final and nonappealable;

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By the boards of directors of either party (provided, that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the Merger Agreement) in the event that any of the conditions precedent to the obligations of such party to consummate the Merger cannot be satisfied or fulfilled by December 31, 2012;

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By the Board of Directors of FCAL if PSBK has received a Superior Proposal, and in accordance with the Merger Agreement, the Board of Directors of PSBK has entered into an acquisition agreement with respect to the Superior Proposal, terminated the Merger Agreement, or withdraws its recommendation of the Merger Agreement, fails to make such recommendation or modifies or qualifies its recommendation in a manner adverse to FCAL;

By the Board of Directors of PSBK if PSBK has received a Superior Proposal, and in accordance with the Merger Agreement, the Board of Directors of PSBK has made a determination to accept the Superior Proposal;

By the Board of Directors of FCAL and FCB if the Closing Price is greater than \$7.83;

By the Board of Directors of PSBK if the Closing Price is less than \$5.79; or

By the Boards of Directors of FCAL and FCB or PSBK if the PSBK Closing Shareholders' Equity is less than \$7,500,000.

### **Effect of Termination**

As liquidated damages resulting from a breach of any representation, warranty, covenant or agreement contained in the Merger Agreement, the non-breaching party will be entitled to claim \$500,000 from the breaching party;

In addition, FCAL is entitled to receive from PSBK a fee of \$1,000,000, less any amount received or owed to FCAL from PSBK as liquidated damages, following the occurrence of any of the following events:

FCAL terminates the Merger Agreement because PSBK's Board of Directors has received a Superior Proposal and either enters into an acquisition agreement with respect to the Superior Proposal, terminates the Merger Agreement, withdraws its recommendation of the Merger Agreement, fails to recommend the Merger Agreement to PSBK's shareholders or qualifies its recommendation in a manner adverse to FCAL or FCB;

PSBK accepts a Superior Proposal; or

PSBK enters to a definitive agreement relating to another Acquisition Proposal within twelve months following either the failure of PSBK's shareholders to approve the Merger Agreement or FCAL's termination of the Merger Agreement in accordance with its terms because PSBK breaches any representation or warranty or fails to comply with any covenant or agreement contained in the Merger Agreement.

### **Amendment, Extension and Waiver**

At any time prior to the effective time (whether before or after approval thereof by the shareholders of PSBK), the parties may: (i) amend the Merger Agreement, (ii) extend the time for the performance of any of the obligations or other acts of any other party thereto, (iii) waive any inaccuracies in the representations and warranties contained in the Merger Agreement or in any document delivered pursuant thereto, or (iv) waive compliance with any of the agreements or conditions contained in the Merger Agreement; provided, however, that after any approval of the Merger Agreement and the transactions contemplated thereby by the shareholders of PSBK, there may not be, without further approval of such shareholders, any amendment of the Merger Agreement which reduces the amount, value or changes the form of consideration to be delivered to PSBK's shareholders pursuant to the Merger Agreement.

### **Employee Benefits**

Prior to the effective time of the Merger, PSBK will take all action necessary to merge or consolidate with FCAL's 401(k) Plans any and all 401(k) Plans that PSBK maintains and to terminate any other PSBK



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compensation and benefit plan that FCAL may specify. Prior to the effective time of the Merger, PSBK will take all actions necessary to fully vest participants in their account balances under any and all 401(k) Plans PSBK maintains.

PSBK agrees that as of and following the effective time, the employees of PSBK as of the effective time of the Merger who continue to be employed by FCAL and/or FCB after the effective time of the Merger or who are offered and who accept employment with FCAL and/or FCB (collectively the Former PSBK Employees ) will be eligible to participate in FCAL's or FCB's employee benefit plans in which the similarly situated employees of FCAL or FCB participate, to the same extent as such similarly situated employees of FCAL and FCB participate.

With respect to each employee benefit plan, program, policy, or arrangement maintained by FCAL or FCB for the benefit of current employees of FCAL or FCB (each such plan, program, policy, or arrangement, a FCAL Plan ), FCAL and FCB agrees that for the purposes of determining eligibility to participate, vesting and benefits (other than benefit accruals under any defined benefit pension plan), service with PSBK will be treated as service with FCAL or with FCB; provided, however, that such service will not be recognized to the extent that such recognition would result in a duplication of benefits. To the extent permitted by any insurer of an FCAL Plan, FCB will cause such FCAL Plan to waive (i) any pre-existing condition restriction that did not apply under the terms of any analogous FCAL Compensation and Benefit Plan immediately prior to the effective time of the Merger and (ii) any waiting period limitation or evidence of insurability requirement which would otherwise be applicable to Former PSBK Employee on or after the effective time of the Merger to the extent such Former PSBK Employee had satisfied any similar limitation or requirement under an analogous FCB Compensation and Benefit Plan prior to the effective time of the Merger for purposes of applying deductibles, co-payments, and out-of-pocket maximums as though such amounts had been paid in accordance with the terms and conditions of the FCAL or FCAL Plan; provided, however, if any Former PSBK Employee is denied or delayed coverage FCAL or FCB will pay for such Former PSBK Employee's COBRA coverage.

### **Available Information**

More information can be found on FCAL's website at [www.fcalgroup.com](http://www.fcalgroup.com), and a website for First California Bank at [www.fcbank.com](http://www.fcbank.com). At [www.fcalgroup.com](http://www.fcalgroup.com) and via the Investor Relations link on the website, FCAL's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13 or 15(d) of the Exchange Act are available, free of charge, as soon as reasonably practicable after such forms are electronically filed with, or furnished to, the SEC. The public may read and copy any materials FCAL files with the SEC at the SEC's Public Reference Room, located at 100 F Street, NE, Washington, D.C. 20549 on official business days during the hours of 10:00 a.m. to 3:00 p.m. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. You may obtain copies of the FCAL's filings on the SEC site. These documents may also be obtained in print upon request by our shareholders to our Investor Relations Department.

You may contact FCAL's Investor Relations Department at First California Financial Group, Inc., 3027 Townsgate Road, Suite 300, Westlake Village, California 91361, Telephone Number (805) 322-9655.

(All website addresses given in this document are for information only and are not intended to be an active link or to incorporate any website information into this document.)

FCAL has adopted a written code of ethics that applies to all directors, officers and employees of FCAL, including our principal executive officer and senior financial officers, in accordance with Section 406 of the Sarbanes-Oxley Act of 2002 and the rules of the Securities and Exchange Commission promulgated thereunder. The code of ethics is available on our website at [www.fcalgroup.com](http://www.fcalgroup.com) and also upon request, at no charge.

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Requests for copies should be directed to: Investor Relations Department, 3027 Townsgate Road, Suite 300, Westlake Village, California 91361, telephone number (805) 322-9655. In the Corporate Governance section of our corporate website FCAL has also posted the charters for our Audit Committee, Compensation Committee and Governance and Nominating Committee.

### **ADJOURNMENT OF THE ANNUAL MEETING**

If, at the special meeting of PSBK shareholders on [MEETING DATE], the number of PSBK Common Stock present in person or by proxy is insufficient to constitute a quorum at the special meeting, or the number of shares of such PSBK Common Stock voting in favor of approval of the Merger Agreement is insufficient to approve the Merger Agreement, PSBK's management intends to move to adjourn the respective meeting in order to enable the PSBK Board of Directors to solicit additional proxies. In that event, PSBK will ask its shareholders to vote upon the adjournment proposal.

In this proposal, PSBK is asking its shareholders to grant discretionary authority to the holder of any proxy solicited by the PSBK Board of Directors so that such holder can vote in favor of the proposal to adjourn the special meetings to solicit additional proxies. If the shareholders of PSBK approve the adjournment proposal, PSBK could adjourn the special meeting, and any adjourned session of the meeting, and use the additional time to solicit additional proxies, including the solicitation of proxies from shareholders that have previously voted. Among other things, approval of the adjournment proposal could mean that, even if PSBK has received proxies representing a sufficient number of votes against approval and adoption of the Merger Agreement to defeat the Merger Agreement proposal, PSBK could adjourn the meeting without a vote on the Merger Agreement proposal and seek to convince the holders of those shares to change their votes to vote in favor of the approval and adoption of the Merger Agreement.

If the PSBK special meeting is adjourned, no notice of the adjourned meeting is required to be given to shareholders, other than an announcement at the special meeting of the place, date and time to which the special meeting is adjourned.

#### **Vote Required**

The adjournment proposal requires the affirmative vote of the holders of a majority of the shares of PSBK Common Stock present in person or by proxy and entitled to vote. Abstentions will have the same effect as a vote against the adjournment proposal.

Brokers may not vote on the adjournment proposal without specific instructions from the person who beneficially owns the shares. However, shares held by a broker for which you do not give your broker instructions on how to vote will have no effect on the outcome of the vote on the adjournment proposal.

#### **Recommendation of the Board of Directors of PSBK**

The Board of Directors of PSBK believe that if the number of shares of PSBK Common Stock present in person or by proxy at its special meeting and voting in favor of approval of the Merger Agreement is insufficient to approve and adopt the Merger Agreement, it is in the best interests of the shareholders of PSBK to enable the Board of Directors to continue to seek to obtain a sufficient number of additional votes in favor of approval and adoption of the Merger Agreement. Therefore, the Board of Directors of PSBK recommends that you vote **FOR** the proposal to grant discretionary authority to adjourn the PSBK special meeting for the purpose of soliciting additional proxies.

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**INFORMATION ABOUT PSBK**

**General**

Premier Service Bank, or PSBK, is a California banking corporation that is headquartered in Riverside County, California. PSBK conducts a commercial banking business predominately in Riverside and San Bernardino counties in Southern California. PSBK's deposits are insured, to the maximum extent permitted by law, by the Federal Deposit Insurance Corporation (commonly known as the FDIC).

At June 30, 2012, PSBK's total assets, net loans, and total deposits were approximately \$137.2 million, \$93.0 million and \$110.0 million, respectively. Additionally, as of that date PSBK had 1,498 business deposit accounts, representing 45.3% of PSBK's total deposits. At December 31, 2011, PSBK's total assets, net loans, and total deposits were approximately \$141.3 million, \$101.1 million and \$111.8 million, respectively. As of that date PSBK had 1,537 business deposit accounts, representing 44% of PSBK's total deposits.

PSBK operates two full-service facilities, one in Riverside, California and another in the adjacent community of Corona, California.

**Form and Year of Organization**

PSBK was incorporated under the laws of the State of California on December 7, 2000 and commenced its operations on September 10, 2001.

PSBK has posted its Code of Ethics for directors, officers and employees, and the charters of the Audit Committee and the Nomination and Governance Committee of PSBK's Board of Directors on the Investor Relations section of PSBK's website at [www.premierservicebank.com](http://www.premierservicebank.com). Information on PSBK's website should not be considered a part of this proxy statement/prospectus.

PSBK's headquarters office is located at 3637 Arlington Avenue, Suite B, Riverside, CA 92506. The telephone number is: (951) 274-2400.

**Nature of Business**

PSBK is a full-service community bank offering a broad range of banking products and services, including accepting time and demand deposits, originating loans, offering safe deposit boxes, ATM cards, debit cards and gift cards, and providing cash management, bill payment and Internet banking services. PSBK originates several types of loans, including secured and unsecured commercial and consumer loans, multi-family and commercial real estate loans, construction loans for both residential and commercial buildings, and home equity and commercial lines of credit.

PSBK's lending activities are subject to a variety of lending limits imposed by state law. While differing limits apply in certain circumstances, based upon the type of loan and the nature of the borrower, in general PSBK is subject to a lending limit to a single borrower in an amount equal to a percentage of PSBK's net capital and loan loss reserves. PSBK has elected to establish policy limits on loans that are less than the limits allowed by law.

The customers of PSBK have the option of accessing many of the banking services and account information in person, telephonically or through electronic means. In addition, PSBK also offers courier service for the convenience of its customers. With a blended combination of high-tech, high-touch, PSBK believes it has the ability to aggressively compete in the marketplace.

The products and services currently offered by PSBK were designed to meet many of its customers' financial service needs. PSBK also helps its customers, who require other services not currently offered by PSBK, to obtain such services from its correspondent banks and other sources, while looking for the best timing to offer those services directly.



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During 2011, PSBK continued marketing the variety of deposit products offered by PSBK to PSBK's community and customers to enhance the community connection.

During 2010, PSBK partnered with a local elementary school to start the bank @ school program. The bank @ school program brings PSBK to school and teaches children the concept of savings.

During 2009, PSBK converted the paper based in-clearing process to branch capture to improve the efficiency of in-clearing procedures and to stay up to date with changing technology within the industry.

PSBK re-built its website in the summer of 2009 to enhance the information presentation and to make the site more interactive.

During 2008, PSBK began offering remote deposit capture service to existing and potential customers; this eliminated the geographic restrictions previously associated with developing out-of-marketplace relationships.

PSBK also elected to participate in the Transaction Account Guarantee Program and the Debt Guarantee Program offered by Federal Deposit Insurance Corporation ( FDIC ) in 2008. The Transaction Account Guarantee Program enabled PSBK to offer full FDIC insurance coverage for non-interest bearing deposit transactions accounts regardless of the dollar amount. The Debt Guarantee Program is a guarantee of newly issued senior unsecured debt of PSBK. On July 21, 2010, the Dodd Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ) extended to December 31, 2012 the temporary unlimited coverage for noninterest-bearing transaction accounts.

During 2007, PSBK began offering e-statements and totally free checking accounts to existing and potential customers.

None of the aforementioned products required significant time nor is the cost of such activities being passed on directly to PSBK's customers. PSBK holds no patents, licenses (other than those obtained from bank regulatory authorities), franchises or concessions.

## **Competition**

The banking business in California, generally, and specifically in Riverside, Corona and the adjacent areas, is highly competitive, with respect to both loans and deposits. The business is dominated by a relatively small number of major banks, most of which have many offices operating over a wide geographic area. Many of these major financial institutions offer certain services, such as trust and brokerage services, which are not currently offered by PSBK. By virtue of their size as measured by total capital, these institutions have higher lending limits and substantially larger advertising and promotional budgets. Other community banks, which serve the same customers as PSBK, also have offices in the Riverside and Corona marketplace, further increasing competition in those areas.

In addition to the capital initially provided by PSBK's shareholders, funding was generated from the exercise of warrants during 2003 and 2004, resulting in more than \$2.2 million of new capital. On February 20, 2009, PSBK completed the sale of 4,000 shares of Fixed-Rate Non-Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock ) to the U.S. Department of the Treasury (the Treasury ) under the Treasury's Capital Purchase Program (the CPP ). Concurrent with the sale of the Series A Preferred Stock, PSBK issued the Treasury a warrant for the purchase of 200 shares of Warrant Preferred Stock. The warrant was exercised immediately upon close of the transaction. The 4,200 shares of Preferred Stock resulted in \$4 million of new capital. Funding for the interest-bearing investments and loans also originated from the over 4,000 depository accounts from both individuals and businesses. Due to the current size of PSBK, PSBK has several key customers with depository balances which are closely tracked by management, on an on-going basis, to minimize liquidity concerns should these customers choose to move their banking relationship or significant balances elsewhere. The rates paid on interest-bearing deposit products, while competitive, are not above local market rates.

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### **Properties**

The main office of PSBK is located at 3637 Arlington Avenue, Suite B, Riverside, California. PSBK leases on a triple-net basis approximately 7,100 square feet on the ground floor of a two-story wood and stucco commercial building built during 2001 (the Building). The lease had an initial term of five years that expired July 31, 2006, but PSBK exercised the option to extend the lease for an additional five (5) year period to July 31, 2011 and increased the lease space by approximately 2,100 square feet. In March 1, 2007, PSBK executed the second addendum to the Lease agreement to incorporate approximately 1,200 square feet of rentable space contained within Suite C located on the second floor of the Building; and in May 1, 2007, PSBK executed the third addendum to the Lease agreement to incorporate approximately 900 square feet of rentable space contained within the detached structure located in the parking lot adjacent to the Building; and in August 1, 2011, PSBK executed the fourth addendum to extend the Lease agreement to July 31, 2016. Currently, PSBK leases on triple-net basis approximately 11,300 square feet for the main office. The lease also provides PSBK with the right of first refusal to lease additional space in 2,000 square foot increments, located on the second floor, when the space in the Building becomes available. In July 2016, PSBK will have the right to extend the one remaining 5-year option under the original lease terms. The monthly lease payment is fixed for the term of the lease. The current monthly lease payment is \$25,917 per month.

The Corona office is located at 102 East Sixth Street, Suite 100, Corona, California. PSBK leases on modified gross basis approximately 4,333 square feet on the ground floor of a two-story wood and stucco commercial building built during 2003. The lease has a term of five (5) years that expires June 30, 2008, but PSBK has the option to extend the lease for three (3) additional five (5) year periods. The original term of the Lease expired on June 30, 2008, and PSBK continued as a hold-over tenant after that date. PSBK negotiated an amendment of the lease with the landlord and the effective date of the addendum is October 1, 2008. The amendment exercised the first option right to extend the Lease to September 30, 2013, subject to PSBK's right as set forth in the original Lease with respect to the two remaining option periods. It also modifies the base rent for the first 12 months of the extended term, commencing October 1, 2008. The base rent shall be subject to adjustment annually commencing on the first day of October, 2009 and on the same date each year thereafter. The basis for computing the adjustment is the average of the twelve monthly Consumer Price Indexes, all urban consumers, all items for the Los Angeles-Anaheim-Riverside Metropolitan Area published by the United States Department of Labor, Bureau of Labor Statistics for the 12-month period ending September 30. The current monthly lease payment is \$9,612 per month.

It is the policy of PSBK to lease operating space to provide flexibility as to service locations as well as to employ the initial capital dollars that would otherwise be used to acquire capital assets, make loans and invest in securities, providing PSBK with a continuous return of interest on a higher percentage of its assets.

### **Legal Proceedings**

From time to time, PSBK may become party to claims and legal proceedings arising from the ordinary course of business.

As of June 30, 2012, PSBK is not a party to any pending legal or administrative proceedings, and no such proceedings are contemplated. However, litigation is inherently uncertain and no assurance can be given that any future litigation will not result in any loss which might be material to PSBK.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
OPERATIONS OF PREMIER SERVICE BANK**

This discussion presents management's analysis of the financial condition and results of operations of PSBK as of and for each of the years in the two-year period ended December 31, 2011 and as of and for each of the six months ended June 30, 2012 and June 30, 2011. This discussion is designed to provide a more comprehensive review of the operating results and financial position of PSBK than could be obtained from an examination of the financial statements alone. The discussion should be read in conjunction with the financial statements of PSBK and the notes related thereto which appear elsewhere in this proxy statement/prospectus.

Statements contained in this proxy statement/prospectus that are not purely historical are forward-looking statements within the meaning of Section 21E of the Exchange Act, including PSBK's expectations, intentions, beliefs or strategies regarding the future. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this proxy statement/prospectus are based on information available to PSBK as of the date of this proxy statement/prospectus, and PSBK assumes no obligation to update any such forward-looking statements. It is important to note that PSBK's actual results could materially differ from those in such forward-looking statements. Factors that could cause actual results to differ materially from those in such forward-looking statements are fluctuations in interest rates, inflation, government regulations, economic conditions and competitive product and pricing pressures in the geographic and business areas in which PSBK conducts its operations.

**Regulatory Matter**

***Consent Order***

On November 30, 2010, PSBK and representatives of the FDIC and the DFI, entered into a Stipulation and Consent (the **Consent**) to the Issuance of a Consent Order. The Consent was signed by PSBK on that date without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations. Pursuant to the Consent, a joint Consent Order (the **Order**) was issued by the FDIC and the DFI on December 1, 2010.

***Troubled Designation***

In a letter dated June 22, 2010, PSBK was advised by the FDIC that PSBK is considered **troubled** for the purposes of Section 32 of the Federal Deposit Insurance Act. As a result of this designation, PSBK must notify the FDIC in writing at least 30 days prior to certain management changes. These changes include the addition or replacement of a board member, or the employment or change in responsibilities of anyone who is, who will become, or who performs the duties of a senior executive officer. In addition, PSBK was notified that it is considered **troubled** for purposes of Part 359 of the FDIC Rules and Regulations. In accordance with Part 359, prior to entering into any agreement to pay and prior to making any golden parachute payment or excess nondiscriminatory severance plan payment to any institution-affiliated party, PSBK must file an application pursuant to sections 303.244 and 359.6 of the FDIC Rules and Regulations to obtain the consent of the FDIC. These provisions and restrictions may make PSBK less competitive in hiring senior executive officers.

***Prompt Corrective Action***

The federal banking agencies have by regulation defined the following five capital categories:

Well Capitalized (Total Risk-Based Capital Ratio of 10%; Tier 1 Risk-Based Capital Ratio of 6%; Leverage Ratio of 5%; and not subject to an order containing a capital provision);

Adequately Capitalized (Total Risk-Based Capital Ratio of 8%; Tier 1 Risk-Based Capital Ratio of 4%; and Leverage Ratio of 4%, or 3% if the institution receives the highest rating from its primary regulator);

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Undercapitalized (Total Risk-Based Capital Ratio of less than 8%; Tier 1 Risk-Based Capital Ratio of less than 4%; or Leverage Ratio of less than 4%, or 3% if the institution receives the highest rating from its primary regulator);

Significantly Undercapitalized (Total Risk-Based Capital Ratio of less than 6%; Tier 1 Risk-Based Capital Ratio of less than 3%; or Leverage Ratio less than 3%); and

Critically Undercapitalized (tangible equity to total assets less than 2%).

At December 31, 2009, PSBK was well capitalized. Following the first quarter of 2010, PSBK was notified by the FDIC that its capital category had dropped to adequately capitalized for purposes of the prompt corrective action provisions of Section 38 of the Federal Deposit Insurance Act (the **PCA Notice** ).

PSBK is currently only adequately capitalized, and subject to restrictions applicable to banks having that capital level.

As of June 30, 2012, PSBK's key capital ratios were as follows: (a) Total risk-based capital ratio: 11.27%; (b) Tier 1 risk-based capital ratio: 10.00%; and (c) Tier 1 leverage capital ratio of 7.39%.

As of PSBK's December 31, 2011 Call Report, PSBK's key capital ratios were as follows: (a) Total risk-based capital ratio: 10.78%; (b) Tier 1 risk-based capital ratio: 9.52%; and (c) Tier 1 leverage capital ratio of 7.21%.

Although PSBK satisfied the capital ratio requirements for well capitalized banks as of June 30, 2012 and December 31, 2011, because the Consent Order contains a capital requirement, PSBK was deemed only adequately capitalized as of these dates. As an adequately capitalized bank, PSBK is restricted as to the effective yield it may offer on its deposits. PSBK is also prohibited from accepting, renewing, or rolling over any brokered deposit without first receiving a waiver of this prohibition from the FDIC.

**Critical Accounting Policies**

This Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as disclosures included elsewhere in proxy statement/prospectus, is based upon PSBK's financial statements (the **Financial Statements** ), which have been prepared in accordance with accounting principles generally accepted in the United States of America and are included as part of this document. See INDEX TO FINANCIAL STATEMENTS herein.

PSBK's accounting policies are integral to understanding the results reported. PSBK's most complex accounting policies require management's judgment to ascertain the valuation of assets, liabilities, commitments and contingencies. PSBK has established detailed policies and control procedures that are intended to ensure valuation methods are well controlled and applied consistently from period to period. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. The following is a brief description of PSBK's current accounting policies involving significant management valuation judgments.

***Use of Estimates in the Preparation of Financial Statements***

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

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### ***Allowance for Loan Losses***

The allowance for loan losses represents management's best estimate of losses inherent in the existing loan portfolio. The allowance for loan losses is increased by the provision for loan losses charged to expense and reduced by loans charged off net of recoveries. The provision for loan losses is determined based on management's assessment of several factors: reviews and evaluation of specific loans, changes in the nature and volume of the loan portfolio, current economic conditions and the related impact on specific borrowers and industry groups, historical loan loss experiences, the level of classified and nonperforming loans and the results of regulatory examination.

Loans are considered impaired if, based on current information and events, it is probable that PSBK will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The measurement of impaired loans is generally based on the present value of expected future cash flows discounted at the historical effective interest rate stipulated in the loan agreement, except that all collateral-dependent loans are measured for impairment based on the fair value of the collateral. In measuring the fair value of the collateral, management uses assumptions and methodologies consistent with those that would be utilized by unrelated third parties.

Changes in the financial condition of individual borrowers, in economic conditions, in historical loss experience and in the condition of the various markets in which collateral may be sold may all affect the required level of the allowance for loan losses and associated provision for loan losses. Reference should be made to the section covering the allowance and provision for loan loss as well as credit risk management on pages [ ], [ ] and [ ] of this proxy statement/prospectus.

### ***Available-for-Sale Securities***

The fair values of most securities classified as available-for-sale are based on quoted market prices. If quoted market prices are not available, fair values are extrapolated from the quoted prices of similar instruments.

### ***Deferred Tax Assets***

PSBK used an estimate of future earnings to support the position that the benefit of PSBK's deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and PSBK's net income will be reduced.

The valuation allowance was established because PSBK has not reported earnings sufficient enough to support the recognition of the deferred tax assets. As of June 30, 2012, PSBK had net operating loss carryforwards of approximately \$4.385 million for federal income tax purposes and \$4.240 million for California franchise tax purposes. As of December 31, 2011, PSBK had net operating loss carryforwards of approximately \$4.625 million for federal income tax purposes and \$4.512 million for California franchise tax purposes. As PSBK implements plans to return to profitability, future operating earnings, if any, would benefit from significant net operating loss carryforwards. Federal net operating loss carryforwards, to the extent not used, will expire in 2031. California net operating loss carryforwards, to the extent not used, will expire in 2031.

### ***Deferred Compensation Liabilities***

Management estimates the life expectancy of the participants and the accrual method used to accrue compensation expense; if individuals outlive their assumed expectancies the amounts accrued for the payment of their benefits will be inadequate and additional charges to income will be required.

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### **Financial Summary**

PSBK posted a net loss of \$356,007 for the six-month period ended June 30, 2012, compared to a net loss of \$1,225,347 for the comparable 2011 period. On a per share basis, basic earnings (loss) were (\$0.30) compared to (\$0.99) per share in the same six-month period of 2011; and diluted earnings (loss) per share were (\$0.30) compared to (\$0.99) per share in the same six-month period of 2011. These losses for the first six months of 2012 and 2011 represent an annualized return (loss) on average assets (ROAA) of (0.51%) and (1.62%), respectively. The annualized return (loss) on average equity (ROAE) was (6.74%) for the first six months of 2012 compared to (19.85%) for the first six months of 2011. The improvement in the return on average equity for the first six months of 2012, as compared to the same period of 2011, is due to the decrease in PSBK's provision for loan losses, offset by (1) the decrease in net interest income resulted from the decrease in earning assets; (2) the increase in professional expenses related to capital raising; and (3) the increase in expenses and write downs related to the Other Real Estate Owned. PSBK's leverage capital ratio (Tier 1 Capital to Average Assets) was 7.39% as of June 30, 2012, compared to 7.73% as of June 30, 2011.

PSBK reported net loss of \$2.19 million in 2011 and net loss of \$3.43 million in 2010. The basic earnings (loss) per share was (\$1.77) for 2011 compared to (\$2.80) for 2010. Total assets at December 31, 2011 were \$141 million, compared with \$156 million at December 31, 2010, a decrease of 9.45%. Total gross loans decreased from \$117.6 million as of December 31, 2010 to \$103.7 million as of December 31, 2011, a decrease of 11.86%. Total deposits decreased from \$123.4 million as of December 31, 2010 to \$111.8 million as of December 31, 2011, a decrease of 9.43%. Shareholders' equity stood at \$10.7 million as of December 31, 2011, a decrease of \$2.2 million or 16.90% from a year earlier when the comparable number was \$12.9 million. The return (loss) on average assets improved from (2.15%) to (1.47%) for the years ended December 31, 2010 and 2011, respectively. The return on average equity improved from (22.68%) to (18.18%) over the same two annual periods. The improved return on assets and return on equity reflect the slight improvement in local and national economy in 2011 and slower decrease in real estate value in the Inland Empire area. As a result, PSBK provided \$2,794,000 in loan loss reserve in 2011 as compared to \$4,011,000 for the year ended December 31, 2010.

### **Financial Conditions**

#### ***Material Changes in Financial Condition Six Month Period Ended June 30, 2012***

Total assets as of June 30, 2012 were \$137.2 million, down 6.5% from the level one year earlier of \$146.7 million and down 2.9% from the prior year-end balance of \$141.3 million. The decrease in total assets from one year earlier and from the prior year-end was primarily the result of the decrease in the outstanding loan balance and the decrease in interest-bearing deposits.

The gross loan-to-deposit ratio as of June 30, 2012 was 87.4%, compared to 97.6% one year earlier and 92.8% as of December 31, 2011. The decrease in the loan-to-deposit ratio for the first six month of 2012 when compared to one year earlier was caused by the 13.8% decrease in PSBK's gross loan portfolio as compared to June 30, 2011.

#### **Loans**

Net loans as of June 30, 2012 were \$93.0 million, down 14.3% from the level one year earlier of \$108.5 million and down 8.0% from the prior year-end balance of \$101.1 million. As of June 30, 2012, commercial and industrial loans made up 12.5% of the loan mix, 8.4% in construction, raw land and land development loans, 68.1% in commercial real estate loans, 10.8% in residential real estate loans and 0.3% in consumer loans. The decrease in the net loan portfolio from June 30, 2011 was caused by (1) the reduction in commercial loan and commercial real estate loan portfolios as the demand decreased as a result of the local economy; (2) the increase in the foreclosure of collateral for problem credits due to the economic downturn; (3) loan pay-offs; and (4) the increase in the allowance for loan loss. The decrease from year-end 2011 was due to the foreclosure of collateral for problem credits and loan pay-offs. Table 1 *Loan Mix* below reflects the change in the loan mix as of the dates provided.

**Table of Contents****Table 1 Loan Mix**

Loan Type	June 30, 2012		December 31, 2011		June 30, 2011	
	\$	%	\$	%	\$	%
(Dollars in Thousands)						
Commercial and Industrial	11,971	12.4%	12,043	11.6%	14,089	12.6%
Construction and Land Development	8,047	8.4%	9,534	9.2%	9,460	8.5%
Commercial Real Estate	65,458	68.1%	73,926	71.3%	73,806	66.2%
Residential Real Estate	10,341	10.8%	7,873	7.6%	13,816	12.4%
Consumer	265	0.3%	292	0.3%	329	0.3%
Total Gross Loans	96,082	100.0%	103,668	100.0%	111,500	100.0%

**Allowance for Loan Losses**

The allowance for loan losses increased from \$2,803,000 as of June 30, 2011 to \$2,907,000 as of June 30, 2012. The allowance for loan losses for the prior year end of December 31, 2011 was \$2,359,000. The allowance for loan losses during the first six months of 2012 was the net result of \$2,359,000 prior year net reserve, \$92,000 in charge-offs, \$415,000 in charge-off recoveries, along with a \$225,000 additional provision which was made to ensure an adequate allowance for loan losses, commensurate with PSBK's loan portfolio growth, mix and risk assessment. PSBK had \$5.47 million of non-accrual loans as of June 30, 2012. The charge-offs represented (1) \$38,000 due to borrower failure to satisfy the terms of an unsecured loan; (2) \$4,000 short in pay-off of a classified loan; (3) \$6,000 resulting from the write-down on classified loans indicated through an impairment analysis; and (4) \$44,000 for the payment of the delinquent property tax during a foreclosure process. The recovery was a partial recovery for loans charged off in 2008, 2009 and 2010. The allowance for loan losses, as a percentage of gross loans, was 3.03% as of June 30, 2012, an amount which management believes was adequate, as of that date, to cover potential, but unidentified losses in the portfolio. The allowance for loan losses, as a percentage of gross loans, was 2.28% as of December 31, 2011 and 2.51% as of June 30, 2011.

**Investment in Time Deposits in Other Financial Institutions**

PSBK had no time deposits invested with other financial institutions as of June 30, 2012, June 30, 2011 and at year-end 2011. The historically low interest rates of the time deposits make such deposits less attractive.

**Investment in Securities**

As of June 30, 2012, PSBK maintained a portfolio of investment securities that consisted of U.S. agencies, mortgage-backed securities and municipal bonds. \$2.9 million (41.2%) of these investments were purchased with both the intent and the ability of PSBK to hold them until their contractual maturity (or Held-to-Maturity). This represents a decrease of \$0.54 million (15.9%) from the June 30, 2011 balance of \$3.4 million and at the same level when compared to the December 31, 2011 balance of \$2.9 million.

As of June 30, 2012, PSBK reported Available-for-Sale securities of \$4.08 million (58.8%), which represents a \$2.04 million decrease (33.4%) when compared to the \$6.12 million reported as of June 30, 2011, and a decrease of \$1.51 million (27%) when compared to the December 31, 2011 balance of \$5.59 million.

PSBK determines the current market value from independent sources for each of its securities on a monthly basis and compares that market value to its amortized costs. The unrealized value of the Held-to-Maturity securities (whether positive or negative) is not recorded in either the income statement or as an adjustment to capital. The unrealized gain on Held-to-Maturity investments, as of June 30, 2012, was approximately \$191,000, compared to the unrealized gain of \$187,000 as of December 31, 2011 and the unrealized gain of \$135,500 as of June 30, 2011. The unrealized value on Available-for-Sale securities is reported as a component of Other Comprehensive Income. The figures provided on PSBK's balance sheet reflect the unrealized gain for Available-for-Sale securities, net of tax, as of June 30, 2012.

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### Deposits

Deposits are PSBK's main source of funding for loans. As a result of the market focus on small and medium businesses, deposits from these businesses, and their corresponding relationships, are significant contributors to this funding source. PSBK also offers retail consumer deposit products and services to meet the needs of its customers. These deposit products have a range of interest rates and terms. PSBK's deposits consist of demand deposits, savings accounts, money-market funds, and certificate of deposit accounts. The flow of deposits is influenced significantly by general economic conditions, changes in the money market, prevailing interest rates and competition. PSBK's deposits are obtained primarily from the geographic area in which its offices are located. PSBK relies primarily on customer service and long-standing relationships with customers to attract and retain these deposits. PSBK participates in the one way sell program of the Certificates of Deposit Account Registry Services (CDARS). CDARS is a program that enables PSBK to place large deposits of its customers into certificates of deposits, which are issued by multiple banks so that PSBK's customers are able to obtain full FDIC insurance coverage. Due to the issuance of the Consent Order, which is discussed in detail in the *Capital Resources* section below, PSBK is prohibited from participating in the CDARS deposit reciprocal program and the one way buy program. PSBK has a line of credit at the Federal Home Loan Bank of San Francisco (FHLB). PSBK utilizes FHLB Advances as one of the funding sources available to PSBK to offset the mismatched asset/liability duration brought on by the change in the loan portfolio mix. As of June 30, 2012, PSBK's total deposits were \$110.0 million, a decrease of 3.8% from the level one year earlier of \$114.3 million and a decrease of 1.6% from the prior year-end balance of \$111.8 million. PSBK has \$16 million in FHLB Advances as of June 30, 2012, which is discussed in detail in the *Borrowings* section below. Table 2 *Deposit Mix* below provides an analysis of the deposit mix, as of the end of the second quarter of 2012, compared to December 31, 2011 and to the end of the second quarter of 2011.

**Table 2 Deposit Mix**

Deposit Type (Dollars in Thousands)	June 30, 2012		December 31, 2011		June 30, 2011	
	\$	%	\$	%	\$	%
Noninterest-bearing Demand	42,382	38.5%	41,130	36.8%	43,761	38.3%
NOW, Savings & Money Market	57,256	52.1%	59,446	53.2%	60,291	52.8%
Time Deposits under \$100,000	5,385	4.9%	5,654	5.1%	5,772	5.0%
Time Deposits \$100,000 & Over	4,947	4.5%	5,529	4.9%	4,457	3.9%
<b>Total Gross Deposits</b>	<b>109,970</b>	<b>100.0%</b>	<b>111,759</b>	<b>100.0%</b>	<b>114,281</b>	<b>100.0%</b>

The percentage of non-interest bearing deposits to total deposits as of June 30, 2012 was 38.5%, an increase from 36.3% as of December 31, 2011 and 36.8% as of June 30, 2011. The percentage of interest bearing, non-maturing deposits to total deposits as of June 30, 2012 was 52.1%, a decrease from 53.2% as of the year ended December 31, 2011 and 52.8% as of June 30, 2011. PSBK's deposit strategy is centered in retaining and further developing core deposits for the institution.

### Borrowings

PSBK utilizes FHLB Advances to (1) extend PSBK's liability duration, by borrowing long term funds (two to five years), to mitigate the mismatch that exists in PSBK's balance sheet; and (2) satisfy PSBK's liquidity needs. As of June 30, 2012, PSBK had 10 advances, totaling \$16 million, with an average interest rate of 2.5% and an average remaining term of approximately 11 months. At June 30, 2012, the remaining borrowing capacity from FHLB was \$11.8 million.

PSBK may borrow up to \$2.7 million from the FRB Discount Window with the advances secured by PSBK's municipal securities portfolio. As of June 30, 2012 no amounts were outstanding under this arrangement.



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### Capital Resources

Capital serves as a source of funds and helps protect depositors and shareholders against potential losses. The primary source of capital for PSBK is internally generated capital through retained earnings.

The assessment of capital adequacy is dependent on several factors, including asset quality, earnings trends, liquidity and economic conditions. Maintaining adequate capital levels is an integral part of providing stability to PSBK and fulfilling regulatory capital requirements.

PSBK is a participant in the Department of the Treasury's TARP Capital Purchase Program (the CPP). On February 20, 2009, PSBK issued to the Treasury (a) 4,000 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, for \$4 million (the Series A Preferred Stock), and (b) warrants for the purchase of 200.002 shares of Fixed Rate Non-Cumulative Perpetual Preferred Stock (the Warrant Preferred Stock), having an aggregate liquidation preference equal to 5% of the Series A preferred on the date of investment. The Certificate of Determination for the Series A Preferred Stock provides for the payment of non-cumulative dividends, when and if declared, at the rate of 5% per annum for five years and thereafter at the rate of 9% per annum. The warrants were exercised upon close of the transaction. The Warrant Preferred Stock has the same rights, preferences, privileges, voting rights and other terms as the Series A preferred, except that (1) the Warrant Preferred pays non-cumulative dividends, if and when declared, at the rate of 9% per annum, and (2) the Warrant Preferred may not be redeemed until all the Series A Preferred has been redeemed. All of the Series A Preferred Stock and the Warrant Preferred Stock qualify as Tier 1 capital. Dividend payment dates for the Series A Preferred and the Warrant Preferred are February 15, May 15, August 15 and November 15 of each year. If PSBK fails to make six dividend payments, which need not be consecutive, the Treasury has the right, but not the obligation, to appoint two additional directors to the Board until all the dividend payments have been paid. As of June 30, 2012, PSBK has made one dividend payment, in the amount of \$54,500, which was due on May 15, 2010. PSBK did not make the dividend payments which were due on May 15, August 15 and November 15, 2009, on February 15, August 15 and November 15, 2010, on February 15, May 15, August 15, 2011 and November 5, 2011, on February 15 and May 15, 2012, for a total of 12 missed payments through June 30, 2012. PSBK, under California Financial Code Sections 1132 and 1133, was not legally able to pay such dividends on those dates. As of June 30, 2012, the Treasury has not exercised its right to appoint directors to the Board.

The Order issued by the FDIC and the DFI requires several corrective actions and restricts other actions by PSBK. Among these provisions is the requirement that within 90 days from the effective date of the Order (by February 28, 2011), PSBK shall increase and thereafter maintain its Tier I capital in such an amount to ensure that PSBK's leverage ratio equals or exceeds 9.50%. Within 90 days from the effective date of the Order (by February 28, 2011), PSBK is required to increase and thereafter maintain its total risk-based capital ratio in such an amount as to equal or exceed 12%. As noted in the Table 3 *Capital Amounts and Regulatory Ratios* below, PSBK was not in compliance with these ratios as of June 30, 2012.

Table 3 below sets forth PSBK's capital amounts and ratios as of June 30, 2012 and 2011:

**Table 3 Capital Amounts and Regulatory Ratios**

(Dollars in thousands)	June 30, 2012		June 30, 2011	
	Amount	Ratio	Amount	Ratio
Tier 1 Capital (to Average Assets)	\$ 10,243	7.39%	\$ 11,940	7.73%
Tier 1 Capital (to Risk Weighted Assets)	\$ 10,243	10.00%	\$ 11,940	9.66%
Total Capital (to Risk Weighted Assets)	\$ 11,544	11.27%	\$ 13,453	10.92%

Total shareholders' equity at June 30, 2012 of \$10.31 million represents a decrease of \$1.35 million, or 11.58% compared to total shareholders' equity of \$11.66 million at June 30, 2011.

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On February 27, 2012, PSBK entered into the Merger Agreement with FCAL and FCB pursuant to which PSBK will merge into FCB. The transaction is presently expected to close late in the third quarter or early in the fourth quarter of 2012, subject to regulatory and shareholder approvals and customary closing conditions. If the Merger closes as anticipated, PSBK's capital issues will be resolved. If the Merger does not proceed for any reason, in order to comply with the capital requirements of the Order, PSBK will need to complete a new capital offering or find another solution which improves its capital ratios, such as finding a new merger partner, arranging for the possible sale of PSBK or a transfer of control of PSBK, or taking steps to decrease the asset size of PSBK until the ratios are in compliance with the Order. PSBK believes that the Merger will close as anticipated and that there will be no need to implement any such contingency plans.

**Liquidity**

The focus of PSBK's liquidity management is to ensure that it is able to meet its daily cash requirements. Sources of liquidity include cash levels above the amounts required for day-to-day operations, due-from-bank balances, which are unencumbered by reserve or compensating balance requirements, time certificates placed in other institutions, investment securities in the available-for-sale category, loan repayments, new deposit dollars and federal fund borrowing lines. Typical demands on liquidity are deposit run-off from demand and savings accounts, maturing time deposits of bank customers, which are not being renewed, as well as anticipated funding from newly booked loans and previously undisbursed credit commitments.

PSBK has a credit facility with the FHLB. PSBK pledges real estate and securities to the FHLB as collateral for borrowing. This borrowing capacity provides PSBK with another funding source, which further enhances PSBK's ability to effectively manage liquidity.

PSBK's liquidity position for June 30, 2012 was above the minimum requirement under PSBK's policy guideline. PSBK had no brokered deposits as of June 30, 2012. PSBK utilizes FHLB long term advances to extend PSBK's liability duration as a strategy for asset liability management. PSBK's loan-to-deposit ratio was 87.4% as of June 30, 2012 compared to the ratio one year earlier of 97.6%.

PSBK believes it continues to have sufficient liquidity. PSBK's internally calculated liquidity ratio was 24.7% as of June 30, 2012, which is above PSBK's minimum policy guideline of 15%. At June 30, 2012, management was not aware of any trends, events, uncertainties or additional recommendations by regulatory authorities that will have or that are reasonably likely to have a material effect on the liquidity, capital resources or operations of PSBK.

**Off Balance Sheet Transactions**

PSBK in its ordinary course of business has commitments to disburse loan proceeds both under revolving and non-revolving arrangements. These financial commitments include commitments to extend credit and to honor standby letters of credit. Those instruments involve to varying degrees, elements of credit and interest rate risk not recognized in PSBK's financial statements.

PSBK's exposure to loan losses, in the event of non-performance on commitments to extend credit and standby letters of credit, is represented by the contractual amount of those commitments. PSBK uses the same credit policies in making commitments as it does for making loans.

As of June 30, 2012, the total of these commitments was approximately \$7.9 million, down 24.8% from the level one year earlier of \$10.5 million and an increase of 4.0% from the prior year-end balance of \$7.6 million.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of these commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. PSBK evaluates each

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customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by PSBK, is based upon management's credit evaluation of the customer. The majority of PSBK's commitments to extend credit under standby letters of credit arrangements are secured by real estate. The decrease in the balances outstanding is a reflection of the reduction in the related outstanding loan categories.

PSBK has a contingency reserve associated with these undisbursed loan dollars that is separate from the general loan loss reserve. The amount of this contingency reserve as of June 30, 2012, based upon management's evaluation, was \$22,000. There was no additional expense or reversal of expense recorded for the first six month of 2012.

## Dividends

The California Financial Code provides that a bank may not make a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made by the bank to shareholders during the same period. PSBK is also restricted in its ability to pay dividends by the Order and by the terms of the preferred stock issued to the Treasury under the Capital Purchase Plan.

## *Financial Condition As of and for the Year Ended December 31, 2011*

### Executive Summary

Management considers the following to be the most significant items which affected net income during 2011 compared to 2010:

Additional provisions to PSBK's Allowance for Loan and Lease Losses ( ALLL ) and the adequacy of the ALLL

The credit quality of PSBK's loan portfolio.

Increasing expenses in PSBK's REO property management and write down.

The increase in legal fees and related expenses related to collection of problem loans and the disposition of non-performing assets.

The level of PSBK's capital.

The cost of PSBK's deposits and PSBK's ability to obtain retail deposits.

Increase in FDIC insurance assessment.

Management considers the following to be the most significant items which affected net income during 2010 compared to 2009:

Increasing provisions to PSBK's Allowance for Loan and Lease Losses ( ALLL ) and the adequacy of the ALLL

The credit quality of PSBK's loan portfolio.

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Increasing expenses in PSBK's REO property management and write down.

The increase in legal fees and related expenses related to collection of problem loans and the disposition of non-performing assets.

The level of PSBK's capital.

The cost of PSBK's deposits and PSBK's ability to obtain retail deposits.

Increase in income tax expenses during 2010 resulting from the reversal of deferred tax assets.

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Management believes that the primary challenges to PSBK in 2012 are as follows:

PSBK is operating under the Consent Order restrictions.

The challenge to maintain Net Interest Income due to the difficulty in generating qualified loans in a challenging regional economy.

PSBK's ability to manage interest rate risk through the full economic cycle.

The continuing decline of real estate values may cause additional write-down within PSBK's credit portfolio.

The increase in FDIC assessments which will negatively impact PSBK's profitability.

The ability of PSBK to attract and retain qualified personnel.

The ability of PSBK to improve its efficiency ratio.

Management believes that some of the most significant opportunities it has for 2012 are as follows:

The continuing potential benefit from expanding PSBK's loan and deposit base within the Riverside and Corona Marketplace.

Increasing the footprint of PSBK's Corona Office, to include the communities of Lake Elsinore, Norco and Menifee, which are, presently viewed, as being underserved markets and void of a community bank presence.

Continue improving the efficiency and effectiveness of PSBK's marketing effort through the target marketing program / campaign.

Seizing the opportunity to capture strong banking relationships / clients that are being abandoned by the major banks as they respond to the downturn in the economy.

**Loans**

At December 31, 2011, PSBK reported net loans of \$101,110,000. This represents a decrease of \$13,701,000 (or 11.93%) over the comparable figure for December 31, 2010 of \$114,812,000. Table 4 *Loan Mix* below presents the distribution of PSBK's loan portfolio at the dates indicated.

**Table 4 Loan Mix**

2011		December 31,		2010	
Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total

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Commercial and Industrial	\$ 12,043,000	11.6%	\$ 15,577,000	13.2%
Construction and Land Development	9,534,000	9.2%	9,472,000	8.1%
Residential Real Estate	7,873,000	7.6%	10,921,000	9.3%
Commercial Real Estate	73,926,000	71.3%	81,308,000	69.2%
Consumer	292,000	0.3%	346,000	0.3%
Total Gross Loans	103,668,000	100.0%	117,624,000	100.0%
Less: Deferred Loan Fees	(198,000)		(263,000)	
Allowance for Loan Losses	(2,360,000)		(2,549,000)	
Total Net Loans	\$ 101,110,000		\$ 114,812,000	

Of the \$73.9 million Commercial Real Estate loans noted, approximately 58% are owner-occupied.

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While PSBK expects to continue to emphasize all types of lending activity in order to diversify the risk in its portfolio, the economic activity of the marketplace in which PSBK makes its loans will determine the types of credit PSBK will be able to extend, thereby impacting its ability to achieve its lending objective.

Table 5 *Loan Maturities and Sensitivities* below sets forth a summary of maturities and sensitivities of loans to changes in interest rates at December 31, 2011. These loans are classified according to the earlier of their contractual maturity or, if variable, to the first available opportunity to have the current rate modified. Additional discussion of PSBK's exposure to changes in interest rates can be found on page [ ] of this document, under the caption Interest Rate Risk.

**Table 5 Loan Maturities and Sensitivities**

(Amount in Thousands)	1 Year or Less	Repricing or Maturing In		Total
		Over 1 to 5 Years	Over 5 Years	
<b>Fixed Rate Loans</b>				
Commercial and Industrial	\$ 1,645	\$ 4,211	\$ 1,843	\$ 7,699
Construction and Land Development	2,152	1,002		3,154
Residential Real Estate	2,779	4,973	68	7,820
Commercial Real Estate	7,019	20,602	30,387	58,008
Consumer	39	198		237
<b>Total</b>	<b>\$ 13,634</b>	<b>\$ 30,986</b>	<b>\$ 32,298</b>	<b>\$ 76,918</b>
<b>Variable Rate Loans</b>				
Commercial and Industrial	\$ 4,344	\$		\$ 4,344
Construction and Land Development	6,380			6,380
Residential Real Estate	53			53
Commercial Real Estate	913	13,905	1,100	15,918
Consumer	55			55
<b>Total</b>	<b>\$ 11,745</b>	<b>\$ 13,905</b>	<b>\$ 1,100</b>	<b>\$ 26,750</b>
<b>Total Loans, gross (excludes allowance for loan losses, and net deferred loan fees)</b>				<b>\$ 103,668</b>

**Troubled Debt Restructurings**

PSBK has six loans to six borrowers totaling \$3.7 million which were considered Troubled Debt Restructurings (TDR's) as of December 31, 2011 compared to six loans to five borrowers totaling \$3.5 million as of December 31, 2010.

As of December 31, 2011 all loans with the exception of one that were considered TDR's were on non-accrual status. PSBK generally returns loans to accrual status after a period of payments, of at least six months, are made on a timely basis and the borrowers have the financial strength to perform continuously.

Typically real estate loans considered to be TDR's are measured for impairment utilizing current appraisals to determine the fair value of the collateral with any deficiency charged off during the period of measurement. PSBK has complied with this in all cases. The deficiency as a result of the measurement at December 31, 2011 the deficiency of approximately \$286,000 was charged off from the allowance for loan losses.

**Table of Contents****Nonperforming Assets**

Nonperforming assets include non-accrual loans, loans contractually past due as to interest or principal for 90 days or more, restructured loans and other real estate owned. PSBK had nonperforming loans totaling approximately \$8,926,000 and \$8,209,000 as of December 31, 2011 and December 31, 2010, respectively. PSBK had other real estate owned and other bank foreclosed assets totaling approximately \$2,927,000 and \$1,865,000 as of December 31, 2011 and December 31, 2010, respectively.

**Other Real Estate Owned**

At December 31, 2011, PSBK had four Other Real Estate Owned ( OREO ) properties at a carrying value of approximately \$2.9 million. This compares to five properties at a carrying value of \$1.9 million at the prior year end. Table 6 OREO Activity below outlines activity in OREO from the previous year end:

**Table 6 OREO Activity**

(Dollar Amount in Thousands)

Property Type	Dec. 31, 2010	Sold	Write-Down	Added	Dec. 31, 2011	# of Properties
Land	\$ 279	\$	\$ (56)	\$	\$ 223	1
Land	170	(118)	(52)		\$	
Commercial Real Estate	396	(350)	(46)		\$	
Commercial Real Estate	146	(135)	(11)		\$	
Commercial Real Estate	874		(125)		\$ 749	1
Commercial Real Estate		(576)		576	\$	
Commercial Real Estate			(79)	887	\$ 808	1
Commercial Real Estate			(43)	1,189	\$ 1,146	1
Residential 1-4		(283)	(91)	374	\$	
Residential 1-4		(277)	(97)	374	\$	
Multi Family 5+		(224)	(17)	241	\$	
	\$ 1,865	\$ (1,963)	\$ (617)	\$ 3,641	\$ 2,926	4

Updated appraisals have been obtained for all OREO properties and the appropriate charge offs were processed at the time they were transferred to OREO, with updated appraisals being ordered in accordance with PSBK policy and regulatory requirements. All properties are being actively marketed and have listing agreements in place.

**Allowance for Loan Losses**

PSBK's allowance for loan losses is available to absorb future loan losses. The level of the allowance is a result of management's assessment of the risk within the loan portfolio. PSBK utilizes both risk-rating system and ASC 310-10-35 Accounting by Creditors for Impairment of a Loan analysis on loans in conjunction with PSBK's monthly credit review and reporting process. This process is expanded significantly on a quarterly basis, with a detailed report prepared by management provided to PSBK's Board of Directors, and to its independent loan review and financial auditors. The assessment of risk takes into account the composition of the loan portfolio, review of specific problem loans, previous loss experience (if any), current and anticipated economic conditions and other factors which, in management's judgment, deserve recognition. Table 7 Activity in the Allowance for Loan Losses Accounts provides a summary of the activity in the Allowance for Loan Losses Accounts for the last two years.



**Table of Contents****Table 7 Activity in the Allowance for Loan Losses Accounts**

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2010</b>
Allowance for loan losses beginning of year	\$ 2,548,983	\$ 1,899,558
Allowance for losses-unfunded commitments <sup>(1)</sup>	46,981	54,000
	2,595,964	1,953,558
Provision charged to loan loss expense	2,794,000	4,011,000
Provision charged for off-balance sheet credit exposure	(25,000)	0
Loans charged off:		
Commercial and Industrial	(948,090)	(1,218,358)
Construction and Land Development	(97,741)	(712,858)
Residential Real Estate	(728,158)	(289,869)
Commercial Real estate	(1,451,898)	(1,149,258)
Consumer	0	0
Unfunded Commitments		(7,019)
Recoveries of loans previously charged off:		
Commercial and Industrial	34,476	6,549
Construction and Land Development	207,360	0
Residential Real Estate	550	0
Commercial Real estate	0	2,219
Consumer	0	0
<b>Total allowance for loan losses</b>	<b>\$ 2,381,463</b>	<b>\$ 2,595,964</b>
Allocation of allowance for loan losses		
Allowance for loan losses	\$ 2,359,482	\$ 2,548,983
Allowance for losses-unfunded commitments	21,981	46,981
<b>Total allowance for loan losses</b>	<b>\$ 2,381,463</b>	<b>\$ 2,595,964</b>
<b>Ratio of Net Loan Losses (Recoveries) to Average Loans Outstanding</b>	<b>2.74%</b>	<b>2.76%</b>

(1) PSBK maintains a separate allowance account for off-balance sheet unfunded loan commitments. The contingent reserve is included within other liabilities on the balance sheet and the provision is included in other non-interest expenses. Reference should be made to a detailed discussion of the provision for loan losses found on page [ ] of this proxy statement/prospectus, as well as the discussion of Credit Risk on page [ ] and Note A Summary of Significant Accounting Policies to the Financial Statements on page F-[ ]. As of December 31, 2011, the allowance for loan losses as a percentage of total gross loans was 2.28%. In 2011, the local real estate values continued to decrease. PSBK's management has been and will be cautiously monitoring PSBK's portfolio as well as new credit extensions. PSBK's management cannot, however, predict the extent to which general economic conditions may deteriorate, real estate values, may decline the direction general interest rates will go, or how changes in the financial conditions or business of a borrower may adversely affect a borrower's ability to pay.

**Time Deposits Placed with Other Financial Institutions**

At December 31, 2011 and December 31, 2010, PSBK had no time deposits invested in other institutions. The difference in yield between time deposits and Fed funds is not enough to compensate for the inflexibility that is embedded in time deposit investments.

**Investment Portfolio**

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PSBK maintains a portfolio of investment securities that consists of U.S. Agencies, Mortgage-backed Securities and Municipals. Currently, about 34% of these investments were purchased with both the intent and

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the ability of PSBK to hold them until their contractual maturity (or Held-to-Maturity). The accounting treatment for such securities reports the value of each investment at amortized cost, with changes in the market value having no impact on the financial statement (although the estimated fair value is disclosed). At December 31, 2011, PSBK had a \$2,861,000 balance in securities under the Held-to-Maturity classification, a decrease of \$538,000 or 15.84% over the December 31, 2010 balance of \$3,399,000.

The initial practice of placing investments in the Held-to-Maturity category reflected the abundance of liquidity enjoyed by PSBK. However, during 2003 PSBK began investing in mortgage-backed securities, where the intent of PSBK was not to hold the entire investment until its contractual maturity. This, coupled with the need for a secondary source of liquidity, made the classification of many of the more recent purchases of securities as Available-for-Sale advisable. Available-for-Sale portfolios are carried at market, with changes in market value reflected in comprehensive income. As of December 31, 2011, PSBK reported \$5,585,000 in Available-for-Sale securities, which reflects an unrealized gain of approximately \$144,000. The increase of the unrealized gain as of December 31, 2010 to December 31, 2011, is included, net of taxes, in accumulated other comprehensive income in the Statement of Changes in Shareholders Equity.

In addition to investment information available in *Note B Investment Securities* to the Financial Statements, included beginning on page F-30 of this document, the following table presents a summary of yields and contractual maturities for the investment portfolio as of December 31, 2011. 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. Table 8 *Yield and Maturity Information for Securities* maturity information for Mortgage Backed Securities is based upon contractual maturities due to the uncertainty of prepayment speed.

**Table 8 Yield and Maturity Information for Securities**

	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	After Ten Years	Total
<b>Dollars</b>					
<i>Held to Maturity</i>					
U.S. Government Agencies	\$	\$	\$	\$	\$
Municipal Bonds		655	1,902	304	2,861
<b>Total</b>	\$	\$ 655	\$ 1,902	\$ 304	\$ 2,861
<i>Available for Sale (at amortized cost)</i>					
U.S. Government Agencies	\$	\$ 1,500	\$ 1,500	\$ 500	\$ 3,500
Mortgage Backed Securities		759	1,182		1,941
<b>Total</b>	\$	\$ 2,259	\$ 2,682	\$ 500	\$ 5,441
<b>Total Investments</b>	\$	\$ 2,914	\$ 4,584	\$ 804	\$ 8,302

	One Year or Less	After One Year to Five Years	After Five Years to Ten Years	After Ten Years	Total
<b>Weighted Average Yield:</b>					
<i>Held to Maturity</i>					
U.S. Government Agencies	0.00%	0.00%	0.00%	0.00%	0.00%
Municipal Bonds	0.00%	5.51%	5.48%	5.61%	5.50%
<b>Total</b>	0.00%	5.51%	5.48%	5.61%	5.50%

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<b>Available for Sale</b>					
U.S. Government Agencies	0.00%	1.25%	1.67%	3.30%	1.72%
Mortgage Backed Securities	0.00%	4.43%	4.97%	0.00%	4.76%
<b>Total</b>	0.00%	2.32%	3.12%	3.30%	2.81%
<b>Total Investments</b>	0.00%	3.04%	4.10%	4.17%	3.73%

**Table of Contents****Deposits**

The primary source of funds to support earning assets is the generation of deposits from PSBK's customer base. The ability to grow PSBK's earning assets is a crucial element in the performance of PSBK. In 2006, PSBK accessed non-traditional sources of funds, primarily funds through the CDARS network. During the third quarter of 2007, PSBK started to utilize the Federal Home Loan Bank long-term borrowings to replace the CDARS one-way buy deposits to extend the liability duration with a focus on adjusting the mismatched asset/liability duration brought on by the change in the loan portfolio mix. PSBK has not accessed CDARS one-way buy deposit since late 2008. PSBK reported total deposits of \$111,759,000 as of December 31, 2011, a decrease of approximately \$11,638,000 (or 9.43%) over the comparable figure of \$123,397,000 as of December 31, 2010.

In order to be comparable with other local financial institutions in terms of its structure of interest rates on deposit products offered, PSBK adjusted its deposit pricing as deemed necessary during 2011. This is another element that affects PSBK's overall cost of funds. Table 9 *Comparison of Deposit Product Rates* below sets forth a comparison of the rates paid on PSBK's deposit products at December 31, 2011 and 2010:

**Table 9 Comparison of Deposit Product Rates**

<b>Selected Quoted Interest Rates</b>	<b>2011</b>	<b>2010</b>	<b>Change</b>
Demand Deposits	0.00%	0.00%	0.00%
NOW Accounts	0.15%	0.15%	0.00%
Savings	0.20%	0.20%	0.00%
Money Market Deposits with balances over \$50,000	0.45%	0.75%	-0.30%
Time Deposits under \$100,000 Six month term	0.35%	0.70%	-0.35%
Time Deposits \$100,000 and over Six month term	0.40%	0.75%	-0.35%
Wall Street Journal Prime Rate	3.25%	3.25%	0.00%

The amount of non-interest bearing demand deposits is an integral element in achieving a low cost of funds for PSBK. As of December 31, 2010, non-interest bearing demand deposits represented 30.46% of total deposit dollars. As of December 31, 2011 this percentage increased to 36.80%. PSBK compares favorably with its peer group with only 2% of peer banks having a higher percentage of non-interest bearing deposits.

A comparison of year-end balances in non-time deposits shows an increase in non-interest bearing demand of approximately \$3.5 million from \$37.6 million as of December 31, 2010 to \$41.1 million as of December 31, 2011; a decrease in Money Market Demand Accounts, or MMDA, and savings of approximately \$15.3 million from \$74.7 million as of December 31, 2010 to \$59.4 million as of December 31, 2011. Reference should be made to Table 13 where the average deposits outstanding and the average effective interest rates paid are detailed by deposit category over the last two years.

Approximately 51% of PSBK's time deposits accounts have balances that are under \$100,000. 49% of PSBK's time deposit accounts have balances that are over \$100,000. While all time deposits tend to be more rate sensitive than PSBK's other deposit categories, the smaller time deposits tend to be more stable and less sensitive to absolute rate levels than do time deposits of \$100,000 or more. Approximately 77% of PSBK's time deposits mature within one year and would be potentially subject to a change in rate on their maturity date. Table 10 *Size and Maturity Information for Time Deposits* below shows a summary of size and maturity information for PSBK's time deposits as of December 31, 2011.

**Table of Contents****Table 10 Size and Maturity Information for Time Deposits**

Balance by Size	Three Months or Less	After Three Months to Six Months	After Six Months to One Year (Dollars in Thousands)	After One Year	Total
<b>\$100,000 or Less</b>	\$ 1,766	\$ 2,014	\$ 1,090	\$ 784	\$ 5,654
<b>Over \$100,000</b>	2,000	1,271	528	1,730	5,529
<b>Total Time Deposits</b>	\$ 3,766	\$ 3,285	\$ 1,618	\$ 2,514	\$ 11,183

**Capital Resources**

Capital ratios for commercial banks are calculated using three different formulas. These calculations are referred to as the Leverage Ratio and two risk-based calculations known as Tier One Risk-Based Capital Ratio and the Total Risk-Based Capital Ratio. PSBK is subject to certain standards concerning these ratios. These standards essentially take into account the fact that different types of assets have different levels of risk associated with them. They also take into consideration the off-balance sheet exposures of banks when assessing capital adequacy.

The Leverage Ratio calculation simply divides common stockholders' equity (reduced by goodwill and certain other intangibles that a bank may have) by the total average assets of the bank for the most recent quarter. In the Tier One Risk-Based Capital Ratio, the numerator is the same as the leverage ratio, but the denominator is the total risk-weighted assets of the bank. Risk-weighted assets are determined by segregating all assets and off-balance sheet exposures into different risk categories and weighting them by percentages ranging from 0% (lowest risk) to 100% (highest risk). The Total Risk-Based Capital Ratio again uses risk-weighted assets in the denominator, but expands the numerator to include other capital items besides equity such as a limited amount of the allowance for loan losses, long-term capital debt, preferred stock and other instruments. PSBK's capital ratios at December 31, 2011 can be reviewed by referring to *Note O Regulatory Matters* of the Financial Statements, on page F-50 of this document. In the chart displayed there, the minimum capital ratios, as established by bank regulators, for both capital adequacy guidelines and for the determination of a well-capitalized institution under Prompt Corrective Action rules are stated and applied to PSBK's current capital positions as of both December 31, 2011 and December 31, 2010.

**Contractual Obligations, Commitments, Contingent Liabilities, Off-Balance Sheet Arrangements and Related Party Transactions**

As noted in *Note I Commitments* to the Financial Statements, PSBK is contingently liable for letter of credit accommodations made to its customers in the ordinary course of business totaling \$732,000 at December 31, 2011, which decreased from \$1,172,000 one year earlier. Additionally, PSBK has undisbursed loan commitments, also made in the ordinary course of business, totaling \$6.8 million, which decreased \$5.3 million from the \$12.1 million outstanding one year earlier. PSBK offers the standby letters of credits as an accommodation to the needs of its existing customers. The decrease in undisbursed loan commitments was caused by the reduction in both construction loan originations and the construction loan portfolio. PSBK had an allowance for losses for unfunded commitments totaling \$22,000 and \$47,000 as of both December 31, 2011 and 2010, respectively, to cover losses inherent in its letter of credit accommodations and undisbursed loan commitments.

As noted in *Note J Related Party Transactions* to the Financial Statements, PSBK does make loans to related parties (directors and executive officers) in the ordinary course of business at prevailing rates and terms. These loans totaled \$0.4 million and \$1.4 million at the end of 2011 and 2010, respectively.

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A summary of PSBK's significant contractual obligations and commitments is presented in the following table, with a reference to the footnote disclosure in Item 7 detailing the dollar amount by maturity.

	<b>Footnote Disclosure in Item 7 Notes to Financial Statements</b>
Contractual Cash Obligations	
Operating Leases	Note D
Other Commitments	
Commitments to extend credit	Note I
Related Person Loans	Note J
Borrowings	Note F

**Results of Operations**

***Net Interest Income***

June 30, 2012 vs. June 30, 2011

Net interest income represents the difference between the interest earned on interest-earning assets, such as loans and investment securities, and the interest paid on interest-bearing liabilities, which consists of deposits and borrowings. Net interest income before provision for loan losses decreased approximately \$323,000 or 9.6% during the comparable six-month periods ended June 30, 2012 and 2011, respectively. Net interest income before provision of loan losses totaled approximately \$6,500,000 for 2011, compared to \$6,840,000 in 2010.

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Table 11 *Distribution of Average Asset, Liabilities, and Shareholders' Equity for the Six Months Ended June 30, 2012 and 2011* below show PSBK's average balances of assets, liabilities and shareholders' equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated:

**Table 11 Distribution of Average Asset, Liabilities, and Shareholders' Equity for the Six Months Ended June 30, 2012 and 2011**

	First Six Months of 2012			First Six Months of 2011		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
<b>ASSETS</b>						
Loans, net	\$ 97,065,000	\$ 3,286,572	6.79%	\$ 112,104,000	\$ 3,699,276	6.65%
Federal funds sold	1,047,000	1,225	0.23%	529,000	619	0.24%
Investment securities <sup>(1)</sup>	9,038,000	132,390	2.94%	9,109,000	177,389	3.93%
Deposits with financial institutions <sup>(2)</sup>	18,638,000	23,138	0.25%	14,908,000	20,071	0.27%
Total interest-earning assets	\$ 125,788,000	\$ 3,443,325	5.49%	\$ 136,652,000	\$ 3,897,355	5.75%
Non-interest earning assets	13,681,000			15,564,000		
Total Assets	\$ 139,469,000			\$ 152,214,000		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing demand deposits	\$ 5,852,000	\$ 5,669	0.19%	\$ 6,573,000	\$ 8,009	0.25%
Saving deposits <sup>(3)</sup>	51,314,000	143,319	0.56%	61,042,000	239,491	0.79%
Time deposits	11,005,000	45,102	0.82%	10,957,000	52,611	0.97%
Total interest-bearing deposits	\$ 68,171,000	\$ 194,090	0.57%	\$ 78,572,000	\$ 300,111	0.77%
FHLB Advances	16,934,000	210,881	2.50%	18,818,000	235,994	2.53%
Total interest-bearing liabilities	\$ 85,105,000	\$ 404,971	0.95%	\$ 97,390,000	\$ 536,105	1.11%
Non-interest bearing deposits	42,934,000		0.00%	41,598,000		0.00%
Total Deposits & Borrowings	\$ 128,039,000	\$ 404,971	0.63%	\$ 138,988,000	\$ 536,105	0.78%
Other liabilities	842,000			778,000		
Stockholders' equity	10,588,000			12,448,000		
Total Liabilities and Shareholders' Equity	\$ 139,469,000			\$ 152,214,000		
Net interest spread			4.54%			4.64%
Net interest margin			4.84%			4.96%

(1) All investment securities have been treated as fully-taxable

(2) The balances noted include FRB access reserve balance

(3) The balances noted include money-market and saving accounts

The interest spread is the difference between the yields on average earning assets less the costs of average interest-bearing liabilities. PSBK's net interest spread decreased to 4.54% for the six-month period ended June 30, 2012 compared to 4.64% for the same period of 2011. The decrease in PSBK's net interest spread was caused by the decrease in the yield on interest-earning assets, offset with the decrease in the interest-bearing liability cost for the two respective periods. The yield in the loan portfolio increased 14 basis points from 6.65% for the first six months of 2011 to 6.79% for the same six-month period of 2012. The yield in investment securities decreased 99 basis points from 3.93% for the first six months of 2011 to 2.94% for the same six-month period of 2012. The yield in deposits with financial institutions decreased two basis points from 0.27% for the





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first six months of 2011 to 0.25% for the same six-month period of 2012. PSBK's overall cost of interest-bearing liabilities decreased 16 basis points from 1.11% for the six-month period ended June 30, 2011, to 0.95% for the same six-month period of 2012, while the effective yield on PSBK's earning assets decreased 26 basis points from 5.75% for the six-month period ended June 30, 2011 to 5.49% for the same six-month period of 2012; this resulted in a 10 basis point decrease in PSBK's net interest spread.

Net interest margin measures net interest income as a percentage of average earning assets. The net interest margin can be affected by changes in the yield of earning assets and the cost of interest-bearing liabilities, as well as changes in the level of interest-bearing liabilities in proportion to earning assets. The net interest margin can also be affected by changes in the mix of earning assets as well as by changes in the mix of interest-bearing liabilities. PSBK's net interest margin was 4.84% for the six-month period ended June 30, 2012, compared to 4.96% for the same six-month period of 2011. PSBK's net interest margin for the year ended December 31, 2011 was 4.82%. The decrease of 12 basis points in net interest margin for the first six months of 2012, when compared to the same period of 2011, was mainly the result of the increase in the percentage of the low interest-earning assets, Fed Funds sold and deposits with financial institutions, to total assets for the first six months of 2012 and 2011, at 15.7% and 11.3%, respectively, offset by the 16 basis point decrease in the cost of interest earning liabilities discussed in the net interest spread section.

Average net loans for the six-month period ended June 30, 2012 represented 77.2% of PSBK's total interest-earning assets decreased from 82% for the same six-month period of 2011. The average balances in investment securities increased as a percentage of interest-earning assets from 6.7% to 7.2% for the first six months of 2011 and 2012; and the Federal Funds sold and deposits with financial institutions increased from 0.4% to 0.8% of total interest-earning assets for the six-month period ended June 30, 2011 and June 30, 2012.

Average balance for deposits with other financial institutions, which includes the excess reserve requirement in the Federal Reserve Bank (FRB), increased as a percentage of interest-earning assets from 10.9% to 14.8% for the first six months of 2011 and 2012. These changes were the result of a lack of ideal instruments and yield in the current investment market; therefore, excess liquidity and the cash flow generated from the existing investment portfolio was kept in PSBK's correspondent bank account as compensating balance to offset various bank charges and left in FRB as excess reserve earning the targeted Fed Fund rate of 0.25%.

The cost of interest-bearing liabilities decreased to 0.95% for the six-month period ended June 30, 2012, as compared to 1.11% for the same six-month period of 2011. The decrease of the cost of interest-bearing liabilities is the result of the low interest rate environment which has existed for an extended period of time.

The percentage of the average non-interest bearing deposits to total deposits for the six-month period ended June 30, 2012 was 38.6%, an increase from 34.6% for the six-month period ended June 30, 2011.

Among the interest-bearing liabilities (which includes borrowings), the percentage of average dollars in savings accounts (which includes money markets) decreased, as a percentage of total interest-bearing liabilities, from 62.7% for the six-month period ended June 30, 2011, to 60.3% for the six-month period ended June 30, 2012. Time deposits, which now represent approximately 12.9% of the total interest-bearing liabilities, increased from 11.25% for the comparable period of 2011. As of June 30, 2012, FHLB Advances represented approximately 19.9% of average interest-bearing liabilities, which increased from 19.3% for the six-month period ended June 30, 2011.

The comparison of actual interest income and interest expense between the six-month period ended June 30, 2012 and the same six-month period of 2011 can be more fully analyzed by referring to Table 12 *Volume/Rate Analysis for the Six Month Periods Ended June 30, 2012 and 2011*.

The most significant impact on PSBK's net interest income between the referenced periods is derived from the interaction of changes in the volume of, and rate earned or paid on, interest-earning assets and interest-bearing liabilities. Changes in interest income or expense attributable to volume changes are calculated by

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multiplying the change in volume by the initial average interest rate. Changes in interest income or expense attributable to changes in interest rates are calculated by multiplying the changes in interest rates by the initial volume. Changes in interest income and expense that are not attributable specifically to either volume or rate are allocated proportionately between both variances.

**Table 12 Volume/Rate Analysis for the Six Month Periods Ended June 30, 2012 and 2011.**

	Six months ended June 30, 2012 compared with June 30, 2011		
	Volume	Rate	Total
<b>Interest Income:</b>			
Loans	\$ (490,129)	\$ 77,425	\$ (412,704)
Federal funds sold	609	(3)	606
Investment securities	(1,350)	(43,649)	(44,999)
Deposits with financial institutions	4,818	(1,751)	3,067
Total earning assets	\$ (486,052)	\$ 32,022	\$ (454,030)
Interest-bearing demand deposits	(805)	(1,535)	(2,340)
Saving deposits	(33,954)	(62,218)	(96,172)
Time deposits	239	(7,748)	(7,509)
FHLB Advances	(22,335)	(2,778)	(25,113)
Total interest-bearing liabilities	(56,855)	(74,279)	(131,134)
Net Interest Income	\$ (429,197)	\$ 106,301	\$ (322,896)

Average loan dollars outstanding decreased by \$15 million or 13.4% between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective yield on the portfolio increased by 14 basis points, which was attributed to the stabilized non-accrual loans trend and less interest reversal occurring in the first six months of 2012. The result was a decrease in interest income of approximately \$413,000, of which \$490,000 of the decrease is attributed to the decrease in volume, offset by a \$77,000 increase in income attributed to the increase in effective yield.

The average outstanding balances in federal funds sold increased by \$518,000, or 97.9%, between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective yield on this category decreased one basis point. The total increase in interest income under this category was approximately \$606, which \$609 is attributed to the increase in volume, offset by three dollars decrease attributed to the decrease in effective yield.

Average dollars placed into investments decreased by \$71,000, or 0.8%, between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective yield on the portfolio decreased 99 basis points. The resulting decrease in interest income was approximately \$45,000, with approximately \$1,400 of the decrease attributed to volume variance, combined with a \$43,600 decrease in income attributed to the decrease in effective yield.

The average outstanding balances in Deposits with Other Financial Institutions increased by \$3.7 million or 25% between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective yield in this category decreased by two basis points. The total increase in interest income was approximately \$3,100, with \$4,800 of the increase attributed to a volume increase, offset with a decrease in the effective yield in the amount of approximately \$1,700.

Interest income from all interest-earning assets, as a group, between the six-month period ended June 30, 2012 and the same six-month period ended June 30, 2011, decreased by approximately \$454,000, with approximately \$486,000 of the decrease attributed to volume variance, offset by the \$32,000 increase in interest income attributed to rate variance.

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The average outstanding balances on interest-bearing deposits decreased \$10.4 million, or 13.2%, between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective cost of this category decreased by 20 basis points. The net result was a marked decrease in interest expense of approximately \$106,000, with \$35,000 (or 33%) of the decrease attributable to volume variance, and \$71,000 (or 67%) of the decrease attributable to rate variance.

The average balance for FHLB Advances decreased \$1.9 million, between the six-month period ended June 30, 2012 and the same six-month period of 2011, while the effective cost of this category decreased by three basis points. The resulting decrease in interest expenses was approximately \$25,000, with approximately \$3,000 (or 12%) of the decrease attributed to rate variance, combined with a \$22,000 (or 88%) decrease in interest expense attributed to volume decrease.

Interest expenses from all interest-bearing liabilities, as a group, decreased between the six-month period ended June 30, 2012 and the same six-month period of 2011 by approximately \$131,000, with approximately \$74,000 (or 56.5%) of the decrease attributed to rate variance, and \$57,000 (or 43.5%) of the decrease in interest expense attributed to volume decrease.

The variance in net interest income, before the provision for loan losses, between the six-month period ended June 30, 2012 and the same six-month period of 2011, decreased by \$323,000. This amount was the result of a \$429,000 decrease in net interest income attributed to changes in volume, offset by an \$106,000 increase in net interest income which was the result of rate variance.

**Table of Contents**2011 vs. 2010

The following table 13 *Distribution of Average Asset, Liabilities, and Shareholders' Equity for the Year 2011 and 2010* shows PSBK's average balances of assets, liabilities and shareholders' equity; the amount of interest income and interest expense; the average yield or rate for each category of interest-earning assets and interest-bearing liabilities; and the net interest spread and the net interest margin for the periods indicated:

**Table 13 Distribution of Average Asset, Liabilities, and Shareholders' Equity for the Year 2011 and 2010**

	2011			2010		
	Average Balance	Interest	Rate	Average Balance	Interest	Rate
<b>ASSETS</b>						
Loans, net	\$ 109,083,000	\$ 7,119,016	6.53%	\$ 121,868,000	\$ 7,908,275	6.49%
Federal funds sold	814,000	1,911	0.23%	757,000	1,773	0.23%
Investment securities <sup>(1)</sup>	8,853,000	327,420	3.70%	9,376,000	391,621	4.18%
Deposits with financial institutions <sup>(2)</sup>	14,924,000	38,012	0.25%	9,369,000	29,564	0.32%
FHLB and PCBB Stocks	1,138,000	3,143	0.28%	1,312,000	4,204	0.32%
Total interest-earning assets	134,812,000	\$ 7,489,502	5.56%	\$ 142,682,000	\$ 8,335,437	5.84%
Non-interest earning assets	14,333,000			16,618,000		
Total Assets	\$ 149,145,000			\$ 159,300,000		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
Interest-bearing demand deposits	\$ 6,503,000	\$ 14,590	0.22%	\$ 6,789,000	\$ 25,235	0.37%
Saving deposits <sup>(3)</sup>	56,931,000	414,932	0.73%	68,635,000	782,759	1.14%
Time deposits	10,977,000	103,255	0.94%	11,740,000	156,155	1.33%
Total interest-bearing deposits	\$ 74,411,000	\$ 532,777	0.72%	\$ 87,164,000	\$ 964,149	1.11%
FHLB Advances	19,173,000	456,730	2.38%	17,099,000	531,228	3.11%
Total interest-bearing liabilities	\$ 93,584,000	\$ 989,507	1.06%	\$ 104,263,000	\$ 495,377	1.43%
Non-interest bearing deposits	42,728,000		0.00%	39,144,000		0.00%
Total Deposits & Borrowings	\$ 136,312,000	\$ 989,507	0.73%	\$ 143,407,000	\$ 1,495,377	1.04%
Other liabilities	810,000			778,000		
Stockholders' equity	12,023,000			15,115,000		
Total Liabilities and Shareholders' Equity	\$ 149,145,000			\$ 159,300,000		
Net interest spread			4.50%			4.41%
Net interest margin			4.82%			4.79%

(1) All investment securities have been treated as fully-taxable

(2) The balances noted include FRB access reserve balance

(3) The balances noted include money-market and saving accounts

Net interest income before provision for loan losses totaled approximately \$6,500,000 for 2011, compared to \$6,840,000 in 2010. This decrease is more fully analyzed in Table 14 *Volume/Rate Analysis for the Twelve Month Periods Ended December 31, 2011 and 2010*, but is primarily the result of the decrease in volume and the change in the mix of the earning asset portfolio in 2011.

PSBK's net interest margin was 4.82% in 2011 compared to 4.79% for 2010, an increase of three basis points. While many factors contributed to this increase in net interest margin between periods, the decreases in the cost of interest bearing liabilities and the increase in non-interest bearing liabilities were the primary contributors to the noted change.



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PSBK's net interest spread increased to 4.50% in 2011 compared to 4.41% for 2010, an increase of nine basis points. The increase was a result of the larger decrease in the cost of fund than the yields of earning assets in 2011. PSBK utilized the long-term FHLB Advances to extend its liability duration in order to match the asset duration extension tied to the market demand for fixed rate commercial real estate loans and to control PSBK's interest rate exposure under a rising rate environment.

The comparison of actual interest income and interest expense between 2011 and 2010 is best explained by reference to the Table 14 below. The most significant impact on PSBK's net interest income between periods is derived from the interaction of changes in the volume of, and rate earned or paid on, interest-earning assets and interest-bearing liabilities. Changes in interest income or expense attributable to volume changes are calculated by multiplying the change in volume by the initial average interest rate. Changes in interest income or expense attributable to changes in interest rates are calculated by multiplying the changes in interest rates by the initial volume. Changes in interest income and expense, which are not attributable specifically to either volume or rate, are allocated proportionately between both variances.

**Table 14 Volume/Rate Analysis for the Twelve Month Periods Ended December 31, 2011 and 2010.**

	Twelve months ended December 31, 2011 compared with December 31, 2010		
	Volume	Rate	Total
<b>Interest Income:</b>			
Loans	\$ (834,135)	\$ 44,876	\$ (789,259)
Federal funds sold	134	4	138
Investment securities	(21,025)	(43,176)	(64,201)
Deposits with financial institutions	14,978	(6,530)	8,448
FHLB and PCBB Stocks	(520)	(541)	(1,061)
<b>Total earning assets</b>	<b>\$ (840,568)</b>	<b>\$ (5,367)</b>	<b>\$ (845,935)</b>
Interest-bearing demand deposits	(1,023)	(9,622)	(10,645)
Saving deposits	(118,022)	(249,805)	(367,827)
Time deposits	(9,609)	(43,291)	(52,900)
FHLB Advances	59,293	133,791)	(74,498)
<b>Total interest-bearing liabilities</b>	<b>(69,361)</b>	<b>(436,509)</b>	<b>(505,870)</b>
<b>Net Interest Income</b>	<b>\$ (771,207)</b>	<b>\$ 431,142</b>	<b>\$ (340,065)</b>

The yield on earning assets decreased from 5.84% for 2010 to 5.56% for 2011. The interest rate environment remained at a historical low level through 2011, which caused the decrease in yield of all earning assets categories. Average net loans for 2011 represented approximately 81% of total interest earning assets, down 4% over the comparable period of 85% for 2010.

Table 14 above shows that the interest on loans decreased by approximately \$789,000 between 2010 and 2011. This decrease was attributable to an \$834,000 decrease in the size of the portfolio, which decreased approximately \$12.8 million in 2011 to approximately \$109.1 million in average loan dollars outstanding, a 10.5% decrease from 2010, offset with a minor increase of \$45,000 attributable to the four basis point increase in the effective yield on the loan portfolio. The non-accrual loan portfolio increased from 6.98% of total loans as of December 31, 2010 to 8.61% of total loans as of December 31, 2011.

It is the policy of PSBK to stop accruing interest on a non-performing loan after its principal or interest becomes 90 days or more past due, charging to earnings all interest previously accrued but not collected. There were \$8.2 million and \$8.9 million in loans in nonaccrual status as of December 31, 2010 and 2011, respectively.

The Federal Funds Sold category, which represented 0.5% of the average earning asset mix in 2010 increased to an average of 0.6% of average earning assets in 2011, which was reflected in the \$57,000 increase in

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average balances outstanding. The average yield on Federal Funds Sold remained unchanged at 23 basis points in 2010 and 2011. The reported increase in interest income on Federal Funds Sold was \$138, of which 97% of the increase was attributed to volume.

The average balance in the Investment category decreased by 5.6%, or about \$523,000 from 2010 to 2011. The average yield on investment securities decreased 48 basis points between periods. The decrease in interest income on investment securities was approximately \$64,000 with \$21,000 of the decrease attributable to volume, and \$43,000 of the decrease attributable to the rate variance. With the low interest rate environment, the investment portfolio carried a net unrealized gain of \$151,000 and \$330,000, as of December 31, 2010 and December 31, 2011, respectively. Please refer to Note B Investment Securities of PSBK's Financial Statements for additional information regarding PSBK's investment portfolio.

The average balance in Deposits Held at Other Financial Institutions, which includes both time deposit with other financial institutions and interest bearing deposits in Federal Reserve Bank, increased from 6.6% of average earning assets in 2010 to 11.1% in 2011, an increase of about \$5.6 million or 59%. PSBK allocated the majority of the daily liquidity to the Federal Reserve Bank in the beginning of 2010 instead of investing in Fed Funds, due to a better interest rate from the Federal Reserve Bank as compared to Fed Funds. The average effective yield decreased by seven basis points from 2010 to 2011.

The increase in interest income on Deposits Held with Other Financial Institutions was approximately \$8,000, with the positive volume variance of \$15,000 offset by the negative rate variance of \$7,000.

The average balances in FHLB and PCBB Stock decreased from approximately 0.9% of average earning assets in 2010 to approximately 0.8% of average earning assets in 2011, a decrease of about \$174,000 or 13%. The average effective yield decreased four basis points from 2010 to 2011. The decrease in dividend income on FHLB and PCBB Stock was approximately \$1,000, with the positive rate variance of \$500 combined with \$500 from the volume variance.

Analyzing the interest income from all interest-earning assets as a group shows that interest income decreased by approximately \$846,000 in 2011. Approximately \$841,000 of the negative impact in interest income is related to the volume variance, combined with the \$5,000 negative impact in interest income which was the result of the rate variance on PSBK's interest bearing assets.

During 2011, the cost of average interest-bearing liabilities decreased to 1.06% from 1.43% for the comparable period in 2010. The decrease in cost of average interest-bearing liabilities was attributed to the overall low interest rate environment.

The average percentage of non-interest-bearing deposits to total deposits was approximately 36% for 2011, representing a growth from the prior year. The percentage of average non-interest-bearing deposits to total deposits was 31% in 2010.

The average balance in interest-bearing demand deposits decreased by approximately 4% or \$286,000, with the effective interest rate for 2011 decreasing by 15 basis points to 0.22% from the 2010 effective rate of 0.37%. The interest expense effect on relatively low balances and low effective rates was, in total, only approximately <\$11,000>, with \$1,000 of the decrease in interest expenses attributed to the volume decrease and \$10,000 decrease attributed to the effective rate decrease.

The average balances in savings deposits, which include money market accounts, decreased by 17% or \$11.7 million. The effective interest rate for 2011 decreased by 41 basis points to 0.73% from the effective rate of 1.14% in 2010. The balances in these saving deposits as a percentage of interest-bearing liabilities decreased from 66% in 2010 to 61% for the year 2011. The overall decrease in interest expense in this category was approximately \$368,000, based on a \$118,000 decrease in interest expenses attributed to the volume increase, and a \$250,000 decrease in interest expenses attributed to the rate variance.



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The average balances in all time deposits decreased by 6.5%, with the effective interest rate for 2011 decreasing by 39 basis points to 0.94% from the 2010 effective rate of 1.33%. The overall decrease in interest expense in this category was \$53,000, with approximately 19% or \$10,000 of the decrease attributable to the volume variance and approximately 81% or \$43,000 of the decrease attributable to the decrease in overall effective interest rate.

The average outstanding balance for FHLB Advances was \$19.2 million in 2011 as compared to \$17.1 million in 2010. The decrease in interest expense in this category was approximately \$75,000 for 2011, with approximately \$134,000 being attributed to the rate variance, offset with \$59,000 increase in interest expense attributed to volume variance. The average effective interest rate was 2.38% and 3.11% for 2011 and 2010, respectively.

Total interest expense decreased by approximately \$506,000 with approximately \$437,000 of the decrease attributed to the rate variance and approximately \$69,000 of the decrease attributed to volume variance.

The decrease in net interest income between 2011 and 2010 was reported at approximately \$340,000. The positive net rate variance represented approximately \$431,000 of the total net interest income change in 2011, offset by the negative volume variance representing approximately \$771,000. The cause of the decrease in net interest income for PSBK during the year 2011 was due to the decrease in the average loan portfolio and the increase in the non-accrual loan portfolio.

***Provision for Loan Losses***

During the six-month period ended June 30, 2012, PSBK charged-off approximately \$92,000 against the allowance for loan losses, recovered \$415,000 and added \$225,000 to the allowance, which resulted in an allowance level of 3.03% of total loans as of June 30, 2012. As of June 30, 2012, PSBK had \$5.5 million of non-accrual loans. Management was not aware of any individual credit arrangement that warranted any additional reserves beyond that which had been previously identified and quantified in conjunction with management's periodic review.

PSBK charged-off \$1,409,000 against the allowance, recovered \$54,000 and added \$1,609,000 additional provision for the six-month period ended June 30, 2011, which resulted in a 2.51% allowance level as of June 30, 2011. As of June 30, 2011, PSBK had \$6.3 million of non-accrual loans.

The provision for loan losses totaled \$2,794,000 for 2011 compared to a provision of \$4,011,000 for 2010. The decrease in the provision for loan losses was caused by the stabilization of the Bank's asset quality in 2011. The loan loss reserve to total loan ratio at December 31, 2010 was 2.17%, while the similar percentage at December 31, 2011 was 2.28%.

The amount of the reserve for loan losses is based upon management's evaluation of the loan portfolio, past loan loss experience, general economic conditions and other pertinent factors. The migration analysis method and FAS 114 analysis used by management (and reviewed by regulators, independent loan review consultants and independent financial auditors) contains provisions for modifications to reflect current trends.

During the annual period ended December 31, 2010, the net loan losses were approximately \$2,549,000. During the comparable period in 2011, the net loan losses were approximately \$2,359,000. As of December 31, 2011 the Bank reported nonperforming loans totaling \$8.93 million. The decrease in net losses was also attributed to the decrease in the Bank's loan portfolio.

Management is unaware of any individual credit arrangement that warranted any specific reserve beyond that which had been previously quantified in its periodic review. Should other factors such as negative economic trends, reportable delinquency loan ratios, or loan losses occurring in the future become more likely, management may elect to increase the provision to reflect these factors that may require the reserve to be set

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above the minimum levels encouraged by the regulators. While management believes the allowance to be adequate at the present time, the appropriate value can fluctuate over time in response to economic conditions and the subjective decisions which must be made in response to those conditions.

***Non-Interest Income***

Non-interest income represents deposit account service charges and other types of non-loan related fee income. Non-interest income decreased by approximately \$111,000, or 25.3%, when comparing the six-month period ended June 30, 2012 with the same six-month period of 2011. During the second quarter of 2011, approximately \$75,000 gain on sale of OREO was recorded which attributed to 67.6% of the variance.

Total noninterest income for 2011 was approximately \$716,000 compared to approximately \$699,000 for 2010, an increase of 2.4%. The primary component of noninterest income is service charges on depository relationships. During the year 2011, there were no modifications in the fees charged for deposit related services. The decrease of \$32,000 in non sufficient funds charges was the main factor for the decrease in noninterest income in 2011. During 2006 PSBK purchased Bank-Owned Life Insurance on the eighteen officers employed as of June 1, 2006, and an additional policy was purchased on November 24, 2008. The one-time premium of \$2.8 million is reflected as a component of Other Assets on PSBK's Financial Statement. This initial value is augmented by increases to the cash surrender value to each of the various policies. PSBK recorded earnings on the increase in cash surrender value in the amount of \$120,000 and \$116,000 for 2010 and 2011, respectively.

***Non-Interest Expense*****First Six Month of 2012**

Non-interest expenses represent salaries, occupancy, data processing, marketing, professional, general office and other miscellaneous expenses necessary to conduct business. Table 15 *Non-Interest Expense Analysis for the Six Months Ended June 30, 2012 and 2011* provides a comparison between the six-month period ended June 30, 2012 and the same three-month period of 2011.

**Table 15 Non-Interest Expense Analysis for the Six Months Ended June 30, 2012 and 2011**

	<b>For the Six Months Ended June 30</b>		
	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>
Salaries and Employee Benefits	\$ 1,356,715	\$ 1,496,830	(\$ 140,115)
Occupancy and Equipment Expenses	336,988	339,360	(\$ 2,372)
Data Processing	251,420	248,765	\$ 2,655
Marketing and Business Promotion	70,216	82,396	(\$ 12,180)
Professional Fees	374,421	255,709	\$ 118,712
Customer Expenses	85,351	100,472	(\$ 15,121)
Office Expenses	56,016	59,804	(\$ 3,788)
FDIC Assessment	155,814	206,620	(\$ 50,806)
OREO Expenses and Write Down	693,575	546,975	\$ 146,600
Other Expense	115,724	79,436	\$ 36,288
<b>Total Non-Interest Expense</b>	<b>\$ 3,496,240</b>	<b>\$ 3,416,367</b>	<b>\$ 79,873</b>

The most significant of all of the numbers included in Non-Interest Expense, is associated with Salaries and Employee Benefits. Approximately 39% of the total Non-Interest Expense is associated with this category. The recorded expense for the six-month period ended June 30, 2012 was approximately \$1,357,000, a decrease of 9%, or \$140,000, when compared to the same period of 2011. The decrease is attributed to the staff turnover and PSBK's continued effort to streamline its procedures and improve efficiency. When comparing the average number of full-time equivalent employees in each of these two periods, the number has decreased from 38 to 36, a 5.3% decrease.

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Occupancy and Equipment expenses include expenditures for office leases, leasehold improvements, property tax, property insurance, along with other expenses related to property maintenance and furniture, fixtures and equipment expenses. The recorded expense for the six-month period ended June 30, 2012 was approximately \$337,000, a decrease of approximately \$2,400, or 1%, when compared to the same period of 2011.

Data Processing expense is comprised of the cost of providing, capturing, and processing customer and accounting information. Included in this group of expenditures are licensing fees for both general and industry related software, costs associated with the processing of customer information from both paper and electronic formats, maintenance costs associated with both software and hardware management, ATM and debit card processing charges, as well as depreciation expenses for computer and computer-related hardware. The recorded expense for the six-month period ended June 30, 2012 was approximately \$251,000, an increase of approximately \$2,700, or 1%, when compared to the same period of 2011. The increase was driven by an increase in the number of transactions being processed.

Marketing and Business Promotion expense is comprised of the cost of advertising, marketing, business development expense, and charitable donations. The recorded expense of \$70,000 for the six-month period ended June 30, 2012 decreased by approximately \$12,000, or 15%, when compared to the recorded expenses of \$82,000 for the same period of 2011. PSBK has limited its marketing activities to manage its tier one capital ratio.

Professional Expense is comprised of expenditures for audit (including financial, operational, compliance and loan reviews), legal fees, stock transfer fees, safekeeping fees, director fees and other services provided by correspondent banks and consultants. Professional Expense increased by approximately \$119,000, or 46%, for the six-month period ended June 30, 2012, when compared to the same period in 2011. The increase in professional expenses is due to the expense of \$151,000 in attorneys fees and investment banker fees related to stock offering activities, as well as fees associated with the signing of the Definitive Agreement to merge with FCAL.

Customer Expense is comprised of various loan and operating expenditures that have been absorbed by PSBK to accommodate customer transactions. The recorded expenses for the six-month period ended June 30, 2012 decreased by approximately \$15,000, or 15%, when compared to the same period of 2011.

In addition to office supplies and printed forms, Office Expense also includes telephone and postage expenditures. The recorded expenses for the six-month period ended June 30, 2012 decreased by approximately \$3,800, or 6%, when compared to the same period of 2011.

FDIC Assessment for the six-month period ended June 30, 2012 decreased by approximately \$51,000, or 25%, when compared to the same period of 2011. The decrease in FDIC assessment is the result of the decrease in PSBK's assessment base and the modification of FDIC calculation formula.

OREO Expenses and Write down for the six-month period ended June 30, 2012 increased by approximately \$147,000, or 27%, when compared to the same period of 2011. The increase in OREO write downs is the result of accepting of an offer for a OREO property which the escrow is expected to be closed during the third quarter.

Other Expenses are comprised of education and dues expenses, insurance costs, and shareholder expenses such as the printing and mailing of annual reports and proxy materials. The expenses in this category for the six-month period ended June 30, 2012 increased by approximately \$36,000, or 46%, when compared to the same period of 2011. The increase resulted from the increase in corporate insurance premium for the two periods.

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Total non-interest expense for 2011 was approximately \$6,607,000, an increase of \$152,000 or 2.4%, compared to approximately \$6,455,000 in 2010. To assist in the analysis, please see Table 16 *Noninterest Expense Analysis for the Year 2011 and 2010*.

**TABLE 16 Noninterest Expense Analysis for the Year 2011 and 2010**

	For the Year		Increase (Decrease)
	2011	2010	
Salaries and Employee Benefits	\$ 2,811,718	\$ 3,185,317	\$ (373,599)
Occupancy and Equipment Expenses	671,338	682,604	(11,266)
Data Processing	490,614	510,408	(19,794)
Marketing and Business Promotion	170,129	186,220	(16,091)
Professional Fees	633,025	506,181	126,844
Customer Expenses	234,818	177,801	57,017
Office Expenses	117,817	128,311	(10,494)
FDIC Assessment	346,954	284,920	62,034
OREO Expenses and Write Down	903,765	614,908	288,857
Other Expense	226,666	177,887	48,779
<b>Total Non-Interest Expense</b>	<b>\$ 6,606,844</b>	<b>\$ 6,454,557</b>	<b>\$ 152,287</b>

Salaries and related expenses comprise the largest component of non-interest expense. The recorded expense for 2011 was approximately \$2.81 million, compared to the 2010 expense of approximately \$3.19 million, representing a 12% decrease. In 2011 and 2010 the average full-time equivalent number of individuals provided with compensation for the year was 37 and 41, respectively. The decrease in salary and related expenses was caused by the decrease in full-time equivalent employees for the two comparable periods. There was no stock-based compensation recorded in 2011, as compared to \$4,000 expense in 2010 (see *Note A Summary of Significant Accounting Policies* to the Bank's Financial Statements).

Occupancy and equipment expenses for 2011 were approximately \$671,000, a decrease of approximately \$11,000 over 2010, a 2% decrease. This decrease is primarily due to the decrease of Furniture, Fixtures and Equipment (FF&E) expenditures.

Data processing expense comprises the costs of providing, capturing, and processing customer and accounting information through electronic means. Included in this group of expenditures are licensing fees for both general and industry related software, costs associated with the processing of customer information from both paper and electronic formats, maintenance costs associated with both software and hardware management, ATM and debit card processing charges, as well as depreciation expenses for computer and computer-related hardware. The recorded expense for 2011 was approximately \$491,000, a decrease of approximately \$20,000, or 4% as compared to the recorded expense for 2010. The decreasing cost in the data-processing category is related to the decrease in computer system depreciation and decreases in maintenance contracts.

Marketing and business promotion expense comprises the cost of advertising, marketing, and business development expenses. The recorded expense for 2011 was approximately \$170,000, a decrease of approximately \$16,000, or 9% as compared to the recorded expense for 2010. The predominant type of expenditure that contributed to this category was attributable to the Bank's sponsorships of various community and educational events, which affirm the Bank's commitment to the communities in which it operates. Funds were expended in conjunction with the Bank's Business of the Month program, business educational events associated with local colleges and universities, and active sponsorships with both the Riverside and Corona

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Chambers of Commerce. The decrease of expenses in this category was attributed to a decrease in media advertising as the Bank's marketing strategy was modified with more emphasis on target market sectors versus a general marketing approach.

Professional fees comprise expenditures for audits, (including financial, operational and loan reviews), legal fees, consultant fee, stock transfer fees, safekeeping fees, director fees and other services provided by correspondent banks and consultants. The recorded expense for 2011 was approximately \$633,000, an increase of approximately \$127,000 or 25%, between 2010 and 2011. The increase in expense is attributed to the additional legal fees incurred in 2011 related to litigation which was resolved in early 2012.

Customer expenses comprise various upfront loan and operating expenditures that have been absorbed by the Bank to facilitate the transition of customers from other financial institutions to the Bank. In addition, there are ongoing expenditures, such as courier and armored car services, where the customers who benefit from these services compensate the Bank through a combination of compensated balances and analysis fees. The recorded expense in 2011 was \$235,000, an increase of approximately \$57,000 as compared to the recorded expense in 2010. The increase was mainly attributed to the increase in expenses for updated appraisal reports ordered for classified loans.

In addition to office supplies and printed forms, the Office Expenses category includes telephone and postage expenditures. The expense for 2011 was approximately \$118,000, reflecting a decrease of approximately \$10,000 or 8%.

FDIC assessment is the cost for the Bank to provide insured deposits to our customer. The recorded expense for 2011 was approximately \$347,000, an increase of approximately \$62,000, or 22% as compared to the expense in 2010. The increase of FDIC assessment is the increase in assessment rate associated with the Bank's risk category.

Other real estate owned write down and expenses are the costs associated with bank owned real estate. The recorded expense for 2011 was approximately \$904,000, an increase of approximately \$289,000, or 47% as compared to the recorded expense in 2010. The increase in OREO write down and expenses was the result of the continuous decrease in the real estate value in the Inland Empire area.

Other expenses are comprised of insurance costs, the cost of dues and education, the cost associated with the repossessed assets, and shareholder expenses such as the printing and mailing of annual reports and proxy materials. The expense in this category for 2011 was approximately \$227,000, an increase of approximately \$49,000 when compared to the same period of 2010. The increase was attributed to the increase in the Bank's insurance policies for the amount of \$28,000; and the \$59,000 for expenses incurred for the stock offering.

## **Income Taxes**

Income tax expense was \$900 for the year ended December 31, 2011 as compared to \$502,514 in 2010, a decrease of \$502,000 or 100%. The tax expense in 2010 was the result of the establishment of a valuation allowance as PSBK has not reported earnings that are sufficient enough to support the full recognition of the deferred tax assets.

## **Risk Management**

PSBK's management has adopted a Risk Management Plan to ensure the proper control and management of all risk factors inherent in the operations of PSBK; specifically, the credit risk, interest rate risk, liquidity risk, transaction risk, compliance risk, strategic risk, reputation risk, price risk and foreign exchange risk. All of these risk factors can affect the market risk exposure of PSBK. These specific risk factors are not mutually exclusive. It is recognized that any product or service offered by PSBK may expose PSBK to one or more of these risks.

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### **Credit Risk**

Credit Risk is defined as the risk to earnings or capital from an obligor's failure to meet the terms of any contract or to otherwise fail to perform as agreed. Credit risk is found in all activities where success depends on counter party, issuer or borrower performance. Credit risk arises through the extension of loans and leases, certain securities, and letters of credit.

Credit Risk in the investment portfolio and correspondent bank accounts is addressed through defined limits in PSBK's ALCO Policy. In addition, certain securities carry insurance to enhance credit quality of the bond. Limitations on industry concentrations, geographic boundaries, and contract maturities are designed to reduce credit risk. The ALCO Committee and the Board of Directors are provided with information to appropriately identify measure, control and monitor the credit risk exposure to PSBK.

Credit Risk in the loan portfolio is also addressed by establishing defined limits in PSBK's Loan Policy. Limitations on industry concentrations, geographic boundaries, aggregate customer borrowings and standards on loan quality also are designed to further reduce loan credit risk. The Loan Committee and the Board of Directors are provided with information to appropriately identify, measure, control and monitor the credit risks within the loan portfolio.

Implicit in lending activities is the risk that losses will occur and that the amount of such losses will vary over time. Consequently, PSBK maintains an allowance for loan losses by charging a provision for loan losses to earnings. When a loan is determined to be a loss, the balance is charged against the allowance for loan losses. PSBK's allowance for loan losses is maintained at a level considered by PSBK's management to be adequate to provide for estimated probable losses inherent in the existing portfolio, including unused commitments to provide financing, including commitments under commercial and standby letters of credit.

The process by which PSBK determines the appropriate allowance for loan losses requires the exercise of considerable judgment. The amount of losses that may actually occur can vary significantly from these estimated amounts. PSBK employs a comprehensive methodology that is intended to reduce the differences between estimated and actual losses.

Central to PSBK's credit risk management is its loan risk rating system. Each credit is assigned an initial credit rating, which is reviewed periodically by PSBK's Chief Credit Officer, independent credit reviewers and regulatory examiners. Risk ratings are adjusted as necessary.

Based on the risk rating system, specific allowances are established in cases where management has identified significant conditions or circumstances related to a specific credit that heightens the need for closer monitoring or that increase the likelihood that the full and timely repayment of both the loan's principal and interest may be in doubt.

PSBK considers a loan to be impaired when it is probable that PSBK will be unable to collect all amounts due (principal and interest) according to the contractual terms of the loan agreement. Measurement of impairment is based upon the expected future cash flows of an impaired loan which are 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. PSBK selects the measurement method on a loan-by-loan basis except that collateral-dependent loans, for which foreclosure is probable, are measured at the fair value of the collateral.

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Included in PSBK's methodology for assessing the appropriateness of the allowance is management's consideration of all known relevant internal and external factors that may affect the loan's collectability. This includes management's estimates of the amount necessary for concentrations, economic uncertainties, the volatility of the market value of the collateral and other relevant factors. The conditions evaluated in connection with the periodic analysis of the allowance include, but are not limited to, the following conditions that existed as of the balance sheet date:

Changes in lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.

Changes in national and local economic and business conditions and developments, including the condition of various market segments.

Changes in the nature and volume of the portfolio.

Changes in the experience, ability, and depth of lending management and staff.

Changes in the trend of the volume and severity of past due and classified loans; and trends in the volume of non-accrual loans, troubled debt restructurings and other loan modifications.

Changes in the quality of the institution's loan review system and the degree of oversight by the institution's board of directors.

The existence and effect of any concentrations of credit, and changes in the level of such concentrations.

The effect of external factors such as competition and legal and regulatory requirements on the level of estimated credit losses within the loan portfolio.

Also considered as factors in determining the adequacy of the reserve are: 1) the historical loss experience on a loan category by category basis; and 2) a comparative analysis between PSBK's internal loan and lease loss reserve methodology and the Reasonableness Test as detailed in the Interagency Policy Statement of the Allowance for Loan and Lease Losses, as published by the regulators. The quarterly analysis of the general reserve is accompanied by sufficient narrative detail to support the conclusions of PSBK management.

## **Interest Rate Risk**

During periods of changing interest rates, the ability to re-price interest-earning assets and interest-bearing liabilities can influence net interest income, the net interest margin, and consequently PSBK's ability to produce net earnings and to maintain adequate capital levels. Interest rate risk is managed by attempting to control the spread between rates earned on interest-earning assets and the rates paid on interest-bearing liabilities within the constraints imposed by market competition in PSBK's service area.

PSBK expects its risk exposure to changes in interest rates to remain manageable and within acceptable policy ranges. PSBK employs a risk model that assists management in the measurement, monitoring and management of its interest rate risk. As of December 31, 2011 the potential changes in PSBK's net interest income (over a 12-month time horizon and resulting from the 12 months ramped model's calculation) showed that net interest income could fluctuate under various alternative rate scenarios from between 0.3% and -6.0% of the base case (rates unchanged). The base case would provide approximately \$5.7 million in net interest income. PSBK's policy is to maintain a structure of assets and liabilities which will ensure that net interest income will not vary more than minus 16% of that base number when rate movement fluctuations are assumed to move up or down 400 basis points during a 12-month period. Management will continue to strive for an optimal trade-off between risk and earnings.





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The following table presents a summary of PSBK's net interest income forecasted for the coming 12 months under alternative interest rate scenarios.

	<b>Changes From Base</b>
Rates down extreme significantly	N/A
(Prime down to 0% over 12 months)	
Rates down very significantly	-0.3%
(Prime down to 0.25% over 12 months)	
Rates down significantly	0.1%
(Prime down to 1.25% over 12 months)	
Rates down modestly	0.3%
(Prime down to 2.25% over 12 months)	
Base cases Rates unchanged	0
(Prime unchanged at 3.25% over 12 months)	
Rates up modestly	-2.5%
(Prime up to 4.25% over 12 months)	
Rates up aggressively	-4.2%
(Prime up to 5.25% over 12 months)	
Rates up very aggressively	-5.2%
(Prime up to 6.25% over 12 months)	
Rates up extreme aggressively	-6.0%
(Prime up to 7.25% over 12 months)	

Net interest income under the above scenarios is influenced by the characteristics of PSBK's assets and liabilities. For example, in the case of NOW, savings and money market deposits, interest is based upon rates set at the discretion of management. In a downward rate environment, there is a limit to how far these deposit instruments can be re-priced and the behavior is similar to that of other fixed rate instruments. In an upward rate environment, the magnitude and timing of changes in rates on these deposits is assumed to be more reflective of other variable rate instruments. Similarly, loans with interest rate floors and/or ceilings and investments with callable options perform differently in an upward rate environment than in a downward rate environment.

Accordingly, it is important to note that the above table is a summary of several forecasts and actual results may vary. The forecasts are based on estimates and assumptions of management that may turn out to be different and may change over time. Factors affecting these estimates and assumptions include, but are not limited to competitors' behavior, economic conditions both locally and nationally, actions taken by the Federal Reserve Board, customer behavior, and management's responses. Changes that vary significantly from the assumptions and estimates may have significant effects on PSBK's net interest income. Therefore, the results of this analysis should not be relied upon as indicative of actual future results. At December 31, 2011, PSBK was in a neutral position compared to a neutral with slightly liability sensitive position at December 31, 2010.

**Liquidity Risk**

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Liquidity risk is the risk to earnings or capital resulting from PSBK's inability to meet its obligations when they come due without incurring unacceptable losses. The objective of liquidity management is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. The ALCO Committee is responsible for structuring the balance sheet to meet these needs. On a daily basis liquidity is managed by maintaining acceptable levels of Federal funds in conjunction with cash flow from interest and

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principal payments from time deposits from other financial institutions, investment securities and loans. To meet unexpected demands, lines of credit are maintained with correspondent banks. Access to FHLB advances and the Federal Reserve Bank discount window are available to meet liquidity needs. Increases in deposit rates can serve as a contingent means of raising funds to increase liquidity.

For PSBK, sources of funds normally include loan payments, interest payments on investments and growth in deposits. Uses of funds include withdrawal of deposits, interest paid on deposits, increases in loan balances, purchases of investments, the placement of funds in time deposits with other financial institutions and other operating expenses.

By reference to the Statement of Cash Flows on page F-23 of this report, comparisons can be made to the changes in PSBK's liquidity position. Net cash provided by operating activities totaled \$2.0 million for 2011 compared with net cash provided by operating activities of \$1.7 million for 2010. The positive cash flow indicates that PSBK's current asset base provides adequate liquidity from its ongoing operations. Cash provided for investing activities totaled \$9.5 million for 2011, compared to \$9.1 million in cash provided for investing activities in 2010. During 2011, among the investing activities, loan activities produced net cash of \$7.3 million, compared to \$6.1 million cash provided in 2010; securities investment activities produced net funds of \$48,000 in 2011 compared to the \$1.8 million in net funds provided for in 2010. At the year ended 2011, PSBK maintained its securities investment portfolio at \$8.4 million compared to \$8.5 million invested as of December 31, 2010.

Net cash used for financing activities totaled \$12.6 million for 2011 compared to the \$4.5 million net cash used for 2010. In 2011, PSBK increased \$74,000 in time deposits compared to a decrease of \$1.5 million in 2010. For other categories of deposits providing ready access to customer funds, the net decrease during 2011 was \$11.7 million compared to the 2010 net decrease of \$1.9 million.

At December 31, 2011, cash and cash equivalents (defined as cash, demand balances due from banks and Federal funds sold) decreased by \$1.2 million.

Since the primary sources and uses of funds for PSBK are loans and deposits, the relationship between net loans and total deposits provides a useful measure of PSBK's liquidity. However, the FHLB line provides alternative sources of funds for PSBK and enables PSBK to efficiently manage the balance sheet duration. Typically, the closer the ratio of loans-to-deposits is to 100%, the more reliant PSBK is on its loan portfolio to provide for short-term liquidity needs. Since repayment of loans tends to be less predictable than the maturity of investments and other liquid resources, the higher the loan-to-deposit ratio, the less liquid are PSBK's assets. For 2011, PSBK's average loan-to-deposit ratio was 93%, while for 2010 the comparable ratio was 96%.

**INFORMATION ABOUT FCAL**

Additional information concerning FCAL and its subsidiaries can be obtained from the documents filed by FCAL with the SEC including FCAL's Annual Report on Form 10-K for the year ended December 31, 2011, and Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, which are incorporated in this document by reference. See **WHERE YOU CAN FIND ADDITIONAL INFORMATION** on page [ ].

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**DESCRIPTION OF FCAL CAPITAL STOCK**

The following summary of the current terms of the capital stock of FCAL and the terms of capital stock of FCAL to be in effect after completion of the Merger is not meant to be complete and is qualified in its entirety by reference to the Delaware General Corporation Law, federal law, our amended and restated certificate of incorporation, and our amended and restated by-laws, copies of which have been filed with the SEC and are also available upon request from FCAL. See **WHERE YOU CAN FIND ADDITIONAL INFORMATION** on page [ ].

**Common Stock**

***General***

FCAL's amended and restated certificate of incorporation provides the authority to issue 100,000,000 shares of common stock, par value \$0.01 per share. At June 30, 2012, there were 29,226,928 shares of common stock issued and outstanding, held of record by approximately 378 stockholders. In addition, at June 30, 2012, 1,470,787 shares of common stock were issuable under its stock compensation plans, and 336,957 shares of common stock were issuable upon conversion of its Series A Preferred Stock. The common stock is listed on the NASDAQ Global Select Market under the symbol **FCAL**. Outstanding shares of common stock are validly issued, fully paid and non-assessable.

Each share of common stock has the same relative rights and is identical in all respects to each other share of common stock. The common stock has no preemptive, conversion or redemption rights or sinking fund provisions.

***Voting Rights***

Each holder of common stock is entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders except with respect to votes in elections of directors for which they are authorized to use cumulative voting. Cumulative voting for directors entitles the stockholder to cast a number of votes equivalent to their total shares of common stock owned multiplied by the number of directors to be elected. The stockholder may cast all of such votes for a single director or may distribute them among the number to be voted for, or for any two or more of them as such holder may see fit.

***Liquidation Rights***

In the event of FCAL's liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all FCAL's assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock.

***Dividends***

Holders of common stock are entitled to receive ratably such dividends as may be declared by FCAL's Board of Directors out of funds legally available therefor. The ability of FCAL's Board of Directors to declare and pay dividends on common stock is subject to the terms of applicable banking regulations and the terms of the Series A Preferred Stock and Series C Preferred Stock described herein.

***Transfer Agent and Registrar***

The transfer agent and registrar for FCAL Common Stock is Registrar and Transfer Company.

***Restrictions on Ownership***

The Bank Holding Company Act requires any bank holding company, as defined in the Bank Holding Company Act, to obtain the approval of the Federal Reserve Board before acquiring 5% or more of FCAL Common Stock. Any person, other than a bank holding company, is required to obtain the approval of the Federal Reserve Board before acquiring 10% or more of FCAL Common Stock under the Change in Bank

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Control Act. Any holder of 25% or more of common stock, or a holder of 5% or more if such holder otherwise exercises a controlling influence over FCAL, is subject to regulation as a bank holding company under the Bank Holding Company Act.

### **Preferred Stock**

FCAL's amended and restated certificate of incorporation provides the authority to issue 2,500,000 shares of preferred stock, par value \$0.01 per share. Of the 2,500,000 shares of preferred stock, FCAL has issued 1,000 shares of Series A Convertible Perpetual Preferred Stock, or Series A Preferred Stock, 25,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series B, or Series B Preferred Stock, and 25,000 shares of Non-Cumulative Perpetual Preferred Stock, Series C, or Series C Preferred Stock.

FCAL's amended and restated certificate of incorporation, subject to certain limitations, authorizes FCAL's Board of Directors, from time to time by resolution and without further stockholder action, to provide for the issuance of shares of preferred stock, in one or more series, and to fix the designation, powers, preferences and other rights of the shares and to fix the qualifications, limitations and restrictions thereof. As a result of its discretion with respect to the creation and issuance of preferred stock without stockholder approval, FCAL's Board of Directors could adversely affect the voting power of the holders of common stock and, by issuing shares of preferred stock with certain voting, conversion and/or redemption rights, could discourage any attempt to obtain control of FCAL.

### **Series A Preferred Stock**

#### ***Voting Rights***

The holders of Series A Preferred Stock do not have the right to vote on any matter submitted to the stockholders. FCAL shall not, without the affirmative vote or written consent of the holders (acting together as a class) of not less than a majority of the then outstanding shares of Series A Preferred Stock:

authorize, create or issue any additional shares of Series A Preferred Stock or shares of any class or series of stock having any preference or priority superior to or on parity with the Series A Preferred Stock with respect to the payment of distribution of assets upon the dissolution or liquidation, voluntary or involuntary, of FCAL;

declare or pay any dividend on its common stock or on any other class or series of capital stock of FCAL ranking junior to the Series A Preferred Stock;

repurchase, redeem or otherwise acquire for any consideration any share of its common stock or shares of any other class or series of capital stock of FCAL ranking junior to the Series A Preferred Stock; or

amend, alter or repeal any provisions of the amended and restated certificate of incorporation of FCAL, amend, alter or repeal any provisions of the certificate of designation of rights, preferences and privileges of Series A Preferred Stock, or adopt, amend, alter, or repeal any certificate of determination of rights and preferences with respect to any class or series of capital stock, in each case, so as to adversely affect the rights, preferences and privileges relating to Series A Preferred Stock or the holders thereof or waive any of the rights granted to the holders of the Series A Preferred Stock.

#### ***Liquidation Rights***

In the event of a voluntary or involuntary liquidation or dissolution, holders of Series A Preferred Stock are entitled to receive a liquidation preference per share equal to \$1,000 plus an amount equal to 8.5% per annum of the \$1,000, which is deemed to have commenced accrual on December 10, 2001. This amount is payable out of the assets of First California before any distribution to holders of common stock.

#### ***Dividends***

Except with respect to their liquidation preference, the holders of Series A Preferred Stock are not entitled to receive any dividends.



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### ***Redemption***

Redemption of the Series A Preferred Stock is at the Company's option subject to certain restrictions imposed by FCAL's Series B Preferred Stock. The per share redemption amount is equal to \$1,000 plus an amount equal to 8.5% per annum of the \$1,000, accrued from December 10, 2001 to the date of redemption. In the event that FCAL elect to redeem any shares of Series A Preferred Stock, FCAL must redeem all of the outstanding shares of Series A Preferred Stock.

### ***Conversion***

Each holder of Series A Preferred Stock has the right, exercisable at the option of the holder, to convert all or some of such holder's shares of Series A Preferred Stock into common stock. The number of shares of common stock to be issued upon conversion of each share of Series A Preferred Stock is determined by dividing the sum of each share's liquidation preference, including unpaid dividends, by the conversion price then in effect. The conversion price as of June 30, 2012 is \$5.63 per share. As of June 30, 2012, the number of shares of common stock that would be issued upon conversion of the Series A Preferred Stock is 336,957.

### ***Series B Preferred Stock***

All previously outstanding shares of Series B Preferred Stock which were issued to the United States Treasury in connection with FCAL's participation in the Troubled Asset Relief Program's Capital Purchase Program of the United States Treasury have been redeemed as part of a transaction pursuant to which FCAL issued 25,000 shares of Series C Preferred Stock to the United States Treasury in connection with its participation in the Small Business Lending Fund program (SBLF) of the United States Treasury. Consequently, there are no shares of Series B Preferred Stock outstanding.

### ***Series C Preferred Stock***

The Series C Preferred Stock constitutes a single series of FCAL's preferred stock, consisting of 25,000 shares, par value \$0.01 per share, having a liquidation preference amount of \$1,000 per share, all of which are issued and outstanding as of the date of this prospectus. The Series C Preferred Stock has no maturity date. FCAL issued the shares of Series C Preferred Stock to the United States Treasury on July 14, 2011 in connection with the SBLF program for a purchase price of \$25,000,000.

### ***Dividends***

General. Dividends on the Series C Preferred Stock are payable quarterly in arrears, when, as and if authorized and declared by FCAL's Board of Directors out of legally available funds, on a non-cumulative basis, on the \$1,000 per share liquidation preference amount. Dividends are payable on January 1, April 1, July 1 and October 1 of each year, beginning October 1, 2011.

Each dividend will be payable to holders of record as they appear on FCAL's stock register on the applicable record date, which will be the 15th calendar day immediately preceding the related dividend payment date (whether or not a business day), or such other record date determined by FCAL's Board of Directors that is not more than 60 nor less than ten days prior to the related dividend payment date. Each period from and including a dividend payment date (or from and including the date of the issuance of the Series C Preferred Stock, in the case of the initial dividend period) to but excluding the following dividend payment date is referred to as a dividend period. Dividends payable for each dividend period are computed on the basis of a 360-day year consisting of four 90-day quarters, and actual days elapsed over a 90-day quarter. If a scheduled dividend payment date falls on a day that is not a business day, the dividend payment will be postponed to the next day that is a business day and no additional dividends will accrue as a result of that postponement. The term "business day" means any day except Saturday, Sunday and any day on which banking institutions in the State of New York or the District of Columbia generally are authorized or required by law or other governmental actions to close.

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**Rate.** The per annum dividend rate, as a percentage of the liquidation amount, can fluctuate on a quarterly basis during the first ten quarters during which the Series C Preferred Stock is outstanding, based upon changes in the amount of Qualified Small Business Lending or QSBL (as defined below) by FCB from the Baseline (as defined below). The dividend rate for the initial dividend period (which ended September 30, 2011) is five percent (5%). For the second (2<sup>nd</sup>) dividend period through the tenth (10<sup>th</sup>) dividend period after the July 14, 2011 issuance date, the dividend rate may be adjusted to between one percent (1%) and five percent (5%), to reflect the change in FCB's level of QSBL from the Baseline to the level as of the end of the second dividend period preceding the dividend period in question, multiplied by the Qualifying Portion Percentage plus the sum of five percent (5%) multiplied by the Non-Qualifying Portion Percentage. For the eleventh (11<sup>th</sup>) dividend period after the issuance date to four and one-half years after the issuance date, the dividend rate will be fixed at between one percent (1%) and five percent (5%), based upon the increase in QSBL from the Baseline to the level as of the end of the ninth (9<sup>th</sup>) dividend period (i.e., as of December 31, 2013), or will be fixed at 7% if there is no increase or there is a decrease in QSBL from the Baseline to the level as of the end of the ninth dividend period multiplied by the Qualifying Portion Percentage plus the sum of five percent (5%) multiplied by the Non-Qualifying Portion Percentage calculated as of the last day of the ninth (9<sup>th</sup>) dividend period. From and after four and one-half years from the issuance date, the dividend rate will be fixed at 9%, regardless of the amount of QSBL.

Any reduction in the dividend rate to below 5% prior to the four and one-half year anniversary of the issuance date will not apply to the portion of the aggregate liquidation amount of the then-outstanding shares of Series C Preferred Stock that is greater than the amount of the increase in QSBL from the Baseline. Dividends on any portion of the aggregate liquidation amount of the then-outstanding shares of Series C Preferred Stock that is in excess of the amount of the increase in the amount of QSBL from the Baseline will be payable at five percent per annum until the four and one-half year anniversary of the issuance date, resulting in a blended dividend rate that will apply to each outstanding share of Series C Preferred Stock. As noted above, from and after the four and one-half year anniversary of the issuance date, the dividend rate applicable to each outstanding share of Series C Preferred Stock will be 9%, regardless of the amount of QSBL.

Qualified Small Business Lending, or QSBL, is defined as the sum of all lending by FCB of the following types:

- (i) commercial and industrial loans;
- (ii) owner-occupied, nonfarm, nonresidential real estate loans;
- (iii) loans to finance agricultural production and other loans to farmers; and
- (iv) loans secured by farmland;

and, within these loan categories, excluding: (A) any loan or group of loans to the same borrower and its affiliates with an original principal or commitment amount greater than \$10 million or that is made to a borrower that had (or whose ultimate parent company had) more than \$50 million in revenues during the most recent fiscal year ended as of the date of origination; (B) to the extent not included in (A) or (C), the portion of any loans guaranteed by the U.S. Small Business Administration, any other U.S. Government agency or a U.S. Government-sponsored enterprise; and (C) to the extent not included in (A) or (B), the portion of any loans held by FCB for which the risk is assumed by a third party (e.g., the portion of loans that have been participated), while, further, adding to the amount determined above the cumulative amount of net charge-offs with respect to QSBL as measured since the quarter ended September 30, 2010.

The Baseline is the Initial Small Business Lending Baseline from the Initial Supplemental Report, \$313,952, subject to adjustment pursuant to the dividend rate determination discussed above.

**Non-Cumulative.** Dividends on the Series C Preferred Stock are non-cumulative. If for any reason FCAL's Board of Directors does not declare a dividend on the Series C Preferred Stock for a particular dividend period, then the holders of the Series C Preferred Stock will have no right to receive any dividend for that dividend



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period, and FCAL will have no obligation to pay a dividend for that dividend period. FCAL must, however, within five (5) calendar days, deliver to the holders of the Series C Preferred Stock a written notice executed by FCAL's Chief Executive Officer and Chief Financial Officer stating FCAL's Board of Directors' rationale for not declaring dividends. FCAL's failure to pay a dividend on the Series C Preferred Stock also will restrict FCAL's ability to pay dividends on and repurchase other classes and series of FCAL's stock. See Restrictions on Dividends and Repurchases.

When dividends have not been declared and paid in full on the Series C Preferred Stock for an aggregate of four (4) or more dividend periods, and during that time FCAL were not subject to a regulatory determination that prohibits the declaration and payment of dividends, FCAL must, within five (5) calendar days of each missed payment, deliver to the holders of the Series C Preferred Stock a certificate executed by at least a majority of the members of FCAL's Board of Directors stating that the board used its best efforts to declare and pay such dividends in a manner consistent with safe and sound banking practices and the directors' fiduciary obligations. In addition, FCAL's failure to pay dividends on the Series C Preferred Stock for five (5) or more dividend periods, whether or not consecutive, will give the holders of the Series C Preferred Stock the right to appoint a non-voting observer on FCAL's Board of Directors, which right will continue until FCAL have timely paid dividends on the Series C Preferred Stock for at least four consecutive dividend payments.

**No Sinking Fund.** There is no sinking fund with respect to dividends on the Series C Preferred Stock and the Series C Preferred Stock will not be subject to mandatory redemption or other similar provisions. The Treasury will have no right to require redemption or repurchase any of the shares of Series C Preferred Stock.

***Restrictions on Dividends and Repurchases***

**Restrictions on Dividends.** So long as the Series C Preferred Stock remains outstanding, FCAL may declare and pay dividends on FCAL's common stock, and any other shares of Junior Stock (as defined below) or Parity Stock (as defined below), only if, after giving effect to the dividend, FCAL's Tier 1 capital would be at least equal to the Tier 1 Dividend Threshold (as defined below) and full dividends on all outstanding shares of Series C Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid.

If a dividend is not declared and paid in full on the Series C Preferred Stock for any dividend period, then from the last day of that dividend period until the last day of the third dividend period immediately following it, no dividend or distribution may be declared or paid on FCAL's common stock or any other shares of Junior Stock (other than dividends payable solely in shares of common stock) or Parity Stock; provided, however, that in any such dividend period in which a dividend is declared and paid on the Series C Preferred Stock, dividends may be paid on Parity Stock to the extent necessary to avoid any material breach of any covenant to which FCAL are bound. Junior Stock means FCAL's common stock and any other class or series of FCAL's stock the terms of which expressly provide that it ranks junior to the Series C Preferred Stock as to dividend and redemption rights and/or as to rights on FCAL's liquidation, dissolution or winding up. Currently, FCAL's common stock is the only class of stock outstanding that constitutes Junior Stock.

Parity Stock means any class or series of FCAL's stock, other than the Series C Preferred Stock, the terms of which do not expressly provide that such class or series will rank senior or junior to the Series C Preferred Stock as to dividend rights and/or as to rights upon FCAL's liquidation, dissolution or winding up, in each case without regard to whether dividends accrue cumulatively or non-cumulatively. Currently, FCAL's Series A Preferred Stock is the only class of stock outstanding that constitutes Parity Stock.

The Tier 1 Dividend Threshold means, as of any particular date, the sum of (x) (i) the Signing Date Tier 1 Capital Amount, which is \$175,203,000, plus (ii) the aggregate Liquidation Amount of the Series C Preferred Stock issued, minus (iii) the aggregate of Charge-Offs since the Signing Date, July 14, 2011, multiplied by (y) 0.9 then, if applicable, subtract from all of the above, the following, beginning on the first day of the 11th

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dividend period following the date of issuance of the Series C Preferred Stock, by \$2,500,000 (10% of the aggregate liquidation amount of the Series C Preferred Stock initially issued, without regard to any subsequent partial redemptions) for each 1% increase in QSBL from the Baseline level to the ninth dividend period.

**Restrictions on Repurchases.** So long as the Series C Preferred Stock remains outstanding, FCAL may repurchase or redeem shares of Capital Stock (as defined below) only if (i) after giving effect to such repurchase or redemption, FCAL's Tier 1 capital would be at least equal to the Tier 1 Dividend Threshold and (ii) dividends on all outstanding shares of Series C Preferred Stock for the most recently completed dividend period have been or are contemporaneously declared and paid (or have been declared and a sum sufficient for payment has been set aside for the benefit of the holders of the Series C Preferred Stock as of the applicable record date).

If a dividend is not declared and paid on the Series C Preferred Stock for any dividend period, then from the last day of that dividend period until the last day of the third dividend period immediately following it, neither FCAL nor any of FCAL's subsidiaries may redeem, purchase or acquire any shares of FCAL's common stock, Junior Stock, Parity Stock or other capital stock or other equity securities of any kind of ours or of any of FCAL's subsidiaries, or any trust preferred securities issued by FCAL or by any of FCAL's affiliates ( Capital Stock ), (other than (i) redemptions, purchases, repurchases or other acquisitions of the Series C Preferred Stock, (ii) repurchases of common stock or other Junior Stock in connection with the administration of any employee benefit plan in the ordinary course of business (including purchases to offset any Share Dilution Amount (as defined below) pursuant to a publicly announced repurchase plan) and consistent with past practice; provided that any purchases to offset the Share Dilution Amount may not exceed the Share Dilution Amount, (iii) the acquisition by FCAL or by any of FCAL's subsidiaries of record ownership in Junior Stock or Parity Stock for the beneficial ownership of any other persons (other than FCAL or any of FCAL's subsidiaries), including as trustees or custodians, (iv) the exchange or conversion of Junior Stock for or into other Junior Stock or of Parity Stock or trust preferred securities for or into other Parity Stock (with the same or lesser aggregate liquidation amount) or Junior Stock, in each case solely to the extent required pursuant to binding agreements entered into prior to July 14, 2011 or any subsequent agreement for the accelerated exercise, settlement or exchange of these types of securities for FCAL's common stock, (v) redemptions of securities held by FCAL or by any of FCAL's wholly owned subsidiaries, and (vi) redemptions, purchases or other acquisitions of capital stock or other equity securities of any kind of any of FCAL's subsidiaries required pursuant to binding agreements entered into prior to December 19, 2008, the date FCAL issued FCAL's Series B Preferred Stock to Treasury pursuant to the TARP Capital Purchase Program.

Share Dilution Amount means the increase in the number of diluted shares outstanding (determined in accordance with GAAP applied on a consistent basis, and as measured from June 30, 2011) resulting from the grant, vesting or exercise of equity-based compensation to employees and equitably adjusted for any stock split, stock dividend, reverse stock split, reclassification or similar transaction.

Further, at any time after July 14, 2021 when FCAL are not required to file reports with the U.S. Securities and Exchange Commission or FCAL's primary banking regulator and no class of FCAL's securities is listed on a national securities exchange, then if any shares of the Series C Preferred Stock remain outstanding, neither FCAL nor FCAL's subsidiaries may, directly or indirectly, purchase, redeem or otherwise acquire for consideration any shares of FCAL's common stock or any Junior Stock or Parity Stock.

***Liquidation Rights***

In the event of FCAL's voluntary or involuntary liquidation, dissolution or winding up, holders of the Series C Preferred Stock will be entitled to receive for each share of Series C Preferred Stock held, out of FCAL's assets or proceeds thereof available for distribution to FCAL's stockholders, subject to any rights of FCAL's creditors, before any distribution of assets or proceeds is made to or set aside for the holders of FCAL's common stock and any other class or series of FCAL's stock ranking junior to the Series C Preferred Stock, payment of an amount equal to the sum of (i) the \$1,000 liquidation preference amount per share and (ii) the amount of any

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accrued and unpaid dividends on the Series C Preferred Stock. To the extent the assets or proceeds thereof available for distribution to stockholders are not sufficient to fully pay the liquidation payments owing to the holders of the Series C Preferred Stock and the holders of any other class or series of FCAL's stock ranking equally with the Series C Preferred Stock, the holders of the Series C Preferred Stock and such other stock will share ratably in any such distribution.

For purposes of the liquidation rights of the Series C Preferred Stock, a merger or consolidation of FCAL with another entity or the sale, lease or exchange of all or substantially all of FCAL's assets will not constitute a liquidation, dissolution or winding up of FCAL.

### ***Redemption and Repurchases***

Subject to the approval of the Federal Reserve, the Series C Preferred Stock is redeemable at FCAL's option in whole or in part at any time and from time to time. In addition, if there is a change in the law that modifies the terms of Treasury's investment in the Series C Preferred Stock or the terms of the SBLF program in a materially adverse respect for FCAL, FCAL may, after consultation with the Federal Reserve, redeem all of the shares of Series C Preferred Stock. The per-share redemption price will be equal to the sum of the liquidation preference amount per share of \$1,000 plus the per-share amount of any unpaid dividends for the then current dividend period to, but excluding, the date of redemption (regardless of whether any dividends are actually declared for that dividend period) and the pro rata amount of CPP Lending Incentive Fees for the current Dividend Period.

To exercise the redemption right described above, FCAL must give notice of the redemption to the holders of record of the Series C Preferred Stock by first class mail, not less than thirty (30) days and not more than sixty (60) days before the date of redemption. The notice of redemption must state: (i) the redemption date; (ii) the number of shares of Series C Preferred Stock to be redeemed and, if less than all the shares held by such holder are to be redeemed, the number of such shares to be redeemed from such holder; (iii) the redemption price; and (iv) the place or places where certificates for such shares are to be surrendered for payment of the redemption price. In the case of a partial redemption of the Series C Preferred Stock, the shares to be redeemed will be selected either pro rata or in such other manner as FCAL's Board of Directors or a committee of the board determines to be fair and equitable, provided that shares representing at least 25% of the aggregate liquidation amount of the Series C Preferred Stock are redeemed.

Shares of Series C Preferred Stock that FCAL redeem, repurchase or otherwise acquire will revert to authorized but unissued shares of preferred stock, which may then be reissued by FCAL as any series of preferred stock other than the Series C Preferred Stock.

### ***No Conversion Rights***

Holders of the Series C Preferred Stock have no right to exchange or convert their shares into common stock or any other securities.

### ***No Preemptive Rights***

Holders of the Series C Preferred Stock have no right to acquire additional shares of FCAL's capital stock if FCAL issue any shares of capital stock in the future.

### ***Voting Rights***

The holders of the Series C Preferred Stock do not have voting rights other than those described below, except to the extent from time to time required by law.

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If dividends on the Series C Preferred Stock have not been declared and paid in full within five (5) business days after each dividend payment date for an aggregate of five (5) or more dividend periods, whether or not consecutive, FCAL must invite a representative selected by the holders of a majority of the outstanding shares of Series C Preferred Stock, voting as a single class, to attend all meetings of FCAL's Board of Directors in a nonvoting observer capacity and give such representative copies of all notices, minutes, consents and other materials that FCAL provide to FCAL's directors in connection with such meetings. The holders of the Series C Preferred Stock are not obligated to select such a representative and such a representative, if selected, is not obligated to attend any meeting to which he or she is invited. This right of the holders of the Series C Preferred Stock will terminate when full dividends have been timely paid for at least four (4) consecutive dividend periods, subject to revesting in the event FCAL again fail to declare and pay dividends in full on the Series C Preferred Stock for five (5) or more dividend periods.

In addition to any other vote or consent required by law or by FCAL's charter, the written consent of (i) Treasury, if Treasury holds any shares of Series C Preferred Stock, or (ii) the holders of a majority of the outstanding shares of Series C Preferred Stock, voting as a single class, if Treasury does not hold any shares of Series C Preferred Stock, is required in order to do the following:

amend FCAL's articles of incorporation or the articles supplementary for the Series C Preferred Stock to authorize or create or increase the authorized amount of, or any issuance of, any shares of, or any securities convertible into or exchangeable or exercisable for shares of, any class or series of stock ranking senior to the Series C Preferred Stock with respect to the payment of dividends and/or the distribution of assets on any liquidation, dissolution or winding up of FCAL;

amend FCAL's articles of incorporation or the articles supplementary for the Series C Preferred Stock in a way that materially and adversely affect the rights, preferences, privileges or voting powers of the Series C Preferred Stock;

consummate a binding share exchange or reclassification involving the Series C Preferred Stock or FCAL's merger or consolidation with another entity, unless (i) the shares of Series C Preferred Stock remain outstanding or, in the case of a merger or consolidation in which FCAL is not the surviving or resulting entity, are converted into or exchanged for preference securities of the surviving or resulting entity or its ultimate parent, and (ii) the shares of Series C Preferred Stock remaining outstanding or such preference securities, as the case may be, have such rights, preferences, privileges and voting powers, and limitations and restrictions, that are the same as the rights, preferences, privileges and voting powers, and limitations and restrictions, of the Series C Preferred Stock immediately prior to consummation of the transaction, taken as a whole;

sell all, substantially all or any material portion of FCAL's assets, if the Series C Preferred Stock will not be redeemed in full contemporaneously with the consummation of such sale; or

consummate a Holding Company Transaction (as defined below), unless as a result thereof each share of Series C Preferred Stock will be converted into or exchanged for one share with an equal liquidation preference of preference securities of FCAL or the acquirer (the Holding Company Preferred Stock). Any such Holding Company Preferred Stock must entitle its holders to dividends from the date of issuance of such stock on terms that are equivalent to the terms of the Series C Preferred Stock and have such other rights, preferences, privileges and voting powers, and limitations and restrictions, that are the same as the rights, preferences, privileges and voting powers, and limitations and restrictions, of the Series C Preferred Stock immediately prior to such conversion or exchange, taken as a whole;

provided, however, that any increase in the amount of FCAL's authorized shares of preferred stock or the creation and issuance, or an increase in the authorized or issued amount, of any other series of preferred stock, or any securities convertible into or exchangeable or exercisable for any other series of preferred stock, ranking equally with and/or junior to the Series C Preferred Stock with respect to the payment of dividends, whether such dividends are cumulative or non-cumulative, and the distribution of assets upon FCAL's liquidation, dissolution or winding up, will not be deemed to adversely affect the rights, preferences, privileges or voting powers of the Series C Preferred Stock and will not require the vote or consent of the holders of the Series C Preferred Stock.

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A Holding Company Transaction means the occurrence of (a) any transaction that results in a person or group (i) becoming the direct or indirect ultimate beneficial owner of common equity of FCAL representing more than 50% of the voting power of the outstanding shares of FCAL's common stock or (ii) being otherwise required to consolidate FCAL for GAAP purposes, or (b) any consolidation or merger of FCAL or similar transaction or any sale, lease or other transfer in one transaction or a series of related transactions of all or substantially all of FCAL's consolidated assets to any person other than one of FCAL's subsidiaries; provided that, in the case of either clause (a) or (b), FCAL or the acquirer is or becomes a bank holding company or savings and loan holding company.

To the extent holders of the Series C Preferred Stock are entitled to vote, holders of shares of the Series C Preferred Stock will be entitled to one vote for each share then held.

The voting provisions described above will not apply if, at or prior to the time when the vote or consent of the holders of the Series C Preferred Stock would otherwise be required, all outstanding shares of the Series C Preferred Stock have been redeemed by FCAL or called for redemption upon proper notice and sufficient funds have been deposited by FCAL in trust for the redemption.

## **Charter Documents**

FCAL's authorized shares of common stock or preferred stock may be used by FCAL's Board of Directors consistent with its fiduciary duty to deter future attempts to gain control of FCAL. FCAL's Board of Directors also has sole authority to determine the terms of any one or more series of preferred stock, including voting rights, conversion rates and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, FCAL's Board of Directors has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a post-tender offer merger or other transaction by which a third party seeks control, and thereby assist management to retain its position. FCAL's amended and restated by-laws impose certain notice and information requirements in connection with the nomination by stockholders of candidates for election to FCAL's Board of Directors or the proposal by stockholders of business to be acted upon at any annual or special meeting of stockholders.

## **California and Federal Banking Law and Delaware Law**

The following discussion is a summary of certain provisions of California and federal law and regulations and the DGCL which may be deemed to have anti-takeover effects. The description of these provisions is necessarily general and reference should be made to the actual law and regulations.

Federal law prohibits a person or group of persons acting in concert from acquiring control of a bank holding company unless the Federal Reserve Board has been given 60 days prior written notice of such proposed acquisition and within that time period the Federal Reserve has not issued a notice disapproving the proposed acquisition or extending for up to another 30 days the period during which such a disapproval may be issued. An acquisition may be made prior to the expiration of the disapproval period if the Federal Reserve issues written notice of its intent not to disapprove the action. Under a rebuttable presumption established by the Federal Reserve, the acquisition of 10% or more of a class of voting stock of a bank or bank holding company with a class of securities registered under Section 12 of the Exchange Act would, under the circumstances set forth in the presumption, constitute the acquisition of control. In addition, any company would be required to obtain the approval of the Federal Reserve under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquirer that is, or is deemed to be, a bank holding company) or more of any class of voting stock, or such lesser number of shares as may constitute control.

Under the California Financial Code, no person shall, directly or indirectly, acquire control of a California state bank or its holding company unless the Department of Financial Institutions has approved such acquisition of control. A person would be deemed to have acquired control of First California Bank if such person, directly

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or indirectly, has the power (1) to vote 25% or more of the voting power of First California Bank, or (2) to direct or cause the direction of the management and policies of First California Bank. For purposes of this law, a person who directly or indirectly owns or controls 10% or more of FCAL's outstanding common stock would be presumed to control First California Bank.

FCAL is a Delaware corporation that is subject to Section 203 of the DGCL. Section 203 provides that, subject to certain exceptions specified in the law, a Delaware corporation shall not engage in certain business combinations with any interested stockholder for a three-year period following the time that the stockholder became an interested stockholder unless:

prior to such time, FCAL's Board of Directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the corporation's voting stock outstanding at the time the transaction commenced, excluding certain shares; or

at or subsequent to that time, the business combination is approved by the Board of Directors of the corporation and authorized at an annual or special meeting, and not by written consent, by the affirmative vote of holders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

A business combination includes certain mergers, asset or stock sales and other transactions involving the interested stockholder. Subject to certain exceptions, an interested stockholder is any entity or person that, together with that entity's or person's affiliates and associates, owns (or within the previous three years did own) 15% or more of FCAL's outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person. Section 203 could prohibit or delay a merger or other takeover attempt and, accordingly, may discourage attempts to acquire FCAL.

**Table of Contents****BENEFICIAL STOCK OWNERSHIP BY MANAGEMENT AND PRINCIPAL SHAREHOLDERS OF PREMIER SERVICE BANK**

The following table sets forth as of [RECORD DATE], the beneficial ownership of PSBK Common Stock by all: (i) directors; (ii) executive officers; (iii) holders of more than 5% of PSBK Common Stock; and (iv) all directors and executive officers as a group. Unless otherwise indicated, based on information furnished by such shareholders, management of PSBK believes that each person has sole voting and dispositive power with respect to all shares of which he is the beneficial owner and the address of such shareholder is the same as the address of PSBK.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage Beneficially Owned <sup>(1)</sup>
Robert D. Aust <sup>(2)</sup> Director	35,000	2.8%
Donald J. Botic <sup>(3)</sup> Director	14,750	1.2%
Iheanacho Emeruwa <sup>(4)</sup> Director	14,700	1.2%
Robert I. Jaspan <sup>(5)</sup> Vice Chairman and Director	12,999	1.0%
Jessica W. Lee <sup>(6)</sup> Executive Officer	5,200	< 1%
Gerald R. Luppino <sup>(7)</sup> Director	14,800	1.2%
Robert J. Norton <sup>(8)</sup> Director	98,769	7.8%
Kerry L. Pendergast <sup>(9)</sup> Executive Officer and Director	40,390	3.1%
Kenneth B. Stream, Jr. <sup>(10)</sup> Chairman and Director	38,293	3.0%
John D. Wyatt <sup>(11)</sup> Director	11,250	< 1%
Directors, executive officers, and beneficial owners as a group (10 in all) <sup>(12)</sup>	286,151	22.3%

1 Includes all shares beneficially owned, whether directly or indirectly, individually or together with associates. Includes any shares owned, whether jointly or as community property, with a spouse. Includes shares which may be purchased upon exercise of options within 60 days of the Record Date.

2 Mr. Aust has 1,000 stock options currently exercisable in the above numbers.

3 Dr. Botic has an indirect beneficial ownership in 1,750 shares included in the above total. There are also 1,000 stock options currently exercisable included in the numbers above.

4 Dr. Emeruwa has 1,000 stock options currently exercisable in the above numbers.

5 Dr. Jaspan has 1,000 stock options currently exercisable in the above numbers.

6 Ms. Lee has 5,000 stock options currently exercisable in the above numbers.

7 Mr. Luppino has an indirect beneficial ownership in 200 shares included in the above total. There are also 1,000 stock options currently exercisable included in the numbers above.

8 Mr. Norton has 1,000 stock options currently exercisable in the numbers above. Mr. Norton has indirect ownership of 2,600 shares. The remaining shares are held by him in his name directly.

9 Mr. Pendergast has 22,500 stock options currently exercisable in the above numbers.

10 Mr. Stream has an indirect beneficial ownership in 200 shares included in the above total. There are also 1,000 stock options currently exercisable included in the numbers above.

11 Mr. Wyatt has an indirect beneficial ownership in 200 shares included in the above total. There are also 1,000 stock options currently exercisable included in the numbers above.

12 The percentage is based upon 1,261,281 outstanding shares, plus 34,500 shares subject to stock options which are currently exercisable for a total of 1,295,781 shares deemed to be outstanding





**Table of Contents****BENEFICIAL STOCK OWNERSHIP BY MANAGEMENT AND PRINCIPAL SHAREHOLDERS OF FIRST CALIFORNIA FINANCIAL GROUP**

The following table provides information as of June 30, 2012 regarding FCAL's Common Stock and FCAL's Series A Convertible Perpetual Preferred Stock (the **Series A Preferred Stock**), owned by: (i) each person FCAL knows to beneficially own more than 5% of the outstanding Common Stock or outstanding Series A Preferred Stock; (ii) each of FCAL's directors; (iii) each of FCAL's executive officers; and (iv) all of FCAL's executive officers and directors as a group. Except as may be indicated in the footnotes to the table and subject to applicable community property laws, to FCAL's knowledge each person identified in the table has sole voting and investment power with respect to the shares shown as beneficially owned. The Series A Preferred Stock is included in the table below; however, the Series A Preferred Stock is not entitled to vote at the Annual Meeting.

FCAL also has issued and outstanding 25,000 shares of Cumulative Perpetual Preferred Stock, Series C (the **Series C Preferred Stock**). All of the Series C Preferred Stock was issued to the United States Department of the Treasury (the **Treasury**), on July 14, 2011 in connection with FCAL's participation in the Small Business Lending Fund Program (**SBLF**). The Treasury is the beneficial owner of 100% of the issued and outstanding shares of Series C Preferred Stock, and therefore, no further disclosure with respect to the Series C Preferred Stock is contained in the table below.

Except as indicated, the address of each person listed below is c/o First California Financial Group, Inc., 3027 Townsgate Road, Suite 300, Westlake Village, California 91361.

Name of Beneficial Owners	Amount of Beneficial Ownership of Common Stock <sup>(1)</sup>	Approximate Percentage of Outstanding Shares	Amount of Beneficial Ownership of Series A Preferred Stock <sup>(2)</sup>	Approximate Percentage of Outstanding Series A Preferred Stock <sup>(2)</sup>
<b>Directors and Executive Officers:</b>				
Richard D. Aldridge <sup>(3)(4)</sup>	1,426,095	4.88%	0	*
Donald E. Benson <sup>(5)</sup>	92,814	*	0	*
John W. Birchfield <sup>(4)(6)</sup>	1,476,431	5.05%	0	*
Joseph N. Cohen <sup>(7)</sup>	32,688	*	0	*
Robert E. Gipson <sup>(7)</sup>	62,846	*	0	*
Antoinette T. Hubenette <sup>(7)</sup>	20,063	*	0	*
Thomas Tignino <sup>(7)</sup>	30,433	*	0	*
C. G. Kum <sup>(8)</sup>	504,327	1.73%	0	*
Romolo Santarosa <sup>(9)</sup>	235,357	*	0	*
Bradley R. Brown <sup>(10)</sup>	60,000	*	0	*
Gilbert Dalmau <sup>(11)</sup>	20,000	*	0	*
William Schack <sup>(12)</sup>	131,557	*	0	*
All directors and executive officers as a group (12 Persons) <sup>(13)</sup>	3,585,919	10.54%	0	*
<b>Greater than 5% stockholders not listed above:</b>				
James O. Pohlada <sup>(14)</sup>	1,066,107	3.65%	334	33.4%
Robert C. Pohlada <sup>(14)</sup>	1,066,107	3.65%	333	33.3%
William M. Pohlada <sup>(14)</sup>	1,066,107	3.65%	333	33.3%
Total Pohlada Family	3,198,321	10.94%	1,000	100%
The Banc Funds Company <sup>(15)</sup>	2,463,178	8.43%	0	*
Basswood Capital Management <sup>(16)</sup>	1,527,209	5.23%	0	*
Loeb Offshore Management LP <sup>(17)</sup>	1,996,742	6.83%	0	*
Wellington Management Company, LLP <sup>(18)</sup>	1,997,231	6.83%	0	*

\* Represents less than 1%.



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- (1) Shares of Common Stock subject to options currently exercisable, or exercisable within 60 days of June 30, 2012 and shares of restricted Common Stock are deemed outstanding for computing the ownership percentage of the person holding such options or warrants, but are not deemed outstanding for computing the ownership percentage of any other person. Unless otherwise noted in a footnote to this table, the number of shares reflected in the table includes shares held by or with such person's spouse (except where legally separated) and minor children; shares held by any other relative of such person who has the same home; shares held by a family trust as to which such person is a trustee with sole voting and investment power (or shares power with a spouse); shares held as custodian for minor children; or shares held in an Individual Retirement Account or pension plan as to which such person has pass-through voting rights and investment power.
- (2) Each share of Series A Preferred Stock is convertible into a number of shares of Common Stock equal to the liquidation preference of \$1,000 and any accumulated dividends thereon, divided by 5.63.
- (3) This figure includes 52,469 shares held by the Brian J. Aldridge 1991 Trust and 70,180 shares held by the Tenisha M. Aldridge 1991 Trust, of which Lynda J. Aldridge, the spouse of Richard Aldridge, is the sole trustee and 180,982 shares held by the Aldridge Family Trust of which Richard D. Aldridge is the sole trustee. Includes 8,057 shares that may be acquired within 60 days of June 30, 2012 upon exercise of stock options, 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, 3,045 shares of restricted Common Stock which vest in three equal annual installments beginning on February 25, 2010 and 3,969 shares of restricted Common Stock which vest in three equal annual installments beginning on March 16, 2012 and 3,597 shares of restricted Common Stock which vests in three equal annual installments beginning on January 25, 2013.
- (4) This figure includes 506,692 shares held in entities for which Richard D. Aldridge and John W. Birchfield are co-trustees, each having full voting rights over the entire block of shares. The 506,692 shares are held as follows: 300,000 shares are held by Banyon LLC, 51,673 shares are held in the James O. Birchfield 1995 Trust FBO Shane O. Birchfield, 51,673 shares are held in the James O. Birchfield 1995 Trust FBO Garrett W. Birchfield, 51,673 shares are held in the James O. Birchfield 1995 Trust FBO Tenisha M. Fitzgerald, and 51,673 shares are held in the James O. Birchfield 1995 Trust FBO Brian J. Aldridge.
- (5) This figure includes 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, 3,045 shares of restricted Common Stock which vest in three equal annual installments beginning on February 25, 2010, 3,969 shares of restricted Common Stock which vest in three equal annual installments beginning on March 16, 2012, and 3,597 shares of restricted Common Stock which vests in three equal annual installments beginning on January 25, 2013. 64,187 of these shares have been pledged as security in a Merrill Lynch Margin Account.
- (6) This figure includes 66,234 shares held by the Shane O. Birchfield Trust, 43,893 shares held by the Garrett W. Birchfield Trust and 180,981 shares held by the John W. Birchfield Trust of which John W. Birchfield is the sole trustee. This figure also includes 8,057 shares that may be acquired within 60 days of June 30, 2012 upon exercise of stock options, 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, 3,045 shares of restricted Common Stock which vest in three equal annual installments beginning on February 25, 2010, 3,969 shares of restricted Common Stock which vest in three equal annual installments beginning on March 16, 2012 and 3,597 shares of restricted Common Stock which vests in three equal annual installments beginning on January 25, 2013.
- (7) Includes 1,765 shares of restricted Common Stock which vest in three equal annual installments beginning on March 19, 2009, 3,045 shares of restricted Common Stock which vest in three equal annual installments beginning on February 25, 2010, 3,969 shares of restricted Common Stock which vest in three equal annual installments beginning on March 16, 2012 and 3,597 shares of restricted Common Stock which vest in three equal annual installments beginning on January 25, 2013.
- (8) Includes 128,981 shares that may be acquired within 60 days of June 30, 2012 upon exercise of stock options, 13,805 shares of restricted Common Stock which vest in five equal annual installments beginning on February 25, 2010, 150,00 shares of restricted Common Stock which vest in three equal annual installments on March 20, 2012 and 150,000 shares of restricted Common Stock which vest in three equal annual installments beginning on March 20, 2012, provided certain performance criteria are achieved in the preceding fiscal year.

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- (9) Includes 44,887 shares that may be acquired within 60 days of June 30, 2012 upon exercise of stock options, 5,485 shares of restricted Common Stock which vest in five equal installments beginning on February 25, 2010, 90,000 shares of restricted Common Stock which vest in three equal installments beginning on March 20, 2012 and 90,000 shares of restricted Common Stock which vest in three equal annual installments beginning March 20, 2012, provided certain performance criteria are achieved in the preceding fiscal year.
- (10) Includes 10,000 shares of restricted Common Stock which vest in three equal annual installments beginning on March 20, 2012 and 50,000 shares of restricted Common Stock which vest in three equal installments beginning on March 20, 2012, provided certain criteria are achieved in the preceding fiscal year.
- (11) Includes 20,000 shares of restricted Common Stock which vest in three equal annual installments beginning on July 20, 2012.
- (12) Includes 8,392 shares that may be acquired within 60 days of June 30, 2012 upon exercise of stock options and 3,165 shares of restricted Common Stock which vest in five equal annual installments beginning on February 25, 2010, 60,000 shares of restricted Common Stock which vest in three equal installments beginning on March 20, 2012, and 60,000 shares of restricted Common Stock which vest in three equal annual installments beginning March 20, 2012, provided certain performance criteria are achieved in the preceding fiscal year.
- (13) The 506,692 shares beneficially owned by each of Richard D. Aldridge and John W. Birchfield, in their capacities as co-trustees of the entities discussed in footnote (4) above, are included only once for purposes of this figure.
- (14) The business address is 60 South Sixth Street, Suite 3800, Minneapolis, Minnesota 55402.
- (15) Beneficial ownership information is based solely on information contained in the Schedule 13F filed with the Securities and Exchange Commission as of June 30, 2012 by The Banc Funds Company, L.L.C. and certain of its affiliates. According to the Schedule 13F, The Banc Funds Company, L.L.C. beneficially owns an aggregate of 2,463,178 shares.
- (16) Beneficial ownership information is based solely on information contained in the Schedule 13D filed with the Securities and Exchange Commission on April 2, 2012 by Basswood Capital Management, L.L.C. ( Basswood Management Company ) and certain of its affiliates. According to the Schedule 13D, Basswood Management Company beneficially owns an aggregate of 1,527,209 shares over which Basswood Management Company has shared voting power and shared dispositive power.
- (17) Beneficial ownership information is based solely on information contained in the Schedule 13D filed with the Securities and Exchange Commission on June 25, 2012 by Loeb Offshore Management LP. and certain of its affiliates ( Loeb ). According to the Schedule 13D, Loeb has shared voting power and shared dispositive power over the 1,996,742 shares listed above as beneficially owned by Loeb Offshore Management LP.
- (18) Beneficial ownership information is based solely on information contained in the Schedule 13F filed with the Securities and Exchange Commission as of June 30, 2012 by Wellington Management Company, LLP ( Wellington Management ). According to the Schedule 13F, Wellington Management beneficially owns an aggregate of 1,997,231 shares.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires FCAL's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership of, and transactions in, FCAL's equity securities with the SEC. Such directors, executive officers and 10% stockholders are also required to furnish FCAL with copies of all Section 16(a) reports that they file. Based solely on a review of the copies of such reports received by FCAL, FCAL believes that all Section 16(a) filing requirements applicable to its directors, executive officers and 10% stockholders were complied with and filed in a timely manner during 2011.

**Table of Contents****COMPARISON OF RIGHTS OF HOLDERS OF****PSBK COMMON STOCK AND FCAL COMMON STOCK**

FCAL is incorporated in the State of Delaware and PSBK is incorporated in the State of California. If the merger is completed, holders of PSBK Common Stock will become holders of FCAL Common Stock and the rights of former PSBK shareholders will be governed by Delaware law and FCAL's restated and amended articles of incorporation and the amended and restated by-laws. The rights of PSBK shareholders under PSBK's articles of incorporation and bylaws differ in limited respects from the rights of FCAL shareholders under FCAL's restated and amended articles of incorporation and amended and restated by-laws. The material differences are summarized in the table below. To review all provisions and differences of such documents in full detail, please read these documents and the California Business Corporation Act. Copies of FCAL's restated and amended articles of incorporation and restated by-laws are on file with the SEC. Copies of PSBK's articles of incorporation and bylaws may be obtained from PSBK's corporate secretary upon written request.

	<b>PSBK SHAREHOLDER RIGHTS</b>	<b>FCAL SHAREHOLDER RIGHTS</b>
<b>Corporate Governance:</b>	The rights of PSBK shareholders are currently governed by California law and the articles of incorporation and bylaws of PSBK.	The rights of FCAL shareholders are currently governed by Delaware law and the amended and restated articles of incorporation and the amended and restated by-laws of FCAL.
	Upon consummation of the merger, the rights of PSBK shareholders will be governed by Delaware law and the restated and amended articles of incorporation and the amended and restated by-laws of FCAL.	Upon consummation of the merger, the rights of FCAL shareholders will remain governed by Delaware law and the amended and restated articles of incorporation and the amended and restated by-laws of FCAL.
<b>Authorized Capital Stock</b>	The authorized capital stock of PSBK consists of 10 million shares of common stock and 10 million shares of preferred stock.	The authorized capital stock of FCAL consists of 100 million shares of common stock and 2.5 million shares of preferred stock.
<b>Number of Directors</b>	PSBK's amended and restated bylaws provide that the authorized number of directors will be no less than nine (9) and no more than seventeen (17), subject to being increased by resolution of the Board of Directors.	FCAL's restated by-laws state that number of directors comprising the initial Board of Directors will be ten (10), subject to being increased or decreased by resolution of the Board of Directors.
<b>Shareholder Nomination of Directors</b>	PSBK's amended and restated bylaws state that a shareholder of any outstanding class of capital stock that is entitled to vote for the election of directors may nominate a director for election.	FCAL's restated by-laws permit stockholders who are entitled to vote in the meeting of stockholders may nominate a director for election.
<b>Election of Directors</b>	PSBK's articles of incorporation state that persons in whose names shares entitled to vote may vote in the election of directors. Cumulative voting is permitted.	FCAL's restated and amended articles of incorporation provide that each stockholder is entitled to one vote for each share of stock held by such stockholder. Cumulative voting is permitted.
<b>Classification of Board of Directors</b>	PSBK's amended and restated bylaws do not provide for a classified Board of Directors; each director serves until their respective successors are elected.	FCAL's amended and restated by-laws do not provide for a classified Board of Directors; each director serves until their respective successors are elected.

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	<b>PSBK SHAREHOLDER RIGHTS</b>	<b>FCAL SHAREHOLDER RIGHTS</b>
<b>Removal of Directors</b>	Under PSBK s amended and restated bylaws, any director may be removed, with or without cause, at any special meeting of shareholders duly called and held for such purpose by a vote of the holders of a majority of shares then entitled to vote for the election of directors.	Under FCAL s amended and restated by-laws, any director may be removed, with or without cause, at any meeting of shareholders called expressly for such purpose by a vote of the holders of a majority of shares entitled to vote for the election of directors.
<b>Shareholder Action Without a Meeting</b>	According to PSBK s amended and restated bylaws, any action required or permitted to be taken at any annual or special shareholders meeting may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all shareholders entitled to vote with respect to the subject matter thereof.	According to FCAL s amended and restated by-laws, any action required or permitted to be taken at any annual or special shareholders meeting may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed by all shareholders entitled to vote with respect to the subject matter thereof.
<b>Special Meetings of Shareholders</b>	According to PSBK s amended and restated bylaws, PSBK may call a special shareholders meeting at the request of the chairman of the board, the president, the Board of Directors or one or more PSBK shareholders holding not less than ten percent (10%) of the shares that would be entitled to vote at such a meeting.	According to FCAL s amended and restated by-laws, FCAL may call a special shareholders meetings upon the written request of the President, the Chairman of the Board, the Vice Chairman of the Board, or the Board of Directors or of the FCAL shareholders who together hold a majority of the outstanding shares of FCAL stock that would be entitled to vote at such a meeting.
<b>Amendment of Articles of Incorporation and Bylaws</b>	Subject to California corporate law, PSBK s articles of incorporation may be amended by the affirmative vote or written consent of a majority of the outstanding voting stock of PSBK.  PSBK s amended and restated bylaws may be amended by a vote of the majority of outstanding shares entitled to vote or may be amended by the Board of Directors subject to the rights of the shareholders.	FCAL s restated and amended articles of incorporation may be amended by the corporation in any manner allowed under Delaware law. Articles IV, V, VI, VII, and XI may not be repealed or amended in any respect unless such repeal or amendment is approved by the affirmative vote of the holders of not less than two-thirds (2/3) of the total voting power of all outstanding shares of voting stock.  FCAL s amended and restated by-laws may be amended by the Board of Directors or stockholders entitled to vote.
<b>Voting Stock</b>	Holders of PSBK Common Stock have one vote per share held by them. Shareholders may cumulate their votes in the election of directors.	Holders of FCAL Common Stock have one vote per share held by them. Cumulative voting is allowed in the election of directors.
<b>Authorization and Issuance of Additional Classes of Capital Stock</b>	The Board of Directors of PSBK is authorized to issue 10,000,000 shares of preferred stock, and can determine the class and rights attached to any share of preferred stock.	FCAL s Board of Directors is authorized to issue 2,500,000 shares of preferred stock, and can determine the class and rights attached to any share of preferred stock.

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	<b>PSBK SHAREHOLDER RIGHTS</b>	<b>FCAL SHAREHOLDER RIGHTS</b>
<b>Liquidation Rights</b>	PSBK s articles of incorporation states that after distribution in full of preferential amounts to be distributed to the holders of all classes and series of stock entitled and to the holders of capital notes, if any, in the event of voluntary or involuntary liquidation, dissolution, or winding up of the corporation, the holders of common stock will be entitled to receive all the remaining assets of the corporation.	FCAL s amended and restated articles of incorporation authorizes the Board of Directors to determine, for shares of preferred stock, the amount or amounts which will be payable out of the assets of the corporation to the holders of the shares of such series upon voluntary or involuntary liquidation, dissolution, or winding up the corporation.
<b>Dividend Rights</b>	PSBK s articles of incorporation state that after the requirements with respect to preferential dividends upon all classes and series of stock entitled thereto will have been paid or declared and set apart for payment, and after the corporation will have complied with all requirements, if any, with respect to the setting aside of sums a sinking fund or for a redemption account on any class of stock, then, and not otherwise, the holders of common stock will be entitled to receive, subject to applicable provisions of the Financial Code of the State of California, such dividends as may be declared from time to time by the Board of Directors.	FCAL s amended and restated articles of incorporation state that the Board of Directors may, in regards to Preferred Shares, determine the divided rate and whether dividends on the shares will be cumulative.
<b>Appraisal Rights</b>	PSBK s articles of incorporation and amended and restated bylaws are silent regarding appraisal rights.	FCAL s amended and restated articles of incorporation and amended and restated bylaws are silent regarding appraisal rights

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**SUPERVISION AND REGULATION**

**General**

Banking is a complex, highly regulated industry. The primary goals of the regulatory scheme are to maintain a safe and sound banking system, protect depositors and the FDIC insurance fund, and facilitate the conduct of sound monetary policy. This regulatory scheme is not designed for the benefit of stockholders of FCAL or PSBK or their successors. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the financial services industry. Consequently, the growth and earnings performance of FCAL or its successors and FCB and PSBK can be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes, regulations and the policies of various governmental regulatory authorities, including the FRB, the FDIC, the DFI, and the United States Department of the Treasury, or the Treasury.

The commercial banking business is also influenced by the monetary and fiscal policies of the federal government and the policies of the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in United States Government securities, by adjusting the required level of reserves for financial intermediaries subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits and also affect interest rates charged on loans and paid on deposits. Indirectly, such actions may also impact the ability of non-bank financial institutions to compete with the Bank. The nature and impact of any future changes in monetary policies cannot be predicted.

The system of supervision and regulation applicable to financial services businesses governs most aspects of the business of FCAL, FCB and PSBK, including: (i) the scope of permissible business; (ii) investments; (iii) reserves that must be maintained against deposits; (iv) capital levels that must be maintained; (v) the nature and amount of collateral that may be taken to secure loans; (vi) the establishment of new branches; (vii) mergers and consolidations with other financial institutions; and (viii) the payment of dividends.

From time to time laws or regulations are enacted which have the effect of increasing the cost of doing business, limiting or expanding the scope of permissible activities, or changing the competitive balance between banks and other financial and non-financial institutions. Proposals to change the laws and regulations governing the operations of banks and bank holding companies are frequently made in Congress, in the California legislature and by various bank and other regulatory agencies. For example, as noted above, Dodd-Frank, among other things, creates Consumer Financial Protection Bureau which has broad powers to regulate consumer financial services and products, creates the Financial Stability Oversight Council with regulatory authority over certain financial companies and activities, and would give shareholders a say on pay regarding executive compensation. The FRB has also issued proposed guidance on incentive compensation to ensure that banking organizations incentive compensation policies do not undermine the safety and soundness of their organizations. Future changes in the laws, regulations or policies that impact FCAL, FCB or PSBK and/or their successors cannot necessarily be predicted, but they may have a material effect on their respective business and earnings.

Set forth below is a summary description of certain of the material laws and regulations that relate to the business and operations of FCAL, FCB and PSBK. The description does not purport to be a complete description of these laws and regulations and is qualified in its entirety by reference to the applicable laws and regulations.

**Recent Regulatory Developments**

***Dodd-Frank Wall Street Reform and Consumer Protection Act***

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or Dodd-Frank, was signed into law. Dodd-Frank will have a broad impact on the financial services industry and will impose



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significant new regulatory and compliance requirements, including the designation of certain financial companies as systemically significant, the imposition of increased capital, leverage and liquidity requirements, and numerous other provisions designed to improve supervision and oversight of, and strengthen safety and soundness within, the financial services sector. Additionally, Dodd-Frank establishes a new framework of authority to conduct systemic risk oversight within the financial system to be distributed among new and existing regulatory agencies, including the Financial Stability Oversight Council, or Council, the Board of Governors of the Federal Reserve System, or FRB, the Office of the Comptroller of the Currency, or OCC, and the FDIC. The rules and regulations promulgated under Dodd-Frank are likely to impact our operations and cost. Dodd-Frank includes, among other things, the following:

- (i) the creation of a Financial Stability Oversight Counsel to identify emerging systemic risks and improve interagency cooperation;
- (ii) requirement by statute that bank holding companies serve as a source of financial strength for their depository institution subsidiaries;
- (iii) the elimination and phase-out of trust preferred securities from Tier 1 capital with certain exceptions;
- (iv) the elimination of remaining barriers to de novo interstate branching by banks;
- (v) expanded FDIC resolution authority to conduct the orderly liquidation of certain systemically significant non-bank financial companies in addition to depository institutions;
- (vi) enhanced regulation of financial markets, including the derivative and securitizations markets, and the elimination of certain proprietary trading activities by banks;
- (vii) the establishment of strengthened capital and liquidity requirements for banks and bank holding companies, including minimum leverage and risk-based capital requirements no less than the strictest requirements in effect for depository institutions as of the date of enactment;
- (viii) a permanent increase of the previously implemented temporary increase of FDIC deposit insurance to \$250,000 and an extension of federal deposit coverage until January 1, 2013 for the full net amount held by depositors in non-interest bearing transaction accounts;
- (ix) authorization for financial institutions to pay interest on business checking accounts;
- (x) changes in the calculation of FDIC deposit insurance assessments, such that the assessment base will no longer be the institution's deposit base, but instead, will be its average consolidated total assets less its average tangible equity and increase the minimum reserve ratio for the Deposit Insurance Fund, or DIF, from 1.15 percent to 1.35 percent;
- (xi) the transfer of oversight of savings and loan holding companies to the FRB, federally chartered thrift institutions to the Office of the Comptroller of the Currency and state-chartered savings banks to the FDIC, and the elimination of the Office of Thrift Supervision;

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- (xii) the creation of a Consumer Financial Protection Bureau (the **CFPB** ), which is authorized to promulgate and enforce consumer protection regulations relating to bank and non-bank financial products and examine and enforce these regulations on banks with more than \$10 billion in assets;
- (xiii) expanded restrictions on transactions with affiliates and insiders under Sections 23A and 23B of the Federal Reserve Act and lending limits for derivative transactions, repurchase agreements and securities lending and borrowing transactions; and
- (xiv) provisions that affect corporate governance and executive compensation at most United States publicly traded companies, including (1) stockholder advisory votes on executive compensation, (2) executive compensation clawback requirements for companies listed on national securities exchanges in the event of materially inaccurate statements of earnings, revenues, gains or other criteria similar to the requirements of the American Recovery and Reinvestment Act of 2009 for the Troubled Assets Relief Program Capital Purchase Program for the SEC recipients, (3) enhances

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independence requirements for compensation committee members, and (4) authority for the SEC to adopt proxy access rules which would permit stockholders of publicly traded companies to nominate candidates for election as a director and have those nominees included in a company's proxy statement.

Dodd-Frank adopts the so-called Volcker Rule which, subject to a transition period and certain exceptions, will become effective on July 21, 2012 and prohibits a banking entity from engaging in proprietary trading, which is defined as engaging as principal for the trading account of the banking entity in securities or other instruments, as determined by federal regulators. After the conformance period commencing July 21, 2012, the Volcker Rule prohibitions and restrictions will apply to banking entities, including FCAL, FCB, PSBK and their affiliates, unless an exception applies. Certain forms of proprietary trading may qualify as permitted activities, and thus not be subject to the ban on proprietary trading, such as market-making-related activities, risk-mitigating hedging activities, and trading in U.S. government or agency obligations, certain other U.S., state or municipal obligations, and the obligations of Fannie Mae, Freddie Mac or Ginnie Mae. Additionally, subject to a transition period and certain exceptions, the rule restricts a banking entity from sponsoring or investing in certain private funds. A banking entity that sponsors or invests in certain private funds is also restricted from providing credit or other support to the fund or permitting the fund to use the name of the bank. In October 2011, the OCC, FRB, FDIC, and SEC, in consultation with the Commodity Futures Trading Commission, jointly released a notice of proposed rulemaking implementing the Volcker Rule limitations of Dodd-Frank. In light of the complexity of the proposed regulation and the likelihood that a substantial number of comments will be submitted, neither FCAL, FCB nor PSBK can fully assess the impact of the Volcker Rule on their respective business until final rules and regulations are adopted.

FCAL, FCB, and PSBK cannot predict the extent to which the interpretations and implementation of this wide-ranging federal legislation may affect them. Many of the requirements of Dodd-Frank will be implemented over time and most will be subject to regulations implemented over the course of several years. There can be no assurance that these or future reforms (such as possible new standards for commercial real estate lending or new stress testing guidance for all banks) arising out of studies and reports required by Dodd-Frank will not significantly increase FCAL, FCB, and PSBK's compliance or other operating costs and earnings or otherwise have a significant impact on their respective business, financial condition and results of operations. Dodd-Frank is likely to impose more stringent capital, liquidity and leverage requirements or otherwise adversely affect their respective business. As a result of the changes required by Dodd-Frank, the profitability of their respective business activities may be impacted and FCAL, FCB and PSBK may be required to make changes to certain of their respective business practices. These changes may also require FCAL, FCB and/or PSBK to invest significant management attention and resources to evaluate and make any changes necessary to comply with new statutory and regulatory requirements.

***Emergency Economic Stabilization Act***

In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (EESA), became law. EESA temporarily increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. Dodd-Frank made the \$250,000 deposit insurance limit permanent. In addition, the FDIC has implemented two temporary programs under the Temporary Liquidity Guaranty Program, or the TLGP, to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through June 30, 2010 (for depository institutions that did not opt out prior to November 2, 2009) and to guarantee certain unsecured debt of financial institutions and their holding companies through June 2012. FCB did not participate in these TLGP programs. PSBK participated in the deposit insurance program for non-interest bearing transaction accounts through June 30, 2010. Dodd-Frank extended until January 1, 2013 deposit insurance for the full net amount of non-interest bearing transaction accounts. The FDIC charges systemic risk special assessments to depository institutions that participate in the TLGP. The FDIC has recently proposed that Congress give the FDIC expanded authority to charge fees to the holding companies which benefit directly and indirectly from the FDIC guarantees. See FDIC Deposit Insurance below.

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Through its authority under EESA, the Treasury announced in October 2008 the Troubled Asset Relief Program Capital Purchase Program (**TARP-CPP**), a program designed to bolster healthy institutions by making \$250 billion of capital available to U.S. financial institutions in the form of preferred stock.

On December 19, 2008, FCAL participated in TARP-CPP and sold to the Treasury 25,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series B (the **Series B Preferred Stock**), liquidation preference amount \$1,000 per share, for an aggregate purchase price of \$25.0 million, and concurrently issued to the Treasury a ten-year warrant to purchase up to 599,042 shares of FCAL Common Stock at an exercise price of \$6.26 per share (subject to adjustment). The issuance of the Series B Preferred Stock and the warrant were completed in a private placement to the Treasury exempt from the registration requirements of the Securities Act pursuant to the terms of a Letter Agreement, dated December 19, 2008, which incorporate the provisions of a Securities Purchase Agreement Standard Terms attached thereto. Under the terms of these agreements with Treasury, FCAL was required to register for resale the shares of the Series B Preferred Stock, the warrant and the shares of FCAL Common Stock underlying the warrant. In February 2009, FCAL filed a registration statement on Form S-3 to register the warrant and the shares of FCAL Common Stock underlying the warrant. All outstanding shares of Series B Preferred Stock were redeemed and the warrant to purchase 599,042 shares of FCAL Common Stock was repurchased on July 14, 2011 in connection with FCAL's participation in the Treasury's Small Business Lending Fund Program. See SUPERVISION AND REGULATION Small Business Lending Fund Program herein.

On February 20, 2009, PSBK participated in TARP-CPP and sold to the Treasury 4,000 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series A, liquidation preference amount \$1,000 per share (the **PSBK Series A Preferred Stock**), for an aggregate purchase price of \$4.0 million, and concurrently issued to the Treasury a ten-year warrant to purchase up to 200 shares of its Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B (the **PSBK Series B Preferred Stock** and collectively with the PSBK Series A Preferred Stock, the **PSBK Preferred Stock**). The warrant to purchase PSBK Series B Preferred Stock was exercised immediately upon close of the transaction. The 4,200 shares of PSBK Preferred Stock held by the Treasury as of the Record Date are only entitled to vote on certain limited matters, including the approval, voting as a separate class, of the Merger by the holders of at least 66-2/3% of the shares of PSBK Preferred Stock. Under the terms of the PSBK Preferred Stock, the Treasury is entitled to the payment of quarterly cash dividends on the Preferred Stock if, as and when declared by the PSBK's Board out of assets legally available therefor. Under the terms of the PSBK Series A Preferred Stock, Treasury is entitled to receive non-cumulative quarterly cash dividends at an annual rate of 5% per share on the liquidation preference of \$1,000 per share, or \$50,000 per quarter. The dividend rate on the PSBK Series A Preferred Stock will increase to 9% per share, or \$90,000 per quarter, for all quarterly dividend periods after February 20, 2014. In addition, Treasury is entitled to receive non-cumulative quarterly cash dividends at an annual rate of 9% on the liquidation preference of \$1,000 per share on the PSBK Series B Preferred Stock, or \$4,500 per quarter, for all quarterly dividend periods during which the PSBK Series B Preferred Stock remains outstanding. Dividends on the PSBK Preferred Stock are payable quarterly on or about February 15, May 15, August 15 and November 15 of each year and are computed on a basis of a 360-day year consisting of twelve 30-day months. Dividends are non-cumulative and are payable if, as and when declared by the Board of Directors, but only out of assets legally available therefor. As required by the Merger Agreement, all shares of PSBK Preferred Stock will be redeemed immediately prior to the closing of the Merger.

### ***Small Business Lending Fund Program***

Enacted into law as part of the Small Business Jobs Act of 2010 (the Jobs Act), the Small Business Lending Fund (**SBLF**) is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks and community development loan funds with assets of less than \$10 billion. For community banks, the SBLF is structured to encourage small business lending through a dividend or interest rate incentive structure. The initial rate payable on SBLF capital is, at most, five percent, and the rate falls to one percent if a bank's small business lending increases by ten percent or more. Banks that increase their lending by

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less than ten percent pay rates between two percent and four percent. If a bank's lending does not increase in the first two years, however, the rate increases to seven percent, and after 4.5 years total, the rate for all banks increases to nine percent (if the bank has not already repaid the SBLF funding).

On July 14, 2011, FCAL issued and sold to the Treasury 25,000 shares of its Non-Cumulative Perpetual Preferred Stock, Series C (the **Series C Preferred Stock**), having a liquidation preference of \$1,000 per share (the Liquidation Amount), for aggregate proceeds of \$25.0 million in connection with FCAL's participation in the SBLF. Proceeds from the sale of the Series C Preferred Stock were used to redeem the FCAL's 25,000 outstanding shares of Series B Preferred Stock, which were issued to the Treasury in December 2008 in connection with the FCAL's participation in TARP-CPP. For a more complete description of FCAL's Series C Preferred Stock, please refer to DESCRIPTION OF FCAL CAPITAL STOCK Preferred Stock Series C Preferred Stock, herein.

PSBK did not participate in the SBLF.

**Regulation of First California Financial Group**

As a registered bank holding company, FCAL and its subsidiaries are subject to the FRB's supervision, regulation and examination under the BHCA. Under the BHCA, FCAL is subject to periodic examination by the FRB. FCAL is also required to file with the FRB periodic reports of our operations and such additional information regarding FCAL and its subsidiaries as the FRB may require.

Under FRB regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, it is the FRB's policy that in serving as a source of strength to its subsidiary banks, a bank holding company should stand ready to use available resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks. A bank holding company's failure to meet its obligations to serve as a source of strength to its subsidiary banks will generally be considered by the FRB to be an unsafe and unsound banking practice or a violation of the FRB's regulations or both.

Dodd-Frank amends the Federal Deposit Insurance Act, or FDIA, to obligate the FRB to require bank holding companies to serve as a source of financial strength for any subsidiary depository institution. The appropriate federal banking agency for such a depository institution may require reports from companies that own the insured depository institution to assess their ability to serve as a source of strength and to enforce compliance with the source-of-strength requirements. The term source of financial strength is defined as the ability of a company to provide financial assistance to its insured depository institution subsidiaries in the event of financial distress at such subsidiaries. Under this requirement, FCAL in the future could be required to provide financial assistance to FCB should it experience financial distress.

FCAL is required to obtain the FRB's prior approval before acquiring ownership or control of more than 5% of the outstanding shares of any class of voting securities, or substantially all the assets, of any company, including a bank or bank holding company. Further, FCAL is allowed to engage, directly or indirectly, only in banking and other activities that the FRB deems to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Pursuant to the GLBA, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries must be well capitalized, well managed, and, except in limited circumstances, be in satisfactory compliance with the Community Reinvestment Act, or the CRA.

FCAL's securities are registered with the Securities and Exchange Commission, or the SEC, under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and listed on the NASDAQ Global Select

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Market. As such, FCAL is subject to the information, proxy solicitation, insider trading, corporate governance, and other requirements and restrictions of the Exchange Act, as well as the Marketplace Rules and other requirements promulgated by the NASDAQ Stock Market, Inc.

FCAL is subject to the accounting oversight and corporate governance requirements of the Sarbanes-Oxley Act of 2002, including, among other things, required executive certification of financial reports, increased requirements for board audit committees and their members, and enhanced disclosure of controls and procedures and internal controls over financial reporting.

FCAL's earnings and activities are affected by legislation, by regulations and by local legislative and administrative bodies and decisions of courts in the jurisdictions in which it conducts business. For example, these include limitations on the ability of FCB's to pay dividends to FCAL and FCAL's ability to pay dividends to its stockholders. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries. Various federal and state statutory provisions limit the amount of dividends that subsidiary banks can pay to their holding companies without regulatory approval. In addition to these explicit limitations, the federal regulatory agencies have general authority to prohibit a banking subsidiary or bank holding company from engaging in an unsafe or unsound banking practice. Depending upon the circumstances, the agencies could take the position that paying a dividend would constitute an unsafe or unsound banking practice. In addition, as discussed below under Regulation of FCB and PSBK, a bank holding company such as FCAL is required to maintain minimum ratios of Tier 1 capital and total capital to total risk-weighted assets, as well as a minimum ratio of Tier 1 capital to total adjusted quarterly average assets as defined in such regulations.

Under the terms of the SBLF, for so long as any preferred stock issued under the SBLF remains outstanding, FCAL is permitted to make dividend payments to, or effectuate share repurchases from, other shareholders, provided that after the payment or repurchase, the institution's Tier 1 capital would be at least 90 percent of the amount existing at the time immediately after the SBLF closing date, excluding any subsequent net charge-offs and partial repayments of the SBLF funding.

## **Regulation of FCB and PSBK**

FCB and PSBK are extensively regulated under both federal and state law. FCB and PSBK, as California state chartered banks which are not members of the Federal Reserve System, are subject to regulation, supervision, and regular examination by the DFI and the FDIC. Their deposits are insured by the FDIC up to the maximum extent provided by law. The regulations of these agencies govern most aspects of their respective business. California law exempts all banks from usury limitations on interest rates. Various consumer laws and regulations also affect their respective operations, such as the CRA, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. These laws primarily protect depositors and other customers of FCB and PSBK, rather than FCAL or PSBK's respective stockholders. The creation of the CFPB by Dodd-Frank is also likely to lead to enhanced and strengthened enforcement of consumer financial protection laws. On July 21, 2011, the CFPB assumed its authority to supervise and enforce existing consumer financial protection rules. On January 4, 2012, President Obama named Richard Cordray as the Director of the CFPB via recess appointment. The validity of this recess appointment may be subject to challenge, creating uncertainty because the full authority to approve new consumer financial protection rules is vested in the director of the CFPB. Additionally, Dodd-Frank does not allow the CFPB to promulgate regulations until it has a director that has been confirmed by the Senate. At this time it is still unclear as to whether the recess appointment is sufficient to meet this statutory requirement. Accordingly, at this time, neither FCB nor PSBK can fully assess the impact of the CFPB on their respective business.

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Various requirements and restrictions under the laws of the State of California and the United States affect the operations of FCB and PSBK. State and federal statutes and regulations relate to many aspects of their respective operations, including standards for safety and soundness, reserves against deposits, interest rates payable on deposits and loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices, fair lending requirements, CRA activities and loans to affiliates. Further, FCB and PSBK are required to maintain certain levels of capital.

### ***Dividends and Capital Distributions***

Dividends and capital distributions from FCB constitute the principal source of cash to FCAL. As a result, FCAL's ability to pay dividends to its stockholders on its capital stock will depend primarily on the ability of FCB to pay dividends to FCAL in amounts sufficient to service its obligations.

The FRB has issued a policy statement with regard to the payment of cash dividends by bank holding companies. The policy statement provides that, as a matter of prudent banking, a bank holding company should not maintain a rate of cash dividends unless its net income available to common stockholders has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears to be consistent with the holding company's capital needs, asset quality and overall financial condition. Accordingly, a bank holding company should not pay cash dividends that exceed its net income or can only be funded in ways that weaken a holding company's financial health, such as by borrowing.

Both FCB and PSBK are subject to various federal or state statutory and regulatory limitations on their ability to pay dividends and capital distributions to their respective shareholders, generally based on capital levels and current or retained earnings. The ability of FCB and PSBK to pay dividends is also subject to regulatory restrictions if paying dividends would impair their profitability, financial condition or other cash flow requirements.

Under California law, banks may declare a cash dividend out of their net profits up to the lesser of retained earnings or the net income for the last three fiscal years (less any distributions made to shareholders during such period), or with the prior written approval of the DFI, in an amount not exceeding the greatest of (i) the retained earnings of the bank, (ii) the net income of the bank for its last fiscal year or (iii) the net income of the bank for its current fiscal year. In addition, under federal law, banks are prohibited from paying any dividends if after making such payment they would fail to meet any of the minimum regulatory capital requirements. The federal regulators also have the authority to prohibit state banks from engaging in any business practices which are considered to be unsafe or unsound, and in some circumstances the regulators might prohibit the payment of dividends on that basis even though such payments would otherwise be permissible.

FCB and PSBK may from time to time be permitted to make additional capital distributions to their shareholders with the consent of the DFI. It is not anticipated that such consent could be obtained unless the distributing bank were to remain well-capitalized following such distribution.

### ***Regulatory Capital Guidelines***

FCB and PSBK are required to maintain certain levels of capital. The FRB and the FDIC have substantially similar risk-based capital ratio and leverage ratio guidelines for banking organizations. The current risk-based capital guidelines that apply to FCB and PSBK are commonly referred to as Basel I, are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, or the Basel Committee, a committee of central banks and bank supervisors. The guidelines are intended to ensure that banking organizations have adequate capital given the risk levels of assets and off-balance sheet financial instruments.

Under the existing Basel I-based guidelines, the minimum ratio of total capital to risk-weighted assets (which are primarily the credit risk equivalents of balance sheet assets and certain off-balance sheet items such as standby letters of credit, but also include a nominal market risk equivalent balance related to foreign exchange

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and debt/equity trading activities) is eight percent, of which at least four percent must be composed of tier 1 capital. The FRB also has adopted a minimum leverage ratio for most bank holding companies, requiring tier 1 capital of at least four percent of average quarterly total consolidated assets, net of loan loss reserve, goodwill and certain other intangible assets. The federal banking regulators have also established risk-based and leverage capital guidelines that insured banks are required to meet. These regulations are generally similar to those established by the FRB for bank holding companies.

For purposes of calculating the ratios, a banking organization's assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A depository institution's or holding company's capital, in turn, is classified in one of three tiers, depending on type:

**Core Capital (Tier 1):** Tier 1 capital includes common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual stock at the holding company level, minority interests in equity accounts of consolidated subsidiaries, and qualifying trust preferred securities less goodwill, most intangible assets and certain other assets.

**Supplementary Capital (Tier 2):** Tier 2 capital includes, among other things, perpetual preferred stock and trust preferred securities not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for possible loan and lease losses, subject to limitations.

**Market Risk Capital (Tier 3):** Tier 3 capital includes qualifying unsecured subordinated debt.

The following table sets forth the regulatory capital guidelines and the actual capitalization levels for FCAL, FCB and PSBK as of June 30, 2012, December 31, 2011 and 2010:

June 30, 2012	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Assuming No Regulatory Order		To Satisfy Requirements of the PSBK Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total capital (to risk weighted assets)</b>								
FCAL	\$ 202,675	16.93%	\$ 95,791	<sup>3</sup> 8.00%	N/A	N/A	N/A	N/A
FCB	\$ 201,047	16.80%	\$ 95,760	<sup>3</sup> 8.00%	\$ 119,700	<sup>3</sup> 10.00%	N/A	N/A
PSBK	\$ 11,544	11.27%	\$ 8,198	<sup>3</sup> 8.00%	\$ 10,248	<sup>3</sup> 10.00%	\$ 12,297	<sup>3</sup> 12%
<b>Tier I capital (to risk weighted assets)</b>								
FCAL	\$ 187,665	15.68%	\$ 47,896	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 186,192	15.55%	\$ 47,880	<sup>3</sup> 4.00%	\$ 71,820	<sup>3</sup> 6.00%	N/A	N/A
PSBK	\$ 10,243	10.00%	\$ 4,099	<sup>3</sup> 4.00%	\$ 6,149	<sup>3</sup> 6.00%	N/A	N/A
<b>Tier I capital (to average assets)</b>								
FCAL	\$ 187,665	9.99%	\$ 75,169	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 186,192	9.91%	\$ 75,141	<sup>3</sup> 4.00%	\$ 93,926	<sup>3</sup> 5.00%	N/A	N/A
PSBK	\$ 10,243	7.39%	\$ 5,544	<sup>3</sup> 4.00%	\$ 6,930	<sup>3</sup> 5.00%	\$ 13,166	<sup>3</sup> 9.50%



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December 31, 2011	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Assuming No Regulatory Order		To Satisfy Requirements of the PSBK Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total capital (to risk weighted assets)</b>								
FCAL	\$ 194,694	17.32%	\$ 89,924	<sup>3</sup> 8.00%	N/A	N/A	N/A	N/A
FCB	\$ 192,227	17.10%	\$ 89,944	<sup>3</sup> 8.00%	\$ 112,430	<sup>3</sup> 10.00%	N/A	N/A
PSBK	\$ 12,004	10.80%	\$ 8,906	<sup>3</sup> 8.00%	\$ 11,129	<sup>3</sup> 10.00%	\$ 13,359	<sup>3</sup> 12%
<b>Tier I capital (to risk weighted assets)</b>								
FCAL	\$ 180,597	16.07%	\$ 44,962	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 178,126	15.84%	\$ 44,972	<sup>3</sup> 4.00%	\$ 67,458	<sup>3</sup> 6.00%	N/A	N/A
PSBK	\$ 10,600	9.50%	\$ 4,453	<sup>3</sup> 4.00%	\$ 6,685	<sup>3</sup> 6.00%	N/A	N/A
<b>Tier I capital (to average assets)</b>								
FCAL	\$ 180,597	10.33%	\$ 69,906	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 178,126	10.18%	\$ 69,968	<sup>3</sup> 4.00%	\$ 87,460	<sup>3</sup> 5.00%	N/A	N/A
PSBK	\$ 10,600	7.20%	\$ 5,882	<sup>3</sup> 4.00%	\$ 7,355	<sup>3</sup> 5.00%	\$ 13,965	<sup>3</sup> 9.50%
<b>December 31, 2010</b>								
	Actual		For Capital Adequacy Purposes		To be Well-Capitalized Assuming No Regulatory Order		To Satisfy Requirements of the PSBK Consent Order	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total capital (to risk weighted assets)</b>								
FCAL	\$ 172,599	16.79%	\$ 82,242	<sup>3</sup> 8.00%	N/A	N/A	N/A	N/A
FCB	\$ 167,395	16.31%	\$ 82,090	<sup>3</sup> 8.00%	\$ 102,613	<sup>3</sup> 10.00%	N/A	N/A
PSBK	\$ 14,338	11.64%	\$ 9,850	<sup>3</sup> 8.00%	\$ 12,320	<sup>3</sup> 10.00%	\$ 14,780	<sup>3</sup> 12.00%
<b>Tier I capital (to risk weighted assets)</b>								
FCAL	\$ 159,695	15.53%	\$ 41,121	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 154,515	15.06%	\$ 41,045	<sup>3</sup> 4.00%	\$ 61,658	<sup>3</sup> 6.00%	N/A	N/A
PSBK	\$ 12,786	10.38%	\$ 4,928	<sup>3</sup> 4.00%	\$ 7,393	<sup>3</sup> 6.00%	N/A	N/A
<b>Tier I capital (to average assets)</b>								
FCAL	\$ 159,695	11.00%	\$ 58,052	<sup>3</sup> 4.00%	N/A	N/A	N/A	N/A
FCB	\$ 154,515	10.63%	\$ 58,134	<sup>3</sup> 4.00%	\$ 72,668	<sup>3</sup> 5.00%	N/A	N/A
PSBK	\$ 12,786	8.05%	\$ 6,358	<sup>3</sup> 4.00%	\$ 7,938	<sup>3</sup> 5.00%	\$ 15,078	<sup>3</sup> 9.50%

FCAL, FCB and PSBK recognize that a strong capital position is vital to growth, continued profitability, and depositor and investor confidence. Their policy is to maintain sufficient capital at not less than the well-capitalized thresholds established by banking regulators.

**The Basel Accords**

The current risk-based capital guidelines which apply to FCAL and FCB and PSBK are based upon the 1988 capital accord of the Basel Committee. A new international accord, referred to as Basel II, became mandatory for large, internationally active banking organizations, known as core banking organizations, in 2008 (total assets of \$250 billion or more or consolidated foreign exposures of \$10 billion or more). Basel II emphasizes internal

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assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. It is optional for other banks, and if adopted, must first be complied with in a parallel run for two years along with the existing Basel I standards. In January 2009, the Basel Committee proposed to reconsider regulatory-capital standards, supervisory and risk-management requirements and additional disclosures to further strengthen the Basel II framework in response to recent worldwide developments. FCB and PSBK are not required to comply with Basel II and have elected not to apply the Basel II requirements when they became effective.

On September 12, 2010, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee, announced agreement on the calibration and phase-in arrangements for a strengthened set of capital requirements, known as Basel III. Under these standards, when fully phased-in on January 1, 2019, banking institutions will be required to satisfy three risk-based capital ratios:

A tier 1 common equity ratio of at least 7.0%, inclusive of 4.5% minimum tier 1 common equity ratio, net of regulatory deductions, and the new 2.5% capital conservation buffer of common equity to risk-weighted assets;

A tier 1 capital ratio of at least 8.5%, inclusive of the 2.5% capital conservation buffer; and

A total capital ratio of at least 10.5%, inclusive of the 2.5% capital conservation buffer.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a tier 1 common equity ratio above the minimum but below the conservation buffer may face constraints on dividends, equity repurchases and compensation based on the amount of such shortfall. The Basel Committee also announced a countercyclical buffer of 0% to 2.5% of common equity or other loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer during periods of excess credit growth.

Basel III introduces a non-risk adjusted tier 1 leverage ratio of 3%, based on a measure of total exposure rather than total assets and new liquidity standards. The phase-in of the new rules is to commence on January 1, 2013, with the phase-in of the capital conservation buffer commencing on January 1, 2015 and the rules to be fully phased-in by January 1, 2019.

In November 2010, Basel III was endorsed by the Seoul G20 Leaders Summit and will be subject to individual adoption by member nations, including the United States. On December 16, 2010, the Basel Committee issued text of the Basel III rules, which presents the details of global regulatory standards on bank capital adequacy and liquidity agreed to by the Basel Committee and endorsed by the Seoul G20 Leaders Summit. The federal banking agencies will likely implement changes to the current capital adequacy standards applicable to FCAL, FCB and PSBK in light of Basel III. If adopted by federal banking agencies, Basel III could lead to significantly higher capital requirements and more restrictive leverage and liquidity ratios.

On June 7, 2012 the FRB announced proposed rule changes that would implement the Basel III regulatory capital reforms and changes required by Dodd-Frank. These proposed rule changes include, among other things; an increase in quantity and quality of capital required by increasing the current minimum common equity tier 1 ratio to 4.5%, a common equity tier 1 capital conservation buffer of 2.5% and raising the minimum tier 1 capital ratio to 6%; revising the definition of capital to improve the ability of regulatory capital instruments to absorb losses; rules establishing stricter limitations on capital distributions and certain discretionary bonus payments if additional common equity tier 1 capital requirements are not met and revising the rules for calculating risk-weighted assets.

Neither FCAL, FCB nor PSBK can determine the ultimate effect that potential legislation, or subsequent regulations, if enacted, would have upon their respective earnings or financial position. In addition, significant questions remain as to how the capital and liquidity mandates of Dodd-Frank will be integrated with the requirements of Basel III.

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Note that Dodd-Frank also requires the establishment of more stringent prudential standards by requiring the federal banking agencies to adopt capital and liquidity requirements which address the risks that the activities of an institution pose to the institution and the public and private stakeholders, including risks arising from certain enumerated activities. In particular, Dodd-Frank excludes trust preferred securities issued on or after May 19, 2010 from tier 1 capital. For depository institution holding companies with total consolidated assets of more than \$15 billion at December 31, 2009, trust preferred securities issued before May 19, 2010 will be phased-out of tier 1 capital over a three-year period.

***Prompt Corrective Action and Other General Enforcement Authority***

The Federal Deposit Insurance Corporation Improvement Act, or FDICIA, requires each federal banking agency to take prompt corrective action to resolve the problems of insured depository institutions, including undercapitalization. Each federal banking agency has issued regulations defining five capital categories: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. Under the regulations, a bank will be deemed to be:

well-capitalized if it has a total risk-based capital ratio of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a leverage capital ratio of 5.0% or more, and is not subject to specified requirements to meet and maintain a specific capital level for any capital measure;

adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well-capitalized ;

undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0%, or a leverage capital ratio that is less than 4.0% (3.0% under certain circumstances);

significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage capital ratio that is less than 3.0%; and

critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Banks are prohibited from paying dividends or management fees to controlling persons or entities if, after making the payment, the bank would be undercapitalized, that is, the bank fails to meet the required minimum level for any relevant capital measure. Asset growth and branching restrictions apply to undercapitalized banks. Banks classified as undercapitalized are required to submit acceptable capital plans guaranteed by their holding companies, if any. Broad regulatory authority was granted with respect to significantly undercapitalized banks, including forced mergers, growth restrictions, ordering new elections for directors, forcing divestiture by its holding company, if any, requiring management changes, and prohibiting the payment of bonuses to senior management. Even more severe restrictions are applicable to critically undercapitalized banks, those with capital at or less than 2%. Restrictions for these banks include the appointment of a receiver or conservator. All of the federal banking agencies have promulgated substantially similar regulations to implement this system of prompt corrective action.

A bank, based upon its capital levels, that is classified as well-capitalized, adequately capitalized or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for a hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. At each successive lower capital category, an insured bank is subject to more restrictions. The federal banking agencies, however, may not treat an institution as critically undercapitalized unless its capital ratios actually warrant such treatment.

In addition to measures taken under the prompt corrective action provisions, insured banks may be subject to potential enforcement actions by the federal banking agencies for unsafe or unsound practices in conducting their businesses or for violations of any law, rule, regulation or any condition imposed in writing by the agency

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or any written agreement with the agency. Enforcement actions may include the imposition of a conservator or receiver, the issuance of a cease-and-desist order that can be judicially enforced, the termination of insurance of deposits (in the case of a depository institution), the imposition of civil money penalties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the issuance of removal and prohibition orders against institution-affiliated parties. The enforcement of such actions through injunctions or restraining orders may be based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

The DFI, as the primary regulator for California state-chartered banks, also has a broad range of enforcement measures, from cease and desist powers and the imposition of monetary penalties to the ability to take possession of a bank, including causing its liquidation.

### ***Safety and Soundness Standards***

The federal banking agencies have adopted guidelines designed to assist the federal banking agencies in identifying and addressing potential safety and soundness concerns before capital becomes impaired. The guidelines set forth operational and managerial standards relating to (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) asset growth; (v) earnings; and (vi) compensation, fees and benefits.

In addition, the federal banking agencies have also adopted safety and soundness guidelines with respect to asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves. These guidelines provide six standards for establishing and maintaining a system to identify problem assets and prevent those assets from deteriorating. Under these standards, an insured depository institution should (i) conduct periodic asset quality reviews to identify problem assets; (ii) estimate the inherent losses in problem assets and establish reserves that are sufficient to absorb estimated losses; (iii) compare problem asset totals to capital; (iv) take appropriate corrective action to resolve problem assets; (v) consider the size and potential risks of material asset concentrations; and (vi) provide periodic asset quality reports with adequate information for management and the Board of Directors to assess the level of asset risk.

### ***Transactions with Affiliates***

Under Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W, loans by FCB or PSBK to affiliates, investments by them in affiliates' stock, and taking affiliates' stock as collateral for loans to any borrower is limited to 10% of FCB's or PSBK's capital, in the case of any one affiliate, and is limited to 20% of FCB's or PSBK's capital, in the case of all affiliates. FCAL, its subsidiaries and any subsidiaries of FCB are generally deemed to be affiliates of FCB and any subsidiaries of PSBK are generally deemed to be affiliates of PSBK within the meaning of Section 23A and 23B and Regulation W. In addition, transactions between FCB and its affiliates and transactions between PSBK and its affiliates must be on terms and conditions that are consistent with safe and sound banking practices; in particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of FCB or PSBK unless the loans are secured by marketable collateral of designated amounts. FCAL or its successors and FCB or PSBK are also subject to certain restrictions with respect to engaging in the underwriting, public sale and distribution of securities.

Dodd-Frank generally enhances the restrictions on transactions with affiliates under Section 23A and 23B, including an expansion of the definition of "covered transactions" to include credit exposures related to derivatives, repurchase agreements and securities lending arrangements, and an increase in the amount of time for which collateral requirements regarding covered credit transactions must be satisfied. The definition of "affiliate" was expanded to include any investment fund to which FCAL or an affiliate serves as an investment adviser. The ability of the FRB to grant exemptions from these restrictions was also narrowed, including by requiring coordination with other bank regulators.

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***Loans to Insiders***

Extensions of credit by FCB or PSBK to their respective insiders are subject to prohibitions and other restrictions imposed by federal regulations. For purposes of these limits, insiders include directors, executive officers and principal shareholders of FCAL, FCB and/or PSBK, as applicable, and their related interests. The term related interest means a company controlled by a director, executive officer or principal shareholder of FCAL, FCB and/or PSBK, as applicable. Neither FCAL, FCB nor PSBK may extend credit to an insider of their respective bank unless the loan is made on substantially the same terms as, and subject to credit underwriting procedures that are no less stringent than, those prevailing at the time for comparable transactions with non-insiders. Under federal banking regulations, FCB and PSBK may not extend a loan to insiders in an amount greater than \$500,000 without prior board approval (with any interested person abstaining from participating directly or indirectly in the voting). The federal regulations place additional restrictions on loans to executive officers, and generally prohibit loans to executive officers other than for certain specified purposes. FCB and PSBK are required to maintain records regarding insiders and extensions of credit to them.

***Federal Deposit Insurance***

The FDIC insures customer deposits through the Deposit Insurance Fund, or the DIF, up to prescribed limits for each depositor. Pursuant to the EESA, the basic limit on federal deposit insurance coverage was temporarily raised from \$100,000 to \$250,000 per depositor. Dodd-Frank made the \$250,000 deposit insurance limit permanent. The federal banking agencies also recently issued final rules implementing the Dodd-Frank repeal of the prohibition on paying interest on demand deposits. Further, as required under Section 343 of Dodd-Frank, the FDIC has adopted a final rule that provides temporary unlimited deposit insurance coverage for non-interest-bearing transaction accounts. As mandated by Dodd-Frank, the FDIC will fully insure the amounts in non-interest-bearing transaction accounts without limits from December 31, 2010 through December 31, 2012. The unlimited coverage would be separate from, and in addition to, the coverage provided to depositors with other accounts held at an institution. Beginning January 1, 2013, the unlimited coverage will cease and these accounts will be insured under the FDIC's general deposit insurance coverage rules.

Dodd-Frank changes the deposit insurance assessment framework, primarily by basing assessments on an institution's total assets less tangible equity (subject to risk-based adjustments that would further reduce the assessment base for custodial banks) rather than domestic deposits, which is expected to shift a greater portion of the aggregate assessments to large banks. Dodd-Frank also increases the minimum designated reserve ratio of the DIF from 1.15% to 1.35% of the estimated amount of total insured deposits by September 30, 2020, eliminates the upper limit for the reserve ratio designated by the FDIC each year, and eliminates the requirement that the FDIC pay dividends to depository institutions when the reserve ratio exceeds certain thresholds.

On December 14, 2010, the FDIC raised the minimum designated reserve ratio of the DIF to 2%. The ratio is higher than the minimum reserve ratio of 1.35% as set by Dodd-Frank.

On February 7, 2011, the FDIC approved a final rule on Assessments, Dividends, Assessment Base and Large Bank Pricing. The final rule, mandated by Dodd-Frank, changes the deposit insurance assessment system from one that is based on domestic deposits to one that is based on average consolidated total assets minus average tangible equity. Because the new assessment base under Dodd-Frank is larger than the current assessment base, the final rule's assessment rates are lower than the current rates, which achieves the FDIC's goal of not significantly altering the total amount of revenue collected from the industry. In addition, the final rule adopts a scorecard assessment scheme for larger banks and suspends dividend payments if the DIF reserve ratio exceeds 1.5 % but provides for decreasing assessment rates when the DIF reserve ratio reaches certain thresholds. The final rule further reduces the assessment base for custodial banks by the daily or weekly average of a certain amount of low-risk assets (i.e., assets with a Basel risk weighting of 0%, regardless of maturity, plus 50% of assets with a Basel risk weighting of 20%, again regardless of maturity) subject to the limitation that the daily or weekly average value of these assets cannot exceed the daily or weekly average value of those deposits

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classified as transaction accounts and identified by the institution as being directly linked to a fiduciary or custodial and safekeeping account. The final rule identifies custodial banks as insured depository institutions with previous calendar year-end trust assets (i.e., fiduciary and custody and safekeeping assets) of at least \$50 billion or those insured depository institutions that derived more than 50% of their revenue (interest income plus non-interest income) from trust activity over the previous calendar year. The final rule took effect for the quarter beginning April 1, 2011, and was reflected in the invoices for assessments due September 30, 2011.

Continued action by the FDIC to replenish the DIF, as well as the changes in Dodd-Frank, are likely to result in higher assessment rates, which would reduce the profitability of FCAL, FCB and PSBK.

In addition to its insurance assessment, each insured bank was subject in 2011 to quarterly debt service assessments in connection with bonds issued by a government corporation that financed the federal savings and loan bailout. The first quarter 2011 debt service assessment was .0102%.

***Money Laundering, Currency Controls and Economic Sanctions***

Various federal statutory and regulatory provisions are designed to enhance record-keeping and reporting of currency and foreign transactions. Pursuant to the Bank Secrecy Act, financial institutions must report high levels of currency transactions or face the imposition of civil monetary penalties for reporting violations. The Money Laundering Control Act imposes sanctions, including revocation of federal deposit insurance, for institutions convicted of money laundering.

The International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001, or the IMLAFATA, a part of the USA Patriot Act, authorizes the Secretary of the Treasury, in consultation with the heads of other government agencies, to adopt special measures applicable to banks and other financial institutions to enhance record-keeping and reporting requirements for certain financial transactions that are of primary money laundering concern. Among its other provisions, IMLAFATA requires each financial institution to: (i) establish an anti-money laundering program; (ii) establish due diligence policies, procedures and controls with respect to its private banking accounts and correspondent banking accounts involving individuals and certain foreign banks; and (iii) avoid establishing, maintaining, administering, or managing correspondent accounts in the United States for, or on behalf of, a foreign bank that does not have a physical presence in any country. In addition, IMLAFATA contains a provision encouraging cooperation among financial institutions, regulatory authorities and law enforcement authorities with respect to individuals, entities and organizations engaged in, or reasonably suspected of engaging in, terrorist acts or money laundering activities.

The Treasury's regulations implementing IMLAFATA mandate that federally-insured banks and other financial institutions establish customer identification programs designed to verify the identity of persons opening new accounts, maintain the records used for verification, and determine whether the person appears on any list of known or suspected terrorists or terrorist organizations.

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, is responsible for requiring that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and Acts of Congress. OFAC publishes lists of persons, organizations and countries suspected of aiding, harboring or engaging in terrorist acts, known as Specially Designated Nationals and Blocked Persons. If either FCB or PSBK finds a name on any transaction, account or wire transfer that is on an OFAC list, they must freeze or block such account or transaction, file a report of blocked or rejected transaction and notify OFAC.

***Patriot Act***

On October 26, 2001, the President signed into law comprehensive anti-terrorism legislation, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, known as the Patriot Act. The Patriot Act was designed to deny terrorists and others the ability to obtain

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access to the United States financial system, and has significant implications for depository institutions and other businesses involved in the transfer of money. The Patriot Act, as implemented by various federal regulatory agencies, required financial institutions, including FCB and PSBK, to implement policies and procedures or amend existing policies and procedures with respect to, among other matters, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers. The Patriot Act and its underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the FRB and other federal banking agencies to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. FCB and PSBK have adopted comprehensive policies and procedures to address the requirements of the Patriot Act and believe that the ongoing cost of compliance with the Patriot Act is not likely to be material to their business.

***Community Reinvestment Act***

FCB and PSBK are subject to the CRA. The CRA is intended to encourage insured depository institutions, while operating safely and soundly, to help meet the credit needs of their communities. The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of their entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution's record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions, or holding company formations. FCB's and PSBK's compliance with the CRA is reviewed and evaluated by the FDIC, which assigns FCB and PSBK a publicly available CRA rating at the conclusion of the examination.

The federal banking agencies have adopted regulations which measure a bank's compliance with its CRA obligations on a performance-based evaluation system. This system bases CRA ratings on an institution's actual lending service and investment performance rather than the extent to which the institution conducts needs assessments, documents community outreach or complies with other procedural requirements. In connection with its assessment of CRA performance, the FDIC assigns a rating of Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. Failure of an institution to receive at least a Satisfactory rating could inhibit such institution or its holding company from undertaking certain activities, including acquisitions.

FCB had a CRA rating of Satisfactory and PSBK had a CRA rating of Satisfactory as of their most recent regulatory examination.

***Interstate Banking and Branching***

Federal law permits an adequately capitalized and adequately managed bank holding company, with FRB approval, to acquire banking institutions located in states other than the bank holding company's home state without regard to whether the transaction is prohibited under state law. In addition, national banks and state banks with different home states are permitted to merge across state lines, with the approval of the appropriate federal banking agency, unless the home state of a participating banking institution passed legislation prior to June 1, 1997 that expressly prohibits interstate mergers. Dodd-Frank permits a national bank or a state bank, with the approval of its regulator, to open a branch in any state if the law of the state in which the branch is to be located would permit the establishment of the branch if the bank were a bank chartered in that state.

***Sarbanes-Oxley Act***

On July 30, 2002, the President signed into law the Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act aims to restore the credibility lost as a result of high profile corporate scandals by addressing, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely

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disclosure of corporate information. The NASDAQ Stock Market has adopted corporate governance rules intended to allow shareholders to more easily and effectively monitor the performance of companies and directors. The principal provisions of the Sarbanes-Oxley Act, many of which have been interpreted through regulations released in 2003, provide for and include, among other things: (i) the creation of the Public Company Accounting Oversight Board; (ii) auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients; (iii) additional corporate governance and responsibility measures, including the requirement that the chief executive officer and chief financial officer of a public company certify financial statements; (iv) the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement; (v) an increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with that company's independent auditors; (vi) requirements that audit committee members must be independent and are barred from accepting consulting, advisory or other compensatory fees from the issuer; (vii) requirements that companies disclose whether at least one member of the audit committee is a financial expert (as such term is defined by the Securities and Exchange Commission, (or SEC)) and if not disclosed, why the audit committee does not have a financial expert; (viii) expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods; (ix) a prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions on non-preferential terms and in compliance with other bank regulatory requirements; (x) disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code; (xi) a range of enhanced penalties for fraud and other violations; and (xii) expanded disclosure and certification relating to an issuer's disclosure controls and procedures and internal controls over financial reporting.

As a result of the Sarbanes-Oxley Act, and its implementing regulations, FCB has incurred substantial costs to interpret and ensure compliance with the law and its regulations. Future changes in the laws, regulation, or policies that impact FCB cannot necessarily be predicted and may have a material effect on our business and earnings.

PSBK's securities are not registered with the SEC and are not listed on the NASDAQ stock market and, therefore, PSBK is not required to comply with the Sarbanes Oxley Act.

### ***Environmental Regulation***

Federal, state and local laws and regulations regarding the discharge of harmful materials into the environment may have an impact on FCB and PSBK. Since FCB and PSBK are not involved in any business that manufactures, uses or transports chemicals, waste, pollutants or toxins that might have a material adverse effect on the environment, their primary exposure to environmental laws is through its lending activities and through properties or businesses they may own, lease or acquire. Based on a general survey of their respective loan portfolio, conversations with local appraisers and the type of lending currently and historically done by FCB and PSBK, their respective management is not aware of any potential liability for hazardous waste contamination that would be reasonably likely to have a material adverse effect on FCB or PSBK or their successors as of the date of this proxy statement/prospectus.

### ***Safeguarding of Customer Information and Privacy***

In 1970, the Federal Fair Credit Reporting Act, or the FCRA, was enacted to insure the confidentiality, accuracy, relevancy and proper utilization of consumer credit report information. The FCRA affirmatively preempts state law in a number of areas, including the ability of entities affiliated by common ownership to share and exchange information freely, and the requirements on credit bureaus to reinvestigate the contents of reports in response to consumer complaints, among others.



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The Fair and Accurate Credit Transaction Act, or the FACT Act, became law in 2003, effectively extending and amending provisions of the FCRA. The FACT Act created many new responsibilities for consumer reporting agencies and users of consumer reports. It contains many new consumer disclosure requirements as well as provisions to address identity theft.

The FRB and other bank regulatory agencies have adopted guidelines for safeguarding confidential, personal customer information. These guidelines require financial institutions to create, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazard to the security or integrity of such information and protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. FCB and PSBK have adopted customer information security programs to comply with such requirements.

Federal banking rules also limit the ability of banks and other financial institutions to disclose non-public information about consumers. Pursuant to these rules, financial institutions must provide: (i) initial notices to customers about their privacy policies, describing the conditions under which they may disclose nonpublic personal information to nonaffiliated third parties and affiliates; (ii) annual notices of their privacy policies to current customers; and (iii) a reasonable method for customers to opt out of disclosures to nonaffiliated third parties. These privacy provisions affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. We have implemented our privacy policies in accordance with the law.

In recent years, a number of states have implemented their own versions of privacy laws. For example, in 2003, California adopted standards that are more restrictive than federal law, allowing bank customers the opportunity to bar financial companies from sharing information with their affiliates. More specifically, the California Financial Information Privacy Act requires a financial institution to provide specific information to a consumer related to the sharing of that consumer's nonpublic personal information. The Act allows a consumer to direct the financial institution not to share his or her nonpublic personal information with affiliated or nonaffiliated companies with which a financial institution has contracted to provide financial products and services, and requires that permission from each such consumer be acquired by a financial institution prior to sharing such information.

### ***Other Aspects of Banking Law***

FCB and PSBK are also subject to federal statutory and regulatory provisions covering, among other things, security procedures, insider and affiliated party transactions, management interlocks, electronic funds transfers, funds availability, and truth-in-savings. There are also a variety of federal statutes which regulate acquisitions of control and the formation of bank holding companies.

### **Impact of Monetary Policies**

Banking is a business that depends on rate differentials. In general, the difference between the interest rate paid by a bank on its deposits and its other borrowings and the interest rate earned on its loans, securities and other interest-earning assets comprises the major source of a Bank's earnings. These rates are highly sensitive to many factors which are beyond FCB's and PSBK's control and, accordingly, the earnings and growth of FCB and PSBK are subject to the influence of economic conditions generally, both domestic and foreign, including inflation, recession, and unemployment; and also to the influence of monetary and fiscal policies of the United States and its agencies, particularly the FRB. The FRB implements national monetary policy, such as seeking to curb inflation and combat recession, by:

Open-market dealings in United States government securities;

Adjusting the required level of reserves for financial institutions subject to reserve requirements; and

Adjusting the discount rate applicable to borrowings by banks which are members of the Federal Reserve System.

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The actions of the FRB in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates. The nature and timing of any future changes in the FRB's policies and their impact on the Company and its successors and FCB and PSBK cannot be predicted; however, depending on the degree to which our interest-earning assets and interest-bearing liabilities are rate sensitive, increases in rates would have a temporary effect of increasing our net interest margin, while decreases in interest rates would have the opposite effect. In addition, adverse economic conditions could make a higher provision for loan losses a prudent course and could cause higher loan charge-offs, thus adversely affecting our net income or other operating costs.

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**OTHER MATTERS**

PSBK's management is not aware of any other matters to be brought before the special meeting of the shareholders. However, if other matters are properly brought before the meeting, the persons named in the enclosed forms or proxy will have discretionary authority to vote all proxies with respect to such matters in accordance with their judgment.

**LEGAL MATTERS**

The validity of the shares of FCAL Common Stock offered by this proxy statement/prospectus has been passed upon for FCAL by Horgan, Rosen, Beckham & Coren, LLP. Certain legal matters relating to the Merger will be passed upon for PSBK by Richard E. Knecht A Professional Corporation. It is a condition to the Merger that [ ] will provide an opinion to PSBK and to FCAL that the merger will qualify as a tax-free reorganization under the Internal Revenue Code.

**EXPERTS**

The consolidated financial statements incorporated in this proxy statement/prospectus by reference from FCAL's Annual Report on Form 10-K for the year ended December 31, 2011, and the effectiveness of FCAL's internal control over financial reporting have been audited by Moss Adams LLP, an independent registered public accounting firm, as stated in their report, which is incorporated herein by reference. Such consolidated financial statements have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

The financial statements of PSBK included with this proxy statement/prospectus for the years ended December 31, 2011 and 2010, have been audited by Vavrinek, Trine, Day & Co., LLP, an independent registered public accounting firm, as stated in their report, and have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

**WHERE YOU CAN FIND MORE INFORMATION**

FCAL is a publicly traded company and is required to file certain reports, proxy statements and other information with the SEC. The SEC maintains a web site on the Internet that contains reports, proxy statements and other information about public companies, including FCAL. The address of that site is <http://www.sec.gov>. You may also read and copy any materials filed with the SEC by FCAL at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

FCAL has filed a registration statement on Form S-4 with the SEC that registers the FCAL Common Stock to be issued in the merger. This proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of FCAL and a proxy statement of PSBK for the special meeting. FCAL has supplied all of the information contained in this proxy statement/prospectus relating to FCAL. PSBK has supplied all of the information contained in this proxy statement/prospectus relating to PSBK.

This proxy statement/prospectus does not contain all of the information in the registration statement. Please refer to the registration statement for further information about FCAL and the FCAL Common Stock to be issued in the merger. Statements contained in this proxy statement/prospectus concerning the provisions of certain documents included in the registration statement are not necessarily complete. A complete copy of each document is filed as an exhibit to the registration statement. You may obtain copies of all or any part of the registration statement, including exhibits thereto, upon payment of the prescribed fees, at the offices of the SEC listed above.

FCAL has supplied all of the information about FCAL and its subsidiaries contained in this proxy statement/prospectus and PSBK has supplied all of the information contained in this proxy statement/prospectus about PSBK. Each of us is relying on the correctness of the information supplied by the other.

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**Incorporation of Documents by Reference**

The SEC allows FCAL to incorporate by reference the information it files with the SEC. This permits FCAL to disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this proxy statement/prospectus, except for any information superseded by information contained directly in this proxy statement/prospectus. The information incorporated by reference is an important part of this proxy statement/prospectus. The following documents that FCAL has filed or will file with the SEC are incorporated by reference in this proxy statement/prospectus:

its Annual Report on Form 10-K for the year ended December 31, 2011 filed with the SEC on March 15, 2012;

its Quarterly Report on Form 10-Q for the three month period ended June 30, 2012 filed with the SEC on August 9, 2012;

its Current Reports on Form 8-K filed with the SEC on January 26, 2012; February 13, 2012; February 28, 2012; March 2, 2012 (both Form 8-K filings); April 26, 2012; May 9, 2012; May 10, 2012; July 11, 2012; July 26, 2012; July 30, 2012 and August 2, 2012 (other than those portions of the documents not deemed to be filed);

its Proxy Statement dated April 4, 2012, relating to its annual meeting of shareholders held on May 7, 2012, as filed with the SEC on April 4, 2012; and

the description of FCAL Common Stock which is contained in FCAL's registration statements filed with the SEC pursuant to Section 12 of the Exchange Act, including any amendment or report filed for the purpose of updating such description.

FCAL incorporates by reference all additional documents that it subsequently files with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the date of the special meeting. These include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Any statement contained in a document incorporated or deemed to be incorporated by reference into this proxy statement/prospectus will be deemed to be modified or superseded for purposes of this proxy statement/prospectus to the extent that a statement contained in this proxy statement/prospectus or any other subsequently filed document that is deemed to be incorporated by reference into this proxy statement/prospectus modifies or supersedes the statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this proxy statement/prospectus.

You may request a copy of these filings, in most cases without exhibits, at no cost, by writing or telephoning FCAL at its principal executive offices located at the following address:

**First California Financial Group, Inc.**

**3027 Townsgate Road, Suite 300**

**Westlake Village, California 91361**

**(805) 322-9655**

**Attn: Investor Relations**

**TO OBTAIN TIMELY DELIVERY OF THE REQUESTED DOCUMENTS BEFORE THE SPECIAL MEETING, YOU MUST MAKE YOUR REQUEST BY [INSERT A DATE THAT IS 5 BUSINESS DAYS PRIOR TO MEETING DATE].**

This proxy statement/prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this proxy statement/prospectus, or the solicitation of a proxy, in any jurisdiction to or from any person to whom or from it is unlawful to make such offer, solicitation of an offer or proxy solicitation in such jurisdiction.



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**Table of Contents****PREMIER SERVICE BANK****BALANCE SHEETS**

(Unaudited)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and Due from Banks	\$ 28,600,288	\$ 22,866,892
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>28,600,288</b>	<b>22,866,892</b>
Investment Securities Available for Sale	4,076,758	5,585,279
Investment Securities Held to Maturity	2,858,393	2,860,773
Loans:		
Commercial and Industrial	11,970,507	12,042,735
Construction and Land Development	8,047,233	9,533,741
Commercial Real Estate	65,458,159	73,925,953
Residential Real Estate	10,340,727	7,873,385
Consumer	265,123	292,349
<b>TOTAL LOANS</b>	<b>96,081,749</b>	<b>103,668,163</b>
Deferred Loan Fees, Net of Costs	(180,578)	(198,311)
Allowance for Loan Losses	(2,907,121)	(2,359,482)
<b>NET LOANS</b>	<b>92,994,050</b>	<b>101,110,370</b>
Premises and Equipment	418,736	411,371
Federal Home Loan Bank and Other Bank Stock, at cost	952,700	1,041,900
Bank-Owned Life Insurance	3,481,294	3,425,354
Other Real Estate Owned	3,188,581	2,926,739
Accrued Interest and Other Assets	597,826	1,027,156
	<b>\$ 137,168,626</b>	<b>\$ 141,255,834</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest-Bearing Demand	\$ 42,381,880	\$ 41,130,372
NOW, Savings and Money Market Accounts	57,256,308	59,446,068
Time Deposits Under \$100,000	5,384,673	5,653,890
Time Deposits \$100,000 and Over	4,947,344	5,528,877
<b>TOTAL DEPOSITS</b>	<b>109,970,205</b>	<b>111,759,207</b>
Federal Home Loan Bank Advance	16,000,000	18,000,000
Accrued Interest and Other Liabilities	890,149	812,093
<b>TOTAL LIABILITIES</b>	<b>126,860,354</b>	<b>130,571,300</b>
Shareholders Equity:		
Preferred Stock 10,000,000 Shares Authorized, No Par, 4,200 Outstanding	4,130,347	4,108,345
Common Stock 10,000,000 Shares Authorized, No Par, 1,261,281 Outstanding	13,147,433	13,147,433
Additional Paid-in Capital	285,313	285,313
Accumulated Deficit	(7,319,332)	(6,941,321)
Accumulated Other Comprehensive Income Net		
Unrealized Gain on Available-for-Sale Securities		

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Net of Taxes of \$44,829 as of 6/30/12 and \$58,905 as of 12/31/11	64,511	84,764
<b>TOTAL SHAREHOLDERS EQUITY</b>	10,308,272	10,684,534
	\$ 137,168,626	\$ 141,255,834

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

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**PREMIER SERVICE BANK**  
**STATEMENTS OF OPERATIONS**

(Unaudited)

	Three-Month Period Ended June 30,		Six-Month Period Ended June 30,	
	2012	2011	2012	2011
<b>INTEREST INCOME</b>				
Interest and Fees on Loans	\$ 1,596,329	\$ 1,858,118	\$ 3,286,572	\$ 3,699,276
Interest on Investment Securities	59,984	91,090	125,189	175,694
Other Interest Income	19,068	9,724	31,564	22,385
<b>TOTAL INTEREST INCOME</b>	<b>1,675,381</b>	<b>1,958,932</b>	<b>3,443,325</b>	<b>3,897,355</b>
<b>INTEREST EXPENSE</b>				
Interest on NOW, Savings and Money Market Accounts	72,611	108,169	148,988	247,500
Interest on Time Deposits Less Than \$100,000	9,505	12,559	19,829	25,874
Interest on Time Deposits \$100,000 and Over	12,027	11,071	25,273	26,737
Interest on FHLB Advance	102,715	113,177	210,881	235,994
<b>TOTAL INTEREST EXPENSE</b>	<b>196,858</b>	<b>244,976</b>	<b>404,971</b>	<b>536,105</b>
<b>NET INTEREST INCOME</b>	<b>1,478,523</b>	<b>1,713,956</b>	<b>3,038,354</b>	<b>3,361,250</b>
Provision for Loan Losses		884,000	225,000	1,609,000
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>1,478,523</b>	<b>829,956</b>	<b>2,813,354</b>	<b>1,752,250</b>
<b>NONINTEREST INCOME</b>				
Service Charges, Fees and Other Income	153,598	261,270	327,679	438,770
<b>NONINTEREST EXPENSE</b>				
Salaries and Employee Benefits	642,208	689,354	1,356,715	1,496,830
Occupancy and Equipment Expenses	167,652	169,091	336,988	339,360
Data Processing	120,960	123,798	251,420	248,765
Marketing and Business Promotion	42,732	38,443	70,216	82,396
Professional Fees	100,999	145,408	374,421	255,709
Customer Expenses	42,277	62,147	85,351	100,472
Office Expenses	28,344	28,605	56,016	59,804
FDIC Assessments	75,426	99,204	155,814	206,620
Other Expenses	576,829	366,519	809,299	626,411
	1,797,427	1,722,569	3,496,240	3,416,367
<b>LOSS BEFORE INCOME TAXES</b>	<b>(165,306)</b>	<b>(631,343)</b>	<b>(355,207)</b>	<b>(1,225,347)</b>
Income Taxes	800		800	
<b>NET INCOME/(LOSS)</b>	<b>\$ (166,106)</b>	<b>\$ (631,343)</b>	<b>\$ (356,007)</b>	<b>\$ (1,225,347)</b>
Preferred Stock Dividends and Accretion of Discount	\$ (11,001)	\$ (11,001)	\$ (22,002)	\$ (22,002)
<b>NET LOSS TO COMMON STOCKHOLDERS</b>	<b>\$ (177,107)</b>	<b>\$ (642,344)</b>	<b>\$ (378,009)</b>	<b>\$ (1,247,349)</b>
<b>NET LOSS PER SHARE BASIC</b>	<b>\$ (0.14)</b>	<b>\$ (0.51)</b>	<b>\$ (0.30)</b>	<b>\$ (0.99)</b>

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<b>NET LOSS PER SHARE DILUTED</b>	\$	(0.14)	\$	(0.51)	\$	(0.30)	\$	(0.99)
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The accompanying notes are an integral part of these financial statements.

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**Table of Contents****PREMIER SERVICE BANK****STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

	Three-Month Period Ended June 30		Six-Month Period Ended June 30	
	2012	2011	2012	2011
Net Loss	\$ (166,106)	\$ (631,343)	\$ (356,007)	\$ (1,225,347)
Unrealized Gain on Available-for Sale Securities, Net of Taxes of \$11,760 and \$17,132 for Three Month Period Ended June 30, 2012 and 2011, respectively	\$ (16,923)	\$ 24,654		
Net of Taxes of \$14,075 and \$17,850 for Six Month Period Ended June 30, 2012 and 2011, respectively			(20,254)	25,686
<b>Comprehensive Income (Loss), Net of Tax</b>	<b>\$ (183,029)</b>	<b>\$ (606,689)</b>	<b>\$ (376,261)</b>	<b>\$ (1,199,661)</b>

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

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**PREMIER SERVICE BANK**  
**STATEMENTS OF CASH FLOWS**

(Unaudited)

	Six-Month Period Ended June 30, 2012	Six-Month Period Ended June 30, 2011
<b>OPERATING ACTIVITIES</b>		
Net Loss	\$ (356,007)	\$ (1,225,347)
Adjustments to Reconcile Net Income/(Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	22,205	39,343
Provision for Loan Losses	225,000	1,609,000
Increase in Cash Surrender Value-Bank-Owned Life Insurance Amortization of Premium and Accretion of	(55,941)	(58,676)
Discount on Investment Securities	1,968	1,786
(Gain)/Loss on Sale of Other Real Estate Owned	50	(74,660)
Write-down of Other Real Estate Owned	505,786	359,201
Other Items, Net	509,264	204,749
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>852,325</b>	<b>855,396</b>
<b>INVESTING ACTIVITIES</b>		
Purchases of Available-for-Sale Securities		(2,000,000)
Maturities of Available-for-Sale Securities	1,474,605	1,001,680
Redemption of Federal Home Loan Bank Stock	89,200	90,700
Proceeds on Sale of Other Real Estate Owned	981,187	1,185,914
Net Decrease in Loans	6,157,302	1,126,717
Purchases of Premises and Equipment	(32,221)	(7,933)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>8,670,073</b>	<b>1,397,078</b>
<b>FINANCING ACTIVITIES</b>		
Net decrease in Demand Deposits and Savings Accounts	(938,252)	(8,235,748)
Net Decrease in Time Deposits	(850,750)	(879,543)
Net Increase/(Decrease) in FHLB Advances	(2,000,000)	1,000,000
<b>NET CASH USED BY FINANCING ACTIVITIES</b>	<b>(3,789,002)</b>	<b>(8,115,291)</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>5,733,396</b>	<b>(5,862,817)</b>
Cash and Cash Equivalents at Beginning of Period	22,866,892	24,060,184
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 28,600,288</b>	<b>\$ 18,197,367</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Interest Paid	\$ 411,647	\$ 542,347
<b>Non Cash Transactions:</b>		
Transfer of loans to OREO	\$ 1,751,750	\$ 3,642,070

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

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**PREMIER SERVICE BANK**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2012**

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Premier Service Bank (the Bank) has been organized as a single operating segment and operates two full-service offices in Riverside County, California. The Bank's primary source of revenue is providing loans to customers, who are predominately small and middle-market businesses and individuals.

**Basis of Presentation**

The accompanying unaudited financial statements have been prepared in a condensed format, and therefore do not include all of the information and footnotes required by U.S. generally accepted accounting principles (GAAP) for complete financial statements. The information furnished in these interim statements reflects all adjustments that are, in the opinion of management, necessary for a fair statement of the results for such period. Such adjustments are of a normal recurring nature. In preparing the accompanying financial statements, management has taken subsequent events into consideration and recognized them where appropriate. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for any other quarter, or for the full year. Certain amounts reported for 2011 may have been reclassified to be consistent with the reporting for 2012. The interim financial information should be read in conjunction with the Bank's Annual Report on Form 10-K for the year ended December 31, 2011 as filed with the FDIC.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash, non-interest bearing-due from banks, cash items in the process of collection and federal funds sold. Generally, federal funds are sold for one-day periods.

**Recently Issued Accounting Standards**

*ASU No. 2010-20, Receivables (Topic 830) Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* ASU 2010-20 requires entities to provide disclosures designed to facilitate financial statement users' evaluation of (i) the nature of credit risk inherent in the entity's portfolio of financing receivables, (ii) how that risk is analyzed and assessed in arriving at the allowance for credit losses and (iii) the changes and reasons for those changes in the allowance for credit losses. Disclosures must be disaggregated by portfolio segment, the level at which an entity develops and documents a systematic method for determining its allowance for credit losses, and class of financing receivable, which is primarily a disaggregation of portfolio segment. The required disclosures include, among other things, a rollforward of the allowance for credit losses as well as information about modified, impaired, non-accrual and past due loans and credit quality indicators. ASU 2010-20 was effective for the Bank's financial statements as of December 31, 2010, as it relates to disclosures required as of the end of a reporting period. Disclosures that relate to activity during a reporting period are required for the Bank's financial statements that include periods beginning on or after January 1, 2011. In January 2011, the FASB issued ASU No. 2011-01 *Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20* which deferred the effective date of the loan modification disclosures to periods beginning on or after June 15, 2011.

ASU No. 2011-02, *Receivables (Topic 310) A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.* ASU 2011-02 states that in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (i) the restructuring constitutes a concession and (ii) the debtor is experiencing financial difficulties. In addition, the

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amendments to Topic 310 clarify that a creditor is precluded from using the effective interest rate test in the debtor's guidance on restructuring of payables when evaluating whether a restructuring constitutes a troubled debt restructuring. ASU 2011-02 is effective for interim and annual periods beginning on or after June 15, 2011. The Bank does not anticipate a material effect upon the adoption of this pronouncement.

*ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* In May 2011, the FASB issued ASU No. 2011-04. ASU No. 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and International Financial Reporting Standards (IFRS). The changes to U.S. GAAP as a result of ASU No. 2011-04 are as follows: (1) The concepts of highest and best use and valuation premise are only relevant when measuring the fair value of nonfinancial assets (that is, it does not apply to financial assets or any liabilities); (2) U.S. GAAP currently prohibits application of a blockage factor in valuing financial instruments with quoted prices in active markets. ASU No. 2011-04 extends that prohibition to all fair value measurements; (3) An exception is provided to the basic fair value measurement principles for an entity that holds a group of financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk that are managed on the basis of the entity's net exposure to either of those risks. This exception allows the entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position; (4) Aligns the fair value measurement of instruments classified within an entity's shareholders' equity with the guidance for liabilities; and (5) Disclosure requirements have been enhanced for recurring Level 3 fair value measurements to disclose quantitative information about unobservable inputs and assumptions used, to describe the valuation processes used by the entity, and to describe the sensitivity of fair value measurements to changes in unobservable inputs and interrelationships between those inputs. In addition, entities must report the level in the fair value hierarchy of items that are not measured at fair value in the statement of condition but whose fair value must be disclosed. The provisions of ASU No. 2011-04 are effective for the Bank's interim reporting period beginning on or after December 15, 2011. The adoption of ASU No. 2011-04 is not expected to have a material impact on the Bank's financial statements.

*ASU No. 2011-05, Presentation of Comprehensive Income.* In June 2011, the FASB issued ASU No. 2011-05. The provisions of ASU No. 2011-05 allow an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. The statement(s) are required to be presented with equal prominence as the other primary financial statements. ASU No. 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in shareholders' equity but does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The provisions of ASU No. 2011-05 are effective for the Bank's interim reporting period beginning on or after December 15, 2011, with retrospective application required. The adoption of ASU No. 2011-05 is expected to result in presentation changes to the Bank's statements of income and the addition of a statement of comprehensive income. The adoption of ASU No. 2011-05 will have no material impact on the Bank's financial statements.

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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 stock options or other contracts to issue common stock were exercised or converted into common stock that then shared in the earnings of the entity. The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS:

For the three-month periods ended June 30, 2012 and 2011, the following reconciliation is provided:

	Three-Month Period Ended June 30, 2012			Three-Month Period Ended June 30, 2011		
	Income	Shares	EPS	Income	Shares	EPS
Net Loss as Reported	\$ (166,106)			\$ (631,343)		
Preferred Stock Dividend and Accretion	(11,001)			(11,001)		
<b>Basic</b>						
Shares Outstanding at Period End		1,261,281			1,261,281	
Impact of Weighting Shares Purchased During the Period						
<b>Used in Reported Basic EPS</b>	\$ (177,107)	1,261,281	\$ (0.14)	\$ (642,344)	1,261,281	\$ (0.51)
<b>Diluted</b>						
Dilutive Effect of Outstanding Stock Options and Warrants						
<b>Used in Reported Diluted EPS</b>	\$ (177,107)	1,261,281	\$ (0.14)	\$ (642,344)	1,261,281	\$ (0.51)

For the six-month periods ended June 30, 2012 and 2011 the following reconciliation is provided:

	Six-Month Period Ended June 30, 2012			Six-Month Period Ended June 30, 2011		
	Income	Shares	EPS	Income	Shares	EPS
Net Loss as Reported	\$ (356,007)			\$ (1,225,347)		
Preferred Stock Dividend and Accretion	(22,002)			(22,002)		
<b>Basic</b>						
Shares Outstanding at Period End		1,261,281			1,261,281	
Impact of Weighting Shares Purchased During the Period						
<b>Used in Reported Basic EPS</b>	\$ (378,009)	1,261,281	\$ (0.30)	\$ (1,247,349)	1,261,281	\$ (0.99)
<b>Diluted</b>						
Dilutive Effect of Outstanding Stock Options and Warrants						
<b>Used in Reported Diluted EPS</b>	\$ (378,009)	1,261,281	\$ (0.30)	\$ (1,247,349)	1,261,281	\$ (0.99)

**NOTE C COMMITMENTS AND CONTINGENCIES**

The Bank is a party to financial instruments in the normal course of business to meet the financing needs of its customers. These financial instruments typically include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the financial statements. Outstanding commitments as of June 30, 2012 are as follows:

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Loan Commitments	\$ 103,941,992
Unused Lines of Credit	\$ 7,334,203
Letters of Credit	\$ 526,040

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### **NOTE D FAIR VALUE OF FINANCIAL INSTRUMENTS**

ASC 825-10-50 specifies the disclosure of the estimated fair value of financial instruments. The Bank's estimated fair value amounts have been determined by the Bank using available market information and appropriate valuation methodologies. 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 methodologies may have a material effect on the estimated fair value amounts.

Fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates. The following methods and assumptions were used by the Bank in estimating fair values of financial instruments:

**Cash and Cash Equivalents, Federal Funds Sold and Interest-Bearing Deposits in Other Banks:** The carrying values reported in the balance sheets approximate fair values due to the short-term nature of the assets and are classified as either Level I or Level II in the fair value hierarchy.

**Securities:** The fair values of securities available for sale and securities held to maturity 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 relying on the securities' relationship to other benchmark quoted securities (Level 2).

**Loans, net:** Fair value is estimated by discounting expected future cash flows at a market rate of interest for loans of similar credit risk and maturity resulting in a Level III classification in the fair value hierarchy.

**FHLB Stock and Other:** The carrying amount approximates fair market value, as the stock may be sold back to the FHLB or bank that issued it at carrying value and no other market exists for the sale of this stock.

**Bank Owned Life Insurance:** The carrying values reported in the balance sheets are deemed to be fair values since it represents the cash surrender value of the policies.

**Accrued Interest Receivable and Payable:** The recorded carrying value approximates the estimated fair value due to the short-term nature of the asset / liability.

**Deposits:** The fair values of certificates of deposit are estimated by discounting the expected cash flows at current rates for instruments with similar maturities resulting in a Level II classification. The carrying values of transaction accounts are deemed to be fair value since they are payable on demand resulting in a Level II classification in the fair value hierarchy.

**FHLB Advance:** The fair values of FHLB advances are estimated by discounting the expected cash flows at current FHLB advance rates for instruments with similar maturities and are classified as a Level II in the fair value hierarchy.

**Accrued interest receivable/payable:** The carrying amounts of accrued interest receivable approximate fair value resulting in a Level III classification. The carrying amounts of accrued interest payable approximate fair value resulting in a Level II classification.

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The estimated fair values of the Bank's financial instruments are as follows at the end of June 30, 2012 and December 31, 2011 (dollars in thousands):

	June 30, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
Cash and Due From Banks	\$ 28,600	\$ 28,600	\$ 22,867	\$ 22,867
Investment Securities Available for Sale	4,077	4,077	5,585	5,585
Investment Securities Held to Maturity	2,858	3,049	2,861	3,047
Loans, net	96,082	93,898	101,110	101,807
Federal Home Loan Bank and Other Stocks	953	953	1,042	1,042
Bank-Owned Life Insurance	3,481	3,481	3,425	3,425
Accrued Interest Receivable	389	389	444	444
<b>Financial Liabilities:</b>				
Deposits	109,970	110,986	111,759	111,772
FHLB Advance	16,000	16,235	18,000	18,347
Accrued Interest Payable	45	45	52	52

**NOTE E INVESTMENT SECURITIES**

Debt and equity securities have been classified in the statements of condition according to management's intent. The carrying amount of securities and their approximate fair values at June 30, 2012 and December 31, 2011 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2012</b>				
<b>Available-for-Sale Securities:</b>				
U.S. Government and Agency Securities	\$ 2,500,000	\$ 4,793	\$	\$ 2,504,793
Mortgage-backed Securities	1,467,418	104,547		1,571,965
<b>Total Available-for-Sale Securities</b>	<b>\$ 3,967,418</b>	<b>\$ 109,340</b>	<b>\$</b>	<b>\$ 4,076,758</b>
<b>Held-to-Maturity Securities:</b>				
State and Municipal Securities	\$ 2,858,393	\$ 190,692	\$	\$ 3,049,085
<b>Total Held-to-Maturity Securities</b>	<b>\$ 2,858,393</b>	<b>\$ 190,692</b>	<b>\$</b>	<b>\$ 3,049,085</b>
<b>December 31, 2011</b>				
<b>Available-for-Sale Securities:</b>				
U.S. Government and Agency Securities	\$ 3,500,000	\$ 11,858	\$ (547)	\$ 3,511,311
Mortgage-backed Securities	1,941,610	132,358		2,073,968
<b>Total Available-for-Sale Securities</b>	<b>\$ 5,441,610</b>	<b>\$ 144,216</b>	<b>\$ (547)</b>	<b>\$ 5,585,279</b>
<b>Held-to-Maturity Securities:</b>				
State and Municipal Securities	\$ 2,860,773	\$ 186,698	\$	\$ 3,047,471
<b>Total Held-to-Maturity Securities</b>	<b>\$ 2,860,773</b>	<b>\$ 186,698</b>	<b>\$</b>	<b>\$ 3,047,471</b>

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Investment securities carried at approximately \$6,326,000 and with a fair value of \$6,625,000 at June 30, 2012 were pledged to secure public deposits, FHLB advances, FRB discount window and other purposes as required by law. At December 31, 2011 investment securities carried at approximately \$6,302,000 and with a fair value of \$6,629,000 were pledged to secure public deposits, FHLB advances and other purposes as required by law.

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The scheduled contractual maturities of securities at June 30, 2012 are shown below. Mortgage-backed securities are listed as a separate category due to the uncertainty of prepayment speed. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations.

	Available-for-Sale Securities		Held-to-Maturity Securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in One Year or Less	\$	\$	\$	\$
Due from One to Five Years	1,500,000	1,503,950	654,277	693,915
Due from Five to Ten Years	1,000,000	1,000,843	1,901,152	2,047,130
Due after Ten Years			302,964	308,040
Mortgage-backed Security	1,467,418	1,571,965		
	\$ 3,967,418	\$ 4,076,758	\$ 2,858,393	\$ 3,049,085

Information pertaining to securities with gross unrealized losses at December 31, 2011, aggregated by investment category and length of time that the individual securities have been in a continuous loss position, follows:

<b>December 31, 2011</b>						
U.S. Government and Agency Securities		\$ 999,453	\$ (547)	\$	\$	\$ 999,453 \$ (547)
<b>Total</b>		\$ 999,453	\$ (547)	\$	\$	\$ 999,453 \$ (547)

At June 30, 2012, there was no security with unrealized losses.

**NOTE F CREDIT QUALITY AND ALLOWANCE FOR LOAN AND LEASE LOSSES**

Following is a summary of changes in the Bank's allowance for loan and lease losses for the periods noted.

Loan Portfolio Segment	Balance at Beginning of Year	Provision for Loan Losses Charged to Expense	Less Loans Charged Off	Plus Recoveries on Loans Previously Charged off	Balance at End of Quarter/Year
Construction and Land Development	\$ 157,521	\$ 129,569	\$ (3,800)	\$ 58,075	\$ 341,365
Commercial Real Estate	1,227,909	393,617	(49,913)	288	1,571,901
Residential Real Estate	52,474	41,574		6,786	100,834
Commercial and Industrial Loans	915,849	(338,773)	(38,293)	349,496	888,279
Consumer Loans	5,729	(987)			4,742
Totals	\$ 2,359,482	\$ 225,000	\$ (92,006)	\$ 414,645	\$ 2,907,121
Year Ended December 31, 2011					
Construction and Land Development	\$ 325,098	\$ (277,196)	\$ (97,741)	\$ 207,360	\$ 157,521
Commercial Real Estate	808,365	1,871,442	(1,451,898)		1,227,909
Residential Real Estate	183,147	596,935	(728,158)	550	52,474

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Commercial and Industrial Loans	1,102,962	726,501	(948,090)	34,476	915,849
Consumer Loans	3,230	2,499			5,729
Totals	\$ 2,422,802	\$ 2,920,181	\$ (3,225,887)	\$ 242,386	\$ 2,359,482

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by impairment method as of June 30, 2012 and December 31, 2011:

<b>June 30, 2012</b>			
<b>Allowance for Loan Losses</b>	Evaluated for Impairment		Total
	Individually	Collectively	
Construction and Land Development	\$ 77,348	\$ 264,017	\$ 341,365
Commercial Real Estate	291,364	1,280,537	1,571,901
Residential Real Estate	43,530	57,304	100,834
Commercial and Industrial	203,439	684,840	888,279
Consumer		4,742	4,742
	\$ 615,681	\$ 2,291,440	\$ 2,907,121

<b>Loans</b>	Evaluated for Impairment		Total
	Individually	Collectively	
Construction and Land Development	\$ 845,545	\$ 7,201,688	\$ 8,047,233
Commercial Real Estate	5,090,615	60,367,544	65,458,159
Residential Real Estate	946,442	9,394,285	10,340,727
Commercial and Industrial	1,072,573	10,897,934	11,970,507
Consumer		265,123	265,123
	\$ 7,955,175	\$ 88,126,574	\$ 96,081,749

<b>December 31, 2011</b>			
<b>Allowance for Loan Losses</b>	Evaluated for Impairment		Total
	Individually	Collectively	
Construction and Land Development	\$ 12,895	\$ 144,626	\$ 157,521
Commercial Real Estate	194,049	1,033,860	1,227,909
Residential Real Estate	16,362	36,112	52,474
Commercial and Industrial	227,268	688,581	915,849
Consumer		5,729	5,729
	\$ 450,574	\$ 1,908,908	\$ 2,359,482

<b>Loans</b>	Evaluated for Impairment		Total
	Individually	Collectively	
Construction and Land Development	\$ 2,381,079	\$ 7,152,662	