2012

Pacific Coast Bankers' Bancshares Consolidated Financial Report

Pacific Coast Bankers' Bancshares and Subsidiaries

Consolidated Financial Report
December 31, 2012

Pacific

Coast

Bankers'

Bancshares

and

Subsidiaries

Consolidated

Financial

Report

December 31,

2012

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Independent Auditor's Report

To the Board of Directors
Pacific Coast Bankers' Bancshares
Walnut Creek, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Pacific Coast Bankers' Bancshares and Subsidiaries**, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Pacific Coast Bankers' Bancshares and Subsidiaries** as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

McGladrey LLP

Las Vegas, Nevada
February 28, 2013

Member of RSM International network, a network of independent accounting, tax and consulting firms.

Consolidated

Financial

Statements

Consolidated Balance Sheets

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

	2012	2011
Assets		
Cash and due from banks	$ 7,845	$ 13,402
Federal funds sold	44,700	22,026
Interest-bearing deposits in other financial institutions	192,137	172,531
Cash and cash equivalents	**244,682**	**207,959**
Securities available for sale	110,056	145,155
Federal Home Loan Bank stock, at cost	2,332	2,311
Federal Reserve Bank stock, at cost	1,394	1,388
Loans, net	192,061	172,866
Equipment and leasehold improvements, net	1,265	1,077
Cash surrender value of life insurance policies	6,873	6,665
Fair value of derivative contracts	78,365	74,731
Foreclosed real estate, net	1,112	2,062
Interest receivable and other assets	12,066	9,697
Total assets	**$ 650,206**	**$ 623,911**
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing	$ 450,805	$ 429,558
Interest-bearing	43,045	29,821
Total deposits	**493,850**	**459,379**
FHLB advances	10,000	20,000
Other borrowings	5,000	5,000
Trust preferred securities	19,589	19,589
Fair value of derivative contracts	62,402	62,185
Interest payable and other liabilities	7,639	7,408
Total liabilities	**598,480**	**573,561**
Commitments and Contingencies *(Note 14)*		
Shareholders' Equity		
Preferred stock ($0.01 par value); authorized 10,000,000 shares; Series C, 11,960 shares issued and outstanding at December 31, 2012 and 2011	11,934	11,934
Common stock (no par value); authorized 10,000,000 shares; 1,076,910 shares and 1,197,524 shares issued and outstanding at December 31, 2012 and 2011, respectively	19,660	22,421
Retained earnings	18,913	14,909
Accumulated other comprehensive income	1,219	1,086
Total shareholders' equity	**51,726**	**50,350**
Total liabilities and shareholders' equity	**$ 650,206**	**$ 623,911**

See notes to consolidated financial statements.

Consolidated Statements of Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

	2012	2011
Interest and Dividend Income		
Interest and fees on loans	$ 11,118	$ 9,618
Interest on securities	2,398	3,358
Interest on federal funds sold	640	43
Other	22	713
Total interest and dividend income	**14,178**	**13,732**
Interest Expense		
Interest on deposits	128	100
Interest on Federal Home Loan Bank advances and other borrowings	376	392
Interest on trust preferred securities	743	1,253
Total interest expense	**1,247**	**1,745**
Net interest income	**12,931**	**11,987**
Provision for Loan Losses	565	186
Net interest income after provision for loan losses	**12,366**	**11,801**
Non-Interest Income		
Account analysis fees	9,328	10,771
Transaction, brokerage and service fees	12,205	12,545
As-agent fees	779	1,108
Net gain from change in fair value of derivatives	3,564	807
Realized gain on derivative contract settlements	6,106	2,822
Other non-interest income	4,563	4,484
Total non-interest income	**36,545**	**32,537**
Non-Interest Expense		
Service charges	8,262	9,693
Salaries and employee benefits	19,709	16,862
Occupancy and equipment	1,800	2,010
Loss on asset disposition	84	89
Other non-interest expense	6,809	8,517
Total non-interest expense	**36,664**	**37,171**
Income before income taxes	**12,247**	**7,167**
Income Tax Expense	5,078	2,980
Net income	**$ 7,169**	**$ 4,187**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

	2012	2011
Net income	$ 7,169	$ 4,187
Other comprehensive income, net of tax:		
Unrealized gains on investment securities	28	1,447
Unrealized gains on derivatives	105	359
Other comprehensive income	**133**	**1,806**
Comprehensive income	**$ 7,302**	**$ 5,993**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2011	1,196,060	12,180	$ 22,144	$ 11,151	$ 12,511	$ (720)	$ 45,086
Net income	- -	- -	- -	- -	4,187	- -	4,187
Other comprehensive income	- -	- -	- -	- -	- -	1,806	1,806
Cash dividends paid on preferred series A	- -	- -	- -	- -	(408)	- -	(408)
Cash dividends paid on preferred series B	- -	- -	- -	- -	(37)	- -	(37)
Cash dividends paid on preferred series C	- -	- -	- -	- -	(105)	- -	(105)
Cash dividends declared on common stock ($0.10 per share)	- -	- -	- -	- -	(120)	- -	(120)
Preferred stock issuance Series C	- -	11,960	- -	11,934	- -	- -	11,934
Preferred stock redemption Series A	- -	(11,600)	- -	(11,238)	(362)	- -	(11,600)
Preferred stock redemption Series B	- -	(580)	- -	- -	(580)	- -	(580)
Common stock repurchase	(5,282)	- -	(58)	- -	(90)	- -	(148)
Stock-based compensation	6,746	- -	335	- -	- -	- -	335
Accretion of preferred stock discount	- -	- -	- -	87	(87)	- -	- -
Balance at December 31, 2011	**1,197,524**	**11,960**	**$ 22,421**	**$ 11,934**	**$ 14,909**	**$ 1,086**	**$ 50,350**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
(Dollars in Thousands, except per share amounts)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

	Shares of Common Stock	Shares of Preferred Stock	Common Stock	Preferred Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at January 1, 2012	1,197,524	11,960	$ 22,421	$ 11,934	$ 14,909	$ 1,086	$ 50,350
Net income	- -	- -	- -	- -	7,169	- -	7,169
Other comprehensive income	- -	- -	- -	- -	- -	133	133
Cash dividends paid on preferred series C	- -	- -	- -	- -	(598)	- -	(598)
Cash dividends declared on common stock ($0.10 per share)	- -	- -	- -	- -	(2,548)	- -	(2,548)
Common stock repurchase	(126,850)	- -	(3,049)	- -	(19)	- -	(3,068)
Stock-based compensation	6,236	- -	288	- -	- -	- -	288
Balance at December 31, 2012	**1,076,910**	**11,960**	**$ 19,660**	**$ 11,934**	**$ 18,913**	**$ 1,219**	**$ 51,726**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Net income	$ 7,169	$ 4,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	654	873
Amortization of premiums on securities, net	2,594	2,111
Stock-based compensation expense	288	335
Noncash fair value adjustment on derivatives	(3,240)	(807)
Deferred tax benefit	(1,745)	(1,082)
Provision for loan losses	565	186
Provision for unfunded commitments	(5)	2
Valuation allowance for foreclosed real estate	860	900
Gain on sale of foreclosed real estate	(93)	(153)
Gain on settlement of derivative contracts	- -	(1,143)
Loss on sale of assets	84	89
Deferred loan origination costs, net of amortization	(297)	209
Changes in other assets and other liabilities	(688)	5,090
Net cash provided by operating activities	**6,146**	**10,797**
Cash Flows from Investing Activities		
Activity in securities available for sale:		
Maturities, prepayments and calls	58,407	49,469
Purchases	(25,854)	(54,450)
Purchases of FRB stock	(27)	(8)
Proceeds from sale of FHLB stock	- -	97
Net decrease (increase) in loans	(20,109)	87
Purchase of equipment and leasehold improvements	(926)	(446)
Proceeds from sale of foreclosed real estate	829	3,031
Net cash provided by (used in) investing activities	**12,320**	**(2,220)**
Cash Flows from Financing Activities		
Net increase in deposits	34,471	59,105
Paydown of FHLB advances	(10,000)	- -
Proceeds from preferred stock issuance	- -	11,934
Preferred stock redemption	- -	(12,180)
Repurchase of common stock	(3,068)	(148)
Cash dividends paid on preferred stock	(2,548)	(550)
Cash dividends paid on common stock	(598)	- -
Net cash provided by financing activities	**18,257**	**58,161**
Net increase in cash and cash equivalents	**36,723**	**66,738**
Cash and Cash Equivalents		
Beginning of the year	207,959	141,221
End of the year	**$ 244,682**	**$ 207,959**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Dollars in Thousands)

Pacific Coast Bankers' Bancshares and Subsidiaries
Years Ended December 31, 2012 and 2011

		2012		2011
Supplemental Disclosures of Cash Flow Information				
Interest paid	$	1,272	$	1,772
Income taxes paid, net of refunds received		5,028		(3,833)
Supplemental Disclosures of Non-Cash Investing Activities				
Fair value adjustment of securities available for sale	$	28	$	1,447
Fair value adjustment of fair value hedges		105		359
Transfers from loans to foreclosed real estate		646		105

See notes to consolidated financial statements.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Pacific Coast Bankers' Bancshares and Subsidiaries (the Company) consist of a bank holding company and two wholly owned operating subsidiaries: Pacific Coast Bankers' Bank (the Bank) and PCBB Capital Markets (the Broker-Dealer), formerly known as Banc Investment Group, LLC. The Company also owns the outstanding stock of PCBB Trust I and PCBB Trust II, for the purpose of issuing Company-obligated trust preferred securities. The Company is subject to regulations imposed by supervisory agencies and undergoes periodic examinations.

The Bank is a state chartered bank and a Federal Reserve Bank (FRB) member. The Bank is defined by statute as a "bankers' bank," under which it is organized to transact business with other financial institutions and is primarily owned by financial entities. The Bank provides a full range of correspondent services to independent financial institutions throughout the United States, including agent cash management, cash letter settlement, lending and other services. The Bank has M3 Eighty Eight, Inc., Cedar Grove, LLC, and Winfield Creekside, LLC, three wholly owned subsidiaries with the purpose of acquiring and marketing real estate.

The Broker-Dealer began operations in 2002 and is registered with and regulated by the Securities and Exchange Commission (SEC) and the Financial Industry Regulatory Authority (FINRA). The Broker-Dealer provides securities and loan brokerage services, including financial hedging instruments, as well as capital markets consulting services to depository institutions and corporations that own depository institutions.

Consolidated Financial Statement Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and practices within the financial services industry. Preparation of consolidated financial statements in conformity with GAAP includes the use of certain estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the Company's results and its disclosure for the periods presented. Actual results could differ materially from those derived from estimates and assumptions. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, the valuation of foreclosed real estate, and the valuation of the fair value of derivative contracts.

Certain prior year amounts have been reclassified to conform to current year presentation, with no effect on previously reported shareholders' equity and net income. All dollar amounts in the consolidated financial statements are stated in thousands, except per share information.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, its wholly owned subsidiaries and the Broker-Dealer. All significant intercompany transactions and balances have been eliminated.

Subsequent Events

Management has evaluated subsequent events through February 28, 2013, which is the date the consolidated financial statements were available to be issued. All material subsequent events that required recognition or disclosure are reflected in the consolidated financial statements for the year ended December 31, 2012.

Cash Equivalents and Cash Flows

Cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold and interest-bearing deposits in other financial institutions that have an initial maturity of less than 90 days when acquired by the Bank. Generally, federal funds are sold for one-day periods. Cash flows from loans, federal funds purchased and deposits are reported net. Cash and cash equivalents include a required minimum balance of $300 thousand for the Broker-Dealer deposits held at its clearing organization. The Company maintains its cash in accounts maintained in depository institution for balances that may, at times, exceed federally insured limits. The Company has not experienced losses from these accounts.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits comprise balances in financial institutions and deposits with the FRB, carry a maturity of less than 90 days, and are carried at cost.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Securities Available for Sale

Securities available for sale consist of debt securities that the Bank intends to hold for an indefinite period but not necessarily to maturity. Such securities may be sold to implement the Bank's asset/liability management strategies and in response to changes in interest rates and other factors. Securities available for sale are reported at fair value. Unrealized gains and losses, net of the related deferred tax effect, are reported as a net amount in a separate component of shareholders' equity entitled *Accumulated Other Comprehensive Income*. Realized gains and losses on securities available for sale, determined using the specific-identification method, are included in earnings. Amortization of premiums and accretion of discounts are recognized in interest income.

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near term prospects of the issuer, including an evaluation of credit ratings, asset quality and general market conditions; (3) the impact of changes in market interest rates; (4) the intent of the Company to sell a security; and (5) whether it is more likely than not that the Company will have to sell the security before recovery of its cost basis.

If the Company intends to sell an impaired security, other-than-temporary loss is recognized for the difference between the fair value and the amortized cost. If a security that the Company does not intend to sell is determined to be subject to OTTI, earning recognition is limited solely to the extent of the credit portion in the estimated loss, with the remaining market portion of the loss recognized in other comprehensive income.

Federal Home Loan Bank and Federal Reserve Bank Stocks

The Bank is required to hold non-marketable equity securities from the FRB and the Federal Home Loan Bank (FHLB) of San Francisco as a condition of membership. These securities do not have a readily determinable fair value as their ownership is restricted, there is no market for these securities, they can only be redeemed or sold at their par value and only to the respective issuing government supported institution or to another member institution.

The Company accounts for these securities in accordance with Accounting Standards Codification (ASC) 942-325-35, *Financial Services – Depository and Lending: Investments – Other*, under which stock is carried at cost and periodically evaluated for impairment. Management considers these non-marketable equity securities to be long-term investments. Accordingly, when evaluating FRB and FHLB stocks for impairment, management considers the ultimate recoverability of the par value based on the ability of the issuer to perform its obligations. FHLB and FRB stocks were not considered impaired during the years ended December 31, 2012 and 2011.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Loans Receivable and Allowance for Loan Losses

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances and adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan fees and certain direct loan origination costs are deferred and the net fee or cost is recognized as an adjustment to interest income using the interest method.

Because some loans may not be repaid in full, an allowance for loan losses is recorded. An allowance for loan losses is a valuation allowance for probable incurred loan losses. The allowance for loan losses is increased by a provision for loan losses charged to expense and decreased by charge-offs (net of recoveries). The allowance is based on ongoing, monthly assessments of the probable and estimable losses inherent in the loan portfolio. The Bank's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance and specific allowances.

The formula portion of the general loan loss allowance is established by applying a loss percentage factor to the different loan types. The allowances are provided based on management's continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including changes in the size and composition of the loan portfolio, actual loan loss experience, current economic conditions, geographic concentrations, seasoning of the loan portfolio, specific industry conditions and duration of the current business cycle.

Specific allowances are established in cases where management has identified significant conditions or circumstances related to a loan that management believes indicate the probability that a loss has been incurred. Loans are considered impaired when, based on current information and events, it is possible the Bank will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at present value of estimated cash flows using the loan's existing rate or fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectibility of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or a portion thereof, are charged off when deemed uncollectible.

The ultimate recovery of all loans is susceptible to future market factors beyond the Bank's control. These factors may result in losses or recoveries differing significantly from those provided in the consolidated financial statements. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations. As a matter of policy, the Bank estimates a liability for possible losses associated with unfunded loan commitments. This estimate applies a percentage factor of the total unfunded loan commitments.

Interest income on loans is accrued over the term of the loans based on the principal outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due, as well as when required by regulatory provisions. Past due status is based on contractual terms of the loan. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on nonaccrual loans are applied as a reduction to principle. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Troubled Debt Restructuring

A troubled debt restructuring (TDR) is a concession provided by the Bank to a borrower with the expectation of receiving a greater benefit, such as more cash or other value, or of increasing the probability of receipt, by granting the concession than by not granting it. The concession is provided due to the borrower's financial difficulties provoked by economic or legal reasons. Modifications in loan terms under TDR include, but are not limited to, a reduction in interest rate, an extension of the maturity at an interest rate below market, a reduction in the face amount of debt, a reduction in accrued interest, or an extension, deferral, renewal or rewrite. The selection of the type and extent of concession granted to the borrower is based on expectations to obtain more cash or other value from the borrower, or to increase the probability of receipt by granting the concession than by not granting it.

The restructured loans may be classified as "special mention" or "substandard" depending on the severity of the modification and are considered impaired. Loans that were paid current at the time of modification may be upgraded in their classification after a sustained period of repayment performance, usually six months or longer. Past due loans at the time of modification are classified as substandard and are considered impaired and placed on nonaccrual status. Those loans may be upgraded in their classification and placed on accrual status upon a sustained period of repayment performance during six months or longer and the achievement of reasonable assurance that repayment will continue.

Equipment and Leasehold Improvements

Equipment and leasehold improvements are stated at their cost less accumulated depreciation. Equipment is depreciated over the economic life of the asset using the straight-line method. Leasehold improvements are depreciated over the lesser of the lease term and the economic life. Gains or losses on dispositions are reflected in earnings.

Assets are reviewed for impairment when events indicate that their carrying value may not be recoverable. If management determines impairment exists, the carrying amount is adjusted and impairment loss is recognized.

Account Analysis Fees

The Bank analyzes certain demand deposit accounts (Analyzed Accounts) for those customers who choose to maintain account balances to offset some or all of their account service charges. Account service charges include account activity fees charged by the Bank, as well as third-party service charges, including FRB charges passed on to customers. The Bank reduces account service charges by an earnings credit, based upon the average balances maintained each month in the Analyzed Accounts.

Transaction, Brokerage and Service Fees

Transaction and service fee income includes brokerage fees for loans, certificates of deposit, domestic and international wires, securities as well as other transaction and services fees. Income is recognized on settlement date basis for brokerage fees and at the time service is provided for other services fees.

As-Agent Fees

The Company executes daily transactions into federal funds and excess balance accounts at the FRB on an as-agent basis for its customers. Revenue is recorded based on maturity.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. The latter is deemed to occur when: (1) the assets have been isolated from the Company; (2) the transferee obtains the right to pledge or exchange the assets it received, and no condition both constrains the transferee from taking advantage of its right to pledge or exchange the assets it received and provides more than a modest benefit to the transferor; and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. In addition, for transfers of a portion of financial assets (for example, participations of loan receivables), the transfer must meet the definition of participating interest in order to account for the transfer as a sale, for which the following conditions must be met:

- Pro rata ownership in the entire financial asset.
- From the date of the transfer, all cash flows received from the entire financial assets are divided proportionately among the participating interest holders in an amount equal to their shares of ownership.
- The rights of each participating interest holder have the same priority and no participating interest holder's interest is subordinated to the interest of another participating interest holder. That is, no participating interest holder is entitled to receive cash before any other participating interest holder under its contractual rights.
- No party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to the pledge or exchange.

Foreclosed Real Estate

Real estate properties acquired through or in lieu of foreclosure are to be sold and are initially recorded at fair value, net of estimated selling expenses and disposal costs, determining the cost basis. At time of transfer, the cost basis is compared to fair value and write-downs are charged to the allowance for loan losses.

Foreclosed real estate is evaluated regularly by comparing the cost basis to current fair values. Reductions in carrying values and revenue and the disbursement of foreclosed properties related expenses are allocated to operations. At December 31, 2012 and 2011, the Company had $1.1 million and $2.1 million, net of valuation allowance for foreclosed real estate of $1.6 million and $2.4 million, respectively.

Income Taxes

Deferred income taxes reflect the effect of temporary differences between the tax basis of assets and liabilities and the reported amounts of those assets and liabilities for financial reporting purposes. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The respective tax benefits recognized in the financial statements are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes and accounting in interim periods. When applicable, the Company will recognize interest and penalties related to unrecognized tax benefits within the income tax expense line on the accompanying consolidated statements of income. Accrued interest and penalties will be included within the related tax liability line on the consolidated balance sheets, when applicable. During the years ended December 31, 2012 and 2011, no interest or penalties were accrued.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Stock-Based Compensation

The Company recognizes compensation cost for the stock options and restricted stock granted to its employees and directors. For stock options, compensation expense is measured at the fair value of these awards on their grant date using a Black-Scholes option-pricing model. For restricted stock awards, the fair value at grant date is the market price for the Company's stock as calculated. Compensation cost is recognized over the required service period, defined as the vesting period for stock option awards and as the restriction period for restricted stock awards. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period. The Company's stock compensation plans are described more fully in Note 18.

Derivatives and Hedging Activities

Credit Risk

The Bank is subject to risk of nonperformance by counterparties in derivative agreements. The Bank manages counterparty credit risk through credit analyses and collateral requirements and by following the requirements of the Bank's risk management policies and credit guidelines. Based on the master netting arrangements, credit analyses and collateral requirements in place, management does not anticipate credit losses on its agreements, for which no allowance for losses is deemed necessary.

Intermediation

As a service to its customers, the Bank enters into offsetting interest rate exchange agreements, acting as an intermediary in exactly offsetting derivatives transactions with customer banks and other counterparties. This intermediation allows members indirect access to the derivatives market. The offsetting derivatives used in intermediary activities do not receive hedge accounting treatment in accordance with derivative topic of the Financial Accounting Standards Board (FASB) ASC and are separately marked to fair value through earnings.

See Note 21 for more information on derivatives provided as a service to customers.

Hedging

The Company entered into interest rate swap derivative transactions to convert floating rate debt to fixed rates (cash flow hedges) and to convert fixed rate loans to floating rate (fair value hedges). The fair values of these instruments are included in other assets and other liabilities in the consolidated balance sheets, with the change in fair value reported in other comprehensive income for cash flow hedges and the change in fair value reported in earnings for fair value hedges. The specific terms and notional amounts of the interest rate swaps are consistent with the underlying hedged instruments. The Company links fair value hedges to specific assets and liabilities on the consolidated balance sheets and formally assesses both at the hedge's inception and on an ongoing basis, whether the fair value hedges are highly effective in offsetting changes in the fair value of the hedged items. Changes in fair value for fair value hedges are reported in earnings. In order to calculate the change in fair value of the underlying hedged item and perform this assessment, the Company creates a hypothetical or synthetic derivative based on the characteristics of the underlying hedged item. The fair value of this synthetic derivative is reported on the Company's consolidated balance sheets and changes in the fair value of the synthetic derivative are reported in earnings.

On the date the derivative contract is entered into, the Company designated the derivatives as a cash flow hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability cash flow hedge, or to limit the Company's exposure to total changes in fair value of its fixed interest rate earning assets fair value hedge. Changes in the fair values of the derivatives that are highly effective and designated and qualify as a cash flow hedge are recorded in other comprehensive income until earnings are affected by the variability of cash flows.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedged transactions. This process includes linking all derivatives that are designated as cash flow hedges to specific assets and liabilities on the consolidated balance sheets or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively, as discussed below.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Hedging

The Company discontinues hedge accounting prospectively when: (1) it is determined that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including forecasted transactions); (2) the derivative expires or is sold, terminated or exercised; (3) the derivative is dedesignated as a hedge instrument, because it is unlikely that a forecasted transaction will occur; or (4) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the derivative will continue to be carried on the consolidated balance sheets at its fair value and gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the derivative will be carried at its fair value on the consolidated balance sheets, with subsequent changes in its fair value recognized in current period earnings.

Fair Value of Financial Instruments

ASC 820, *Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. The framework is comprised of a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three levels:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; data other than observable quoted prices or derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Data unobservable and significant to the fair value measurement, including financial instruments whose value is determined using discounted cash flows, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Provided fair value disclosures and balances, which pertain to the Company's consolidated financial statements, do not represent the aggregate net fair value of the Company. Further, fair value estimates are based on various assumptions, methodologies and subjective considerations which vary widely among different financial institutions and which are subject to change.

The Company's fair value assessments are constructed based on the following methods and assumptions:

Cash and Due from Banks and Federal Funds Sold

The carrying amount reported on the consolidated balance sheets for cash and short-term instruments approximates fair value.

Interest-Bearing Deposits in Other Financial Institutions

The fair value of interest-bearing deposits in other financial institutions is estimated by discounting future cash flows, using rates at each reporting date for instruments with similar remaining maturities offered by comparable financial institutions.

Securities Available for Sale

The fair value of securities is based on quoted market prices, where available. If quoted market prices are not available, fair value is based on quoted market prices for comparable instruments.

FHLB and FRB Stocks

The carrying value of FHLB and FRB stocks approximates fair value.

Derivative Contracts and Synthetic Swaps

The carrying amount of interest rate caps, interest rate floors, interest rate swaps, synthetic swaps and prepayment agreements approximates fair value and is estimated using a discounted cash flow method based on current incremental rates for similar types of arrangements.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Loans

For variable rate loans that reprice frequently and have no significant change in credit risk, fair value is based on carrying value. The fair value of fixed rate loans is estimated using a discounted cash flow method applying interest rates currently offered for loans with similar terms and to borrowers with similar credit quality. The fair value of impaired loans is estimated using a discounted cash flow method or underlying collateral values, as applicable, and a valuation adjustment accordingly, while the portfolio is assessed collectively.

Deposit Liabilities

The fair value estimated for demand deposits is, by definition, equal to the amount payable on demand at the reporting date (i.e., its carrying amount). The fair value of certificates of deposit is estimated using a discounted cash flow method that applies currently offered interest rates on certificates to a schedule for the aggregate expected monthly maturities on time deposits.

Other Borrowings, FHLB Advances and Trust Preferred Securities

The fair value of the Company's long-term borrowings is estimated using a discounted cash flow method based on the current incremental interest rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Off-Balance-Sheet Instruments

The fair value of commitments and guarantees to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms and the customers' creditworthiness. Since the majority of the Company's off-balance-sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined that they do not have a distinguishable fair value.

Commitments and Contingencies

In accordance with applicable accounting guidance, the Company establishes reserves for legal expenses and dispute resolution when those matters represent contingencies that are both probable and the amount is estimable, including claims and legal actions arising in the ordinary course of business. These reserves are recorded as liabilities.

The Company has established a loss contingency for potential exposure on derivative transactions. Certain derivative transactions may result in a loss to the Company due to a voluntary termination by the counter-party. As of December 31, 2012 and 2011, the amount of this loss contingency was $556 thousand and $546 thousand, respectively.

Recent Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement* (Topic 820), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*. This update explains how to measure fair value, while it does not require additional fair value measurements and it is not intended to establish valuation standards or affect valuation practices outside of financial reporting. This update clarifies the application of existing fair value measurement standards and changes a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This amendment became effective for the annual period commencing January 1, 2012. This amendment did not have a material effect on the Company's consolidated financial statements.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 1 - Nature of Business and Summary of Significant Accounting Policies

Recent Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income* (Topic 220), *Presentation of Comprehensive Income*, which provides the Company 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. In December 2011, the FASB issued ASU No. 2011-12, *Comprehensive Income* (Topic 220), *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, through which the FASB superseded certain previously issued paragraphs under ASU No. 2011-05. The Company adopted this update for the period commencing January 1, 2012. This update did not have a material effect on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, *Comprehensive Income (*Topic 220), *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,* which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The Company will be subject to the application of this update beginning on its annual period commencing January 1, 2014. The Company is currently evaluating the impact of this amendment, while adoption is not expected to have a material effect on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet* (Topic 210), *Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This scope would include derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The Company will be subject to the retrospective application of these disclosures beginning on its annual period commencing January 1, 2013. The Company is currently evaluating the impact of this amendment, while adoption is not expected to have a material effect on the Company's consolidated financial statements.

In January 2013, the FASB issued ASU No. 2013-01, *Balance Sheet (Topic 210), Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*, which is an amendment to clarify the scope of Update 2011-11 to apply to derivatives accounted for in accordance with Topic 815 *Derivatives and Hedging*, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to an enforceable master netting arrangement or similar agreement. The Company will be subject to the retrospective application of these disclosures beginning on its annual period commencing January 1, 2013. The Company is currently evaluating the impact of this amendment, while adoption is not expected to have a material effect on the Company's consolidated financial statements.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 2 - Agency Program

The Bank acts as an agent for selling overnight federal funds on behalf of respondent financial institutions. Participating institutions place trades daily and, simultaneously, the Bank makes the sales to pre-approved purchasing banks. The Bank also maintains balances in excess balance accounts at the FRB on behalf of respondent banks. At December 31, 2012 and 2011, outstanding federal funds sold and excess balance accounts totaled $2.9 billion and $6.1 billion, respectively. As a result of this service, the Bank recorded agent fee income of $0.8 million and $1.1 million for the years ended December 31, 2012 and 2011, respectively. The Bank is a pre-approved purchasing bank in the overnight federal funds program and had no outstanding federal funds purchased at December 31, 2012 and 2011.

Note 3 - Cash and Cash Equivalents

Cash and due from banks includes balances with the FRB and other correspondent banks. These balances include pass-through reserve balances on behalf of respondent banks, as well as the Bank's reserve balance at the FRB. Reserve balances for the years ended December 31, 2012 and 2011, were approximately $168.2 million and $125.5 million, respectively.

The Bank also provides federal funds facilities to respondent banks. These uncommitted facilities are approved for up to one year and permitted usage is subject to terms and conditions as stipulated by the Bank. At December 31, 2012 and 2011, the Bank had provided federal funds facilities to 419 respondent banks for $2.2 billion and 392 respondent banks for $2.0 billion, respectively. Outstanding agreements represented $33.9 million and $12.5 million at December 31, 2012 and 2011, respectively.

Note 4 - Investment Securities

The amortized cost and estimated fair value of securities available for sale as of December 31 consist of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012				
Residential mortgage-backed securities	$ 107,761	$ 2,296	$ (1)	$ 110,056
December 31, 2011				
Residential mortgage-backed securities	$ 142,907	$ 2,276	$ (28)	$ 145,155

The following shows the unrealized gross losses and fair value of securities in the securities available for sale portfolio at December 31 by length of time that individual securities in each category have been in a continuous loss position (in thousands):

	Less than 12 months		More than 12 months		Total Unrealized	
	Unrealized Gross Loss	Unrealized Fair Value	Unrealized Gross Loss	Unrealized Fair Value	Gross Loss	Fair Value
December 31, 2012						
Residential Mortgage-backed securities	$ (1)	$ 5,133	$ - -	$ - -	$ (1)	$ 5,133
December 31, 2011						
Residential Mortgage-backed securities	$ (28)	$ 13,772	$- -	$- -	$ (28)	$ 13,772

There were no securities that had been in an unrealized loss position for 12 months or more at December 31, 2012 or 2011.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 4 - Investment Securities

The amortized cost and estimated fair value of available for sale debt securities, by contractual maturity, at December 31, 2012, are shown below (in thousands). Actual and contractual maturities may differ due to issuers' right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due in 1 year or less	$ 19	$ 19
Due from 1 to 5 years	2,266	2,353
Due from 5 to 10 years	19,328	20,002
Due after 10 years	86,148	87,682
Total	**$ 107,761**	**$ 110,056**

Securities with a fair value of $22.1 million and $26.9 million were pledged to secure borrowing arrangements as of December 31, 2012 and 2011, respectively.

Securities with a fair value of $74.4 million and $66.3 million were pledged to derivative counterparties as of December 31, 2012 and 2011, respectively.

The Company had no gross realized gains or losses on securities for the years ended December 31, 2012 and 2011.

Note 5 - Loans Receivable and Allowance for Loan Losses

Loans at December 31 consist of the following (in thousands):

	2012	2011
Commercial construction	$ 148	$ 2,873
Commercial real estate	131,000	125,317
Multifamily real estate	33,506	25,611
1 to 4 family real estate	11,049	8,021
Commercial and industrial	20,467	14,731
Other	1,312	2,070
Loans before deferrals and allowance	**197,482**	**178,623**
Net deferred loan origination fees	(148)	(446)
Allowance for loan losses	(5,273)	(5,311)
Loans, net	**$ 192,061**	**$ 172,866**

The Bank facilitates the participation of loans on behalf of its respondent banks, generally retaining a portion in its portfolio.

As of December 31, 2012 and 2011, loans totaling $125 million and $128 million, respectively, were pledged to the FRB to secure a borrowing facility. There was no amount drawn on this facility as of December 31, 2012 and 2011.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

Risk Management

The Company has lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management and the board of directors review and approve these policies and procedures on a regular basis. A reporting system supplements the internal review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. The Company also engages a third party to perform a credit review of the loan portfolio regularly.

As of December 31, 2012, approximately 89 percent of the Company's loans are for real estate for both residential and commercial properties, of which construction represents less than 1 percent of the total loan portfolio. As of December 31, 2012, approximately 10 percent of the Bank's loans are for general commercial uses, including professional, retail and small business. Additionally, less than 1 percent of the Bank's loans are for bank stock loans for directors and officers of respondent banks and bank holding company loans at December 31, 2012. Generally, real estate loans are collateralized by real estate property, while commercial and bank stock loans are collateralized by business or personal assets.

Commercial real estate and multifamily real estate loan underwriting standards are governed by the loan policies in place at the time the loan is approved. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans can be owner occupied or non-owner occupied. Owner occupied properties are thought to bear less risk than non-owner occupied , as the Company can readily analyze the financial condition of the owner, whose financial strength and ability to pay directly relate to the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type and geographic location. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Company avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Company has geographic concentrations in commercial real estate and multifamily loans. At December 31, 2012, 50 percent of commercial real estate loans were located in California, 23 percent in Oregon, and 13 percent in Washington. The remaining 14 percent of commercial real estate loans are primarily distributed among Arizona, Nevada, North Carolina, Idaho, New York and Virginia. The Company had 37 percent of the multifamily loan portfolio located in California, 31 percent in Washington and 11 percent in Colorado. The remaining 21 percent of multifamily loans are distributed among Oregon, Arizona, North Carolina and Wisconsin.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. The Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The actual cash flows from borrowers, however, may differ from projected amounts and the collateral securing these loans may fluctuate in value. Moreover, commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. At December 31, 2012, the Company owned $13.8 million in syndicated loans representing 68 percent of the outstanding commercial and industrial loans. As these are purchased portions of large syndicated loans, the Company has limited influence on their management. A secondary market exists for these credits, which improves the liquidity of these loans, which also introduces market risk.

Loans for construction, 1 to 4 family residential properties and other loans do not make up a significant number of loans or outstanding balances to be considered material.

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the due date. An age analysis of past due loans (including both accruing and non-accruing loans), segregated by class of loans, as of December 31, 2012 and 2011, was as follows (in thousands):

Age Analysis of Past Due Loans as of December 31, 2012

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate:						
Commercial construction	$ - -	$ 139	$ 139	$ 9	$ 148	$ - -
Commercial real estate	9	4,460	4,469	126,531	131,000	- -
Multifamily real estate	- -	2,501	2,501	31,005	33,506	- -
1 to 4 Family real estate	- -	29	29	11,020	11,049	- -
Commercial and industrial	- -	- -	- -	20,467	20,467	- -
Other loans	2	- -	2	1,310	1,312	- -
	$ 11	**$ 7,129**	**$ 7,140**	**$ 190,342**	**$ 197,482**	**$ - -**

Age Analysis of Past Due Loans as of December 31, 2011

	31-89 Days Past Due	90 or More Days Past Due	Total Past Due Loans	Total Current Loans	Total Loans	Accruing Loans 90 or More Days Past Due
Real estate:						
Commercial construction	$ - -	$ 303	$ 303	$ 2,570	$ 2,873	$ - -
Commercial real estate	8	6,594	6,602	118,715	125,317	- -
Multifamily real estate	- -	672	672	24,939	25,611	- -
1 to 4 Family real estate	- -	42	42	7,979	8,021	- -
Commercial and industrial	734	- -	734	13,997	14,731	- -
Other loans	- -	- -	- -	2,070	2,070	- -
	$ 742	**$ 7,611**	**$ 8,353**	**$ 170,270**	**$ 178,623**	**$ - -**

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

Allowance for Loan Losses

The following details activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2012 and 2011 (in thousands). Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for Loan Losses
For the Years Ended December 31, 2012 and 2011

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Other	Total
December 31, 2012							
Beginning balance	$ 217	$ 2,991	$ 825	$ 199	$ 687	$ 392	$ 5,311
Charge-offs	(139)	(303)	(230)	- -	- -	- -	(672)
Recoveries	- -	64	- -	- -	4	1	69
Provisions	(78)	(220)	(122)	85	1,021	(121)	565
Ending balance	**$ - -**	**$ 2,532**	**$ 473**	**$ 284**	**$ 1,712**	**$ 272**	**$ 5,273**
Ending Balance							
Individually evaluated for impairment	$ - -	$ 176	$ - -	$ - -	$ 1,304	$ - -	$ 1,480
Collectively evaluated for impairment	$ - -	$ 2,356	$ 473	$ 284	$ 408	$ 272	$ 3,793
December 31, 2011							
Beginning balance	$ 208	$ 3,872	$ 690	$ 599	$ 206	$ 577	$ 6,152
Charge-offs	- -	(722)	- -	(362)	(47)	(159)	(1,290)
Recoveries	179	54	- -	3	26	1	263
Provisions	(170)	(213)	135	(41)	502	(27)	186
Ending balance	**$ 217**	**$ 2,991**	**$ 825**	**$ 199**	**$ 687**	**$ 392**	**$ 5,311**
Ending Balance							
Individually evaluated for impairment	$ 147	$ 525	$ 409	$ - -	$ - -	$ - -	$ 1,081
Collectively evaluated for impairment	$ 70	$ 2,466	$ 416	$ 199	$ 687	$ 392	$ 4,230

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

The following is a summary of information pertaining to impaired loans as of December 31, 2012 and 2011 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
December 31, 2012					
With no related allowance recorded:					
Commercial construction	$ 139	$ 139	$ - -	$ 150	$ - -
Commercial real estate	2,905	2,905	- -	1,464	- -
Multifamily real estate	2,501	2,501	- -	1,675	- -
1 to 4 family real estate	29	29	- -	35	- -
With an allowance recorded:					
Commercial real estate	1,387	1,563	176	1,608	- -
Commercial and industrial	1,888	3,192	1,304	1,921	- -
Total:					
Commercial construction	139	139	- -	150	- -
Commercial real estate	4,292	4,468	176	3,072	- -
Multifamily real estate	2,501	2,501	- -	1,675	- -
1 to 4 family real estate	29	29	- -	35	- -
Commercial and industrial	1,888	3,192	1,304	1,921	- -
	$ 8,849	**$ 10,329**	**$ 1,480**	**$ 6,853**	**$ - -**
December 31, 2011					
With no related allowance recorded:					
Commercial real estate	$ 3,819	$ 3,819	$ - -	$ 4,057	$ - -
Multifamily real estate	672	672	- -	702	- -
1 to 4 family real estate	42	42	- -	50	- -
With an allowance recorded:					
Commercial construction	156	303	147	314	- -
Commercial real estate	2,250	2,775	525	3,059	- -
Multifamily real estate	636	1,045	409	89	- -
Total:					
Commercial construction	156	303	147	314	- -
Commercial real estate	6,069	6,594	525	7,116	- -
Multifamily real estate	1,308	1,717	409	791	- -
1 to 4 family real estate	42	42	- -	50	- -
	$ 7,575	**$ 8,656**	**$ 1,081**	**$ 8,271**	**$ - -**

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

There were no commitments to lend additional funds to borrowers whose loans had been modified for the years ended December 31, 2012 and 2011.

As part of the ongoing monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators, including trends related to (i) risk grade by loan type, (ii) level, (iii) delinquency status, (iv) net charge-offs, (v) non-performing status, and (vi) general economic conditions.

The Company utilizes a risk grading matrix to assign a risk grade to each of its loans. Loans are graded on a scale of 1 to 10. A description of the general characteristics of the risk grades is as follows:

Grades 1 to 5 - These grades reflect various levels of acceptable credit risk where grade 1 represents the highest credit quality and lowest risk of default and grade 5 represents moderate credit risk based upon mitigating factors.

Grade 6 - This grade represents existing loans with a higher than average credit risk but are currently within the Company's credit risk tolerance for a passing loan. A loan will be downgraded to a grade 6 if it warrants greater than routine attention by bank personnel due to conditions affecting the borrower, the borrower's industry, or the economic environment. This risk grade is utilized on a temporary basis for a pass grade.

Grade 7 - This grade reflects loans that have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or in the Company's credit position at some future date.

Grade 8 - This grade reflects loans that are insufficiently protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if applicable. Under this risk grade, a loan has defined weaknesses that make payment default or principal exposure likely, but not yet certain. Generally, the Company ceases the accrual of interest on these loans, although circumstances may exist where the continuation of the interest accrual is supported.

Grade 9 - This grade includes loans with a high probability of loss, but because of certain important and reasonably specific pending factors, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Grade 10 - This grade includes loans classified as loss which are considered uncollectible and of low value for which the continuation as a bankable asset is not warranted. While this classification results in the prompt charge-off of the loan, it is not intended to imply that the loan or some portion of it will never be collected, nor does it in any way imply that there has been a forgiveness of debt.

The following is a summary of the credit risk profile by internally assigned grades as of December 31, 2012 and 2011 (in thousands):

Pacific Coast Bankers' Bancshares and Subsidiaries
December 31, 2012 and 2011

Note 5 - Loans Receivable and Allowance for Loan Losses

Credit Quality Indicators
As of December 31, 2012

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Other	Total
Grade							
Grades 1 - 6	$ 9	$ 111,205	$ 30,354	$ 11,020	$ 17,276	$ 269	$ 170,133
Grade 7	- -	6,972	- -	- -	- -	- -	6,972
Grade 8	139	12,823	3,152	29	3,191	1,043	20,377
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 148	**$ 131,000**	**$ 33,506**	**$ 11,049**	**$ 20,467**	**$ 1,312**	**$ 197,482**
Nonaccrual	$ 139	$ 4,468	$ 2,501	$ 29	$ 3,192	$ - -	$ 10,329

Credit Quality Indicators
As of December 31, 2011

	Commercial Construction	Commercial Real Estate	Multi-Family Real Estate	1 to 4 Family Real Estate	Commercial and Industrial	Other	Total
Grade							
Grades 1 - 6	$ 2,570	$ 116,391	$ 23,894	$ 7,979	$ 11,252	$ 674	$ 162,760
Grade 7	- -	- -	- -	- -	3,479	- -	3,479
Grade 8	303	8,926	1,717	42	- -	1,396	12,384
Grade 9	- -	- -	- -	- -	- -	- -	- -
Grade 10	- -	- -	- -	- -	- -	- -	- -
	$ 2,873	**$ 125,317**	**$ 25,611**	**$ 8,021**	**$ 14,731**	**$ 2,070**	**$ 178,623**
Nonaccrual	$ 303	$ 6,594	$ 1,717	$ 42	$ - -	$ - -	$ 8,656

A risk grade may be changed at any time, based upon the assessment of the current financial information available from the borrower. Loans with passing risk grades 1 through 5 are reviewed at least annually for any risk grade changes. Loans with risk grades of 6 through 9 are reviewed at least quarterly in order to monitor the trends in the financial strength of the borrowers, re-assess the credit risk and determine a more current estimate of losses. Once it is determined that a loan is a loss it receives a grade 10 and is charged off at that time.

Loans are placed on nonaccrual status when the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions would typically require the placement of a loan on nonaccrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection, or (ii) full payment of principal and interest is not expected.

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Note 5 - Loans Receivable and Allowance for Loan Losses

Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments received on non-accrual loans are applied to principal. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Modifications

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers and participates in various types of concessions when modifying a loan, although forgiveness of principal is rarely granted. Commercial real estate and construction loans modified in a TDR often involve dividing a note into two separate notes to reduce the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. Residential mortgage loans modified in a TDR are primarily comprised of loans where monthly payments are lowered to accommodate the borrowers' financial needs for a period of time, normally two years. During that time, the borrower's entire monthly payment is applied to principal. After the lowered monthly payment period ends, the borrower resumes to paying principal and interest per the original terms with an adjusted maturity date.

Loans modified in a TDR are typically on non-accrual status prior to the restructuring and may have been subjected to partial charge-offs in some cases. As a result, loans modified in a TDR for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent.

The table below summarizes troubled debt restructurings for December 31, 2012 and 2011 (in thousands, except for number of loans):

	Number of Loans	Pre-Modification Outstanding Recorded Investments	Post-Modification Outstanding Recorded Investments
December 31, 2012			
Troubled debt restructuring:			
Construction	1	$ 403	$ 138
Commercial real estate	5	6,910	6,227
December 31, 2011			
Troubled debt restructuring:			
Construction	1	$ 403	$ 303
Commercial real estate	3	6,178	5,647

The pre-modification investment balance represents the amount of the recorded investment in modified loans prior to the modification being made. The post-modification recorded investment balance represents the amount outstanding at December 31, 2012 and 2011. At December 31, 2012 and 2011, there were no significant amounts of loans that defaulted under their modified terms.

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Note 6 - Related-Party Transactions

The Company, in the normal course of business, conducts transactions with its directors, shareholders and certain members of management. It is the Company's policy that these transactions are made on substantially the same terms as those prevailing at the time with similar unrelated parties. At December 31, 2012 and 2011, there were no loans outstanding. During 2012 and 2011, there were no loan advances or loan repayments on these loans.

Note 7 - Equipment and Leasehold Improvements

Equipment and leasehold improvements stated at cost, less accumulated depreciation and amortization, at December 31 are as follows (in thousands):

	2012	2011
Equipment and furniture	$ 2,696	$ 3,180
Internally developed software	2,903	2,711
Leasehold improvements	174	918
Book value	**5,773**	**6,809**
Less accumulated depreciation and amortization	(4,508)	(5,732)
Net book value	**$ 1,265**	**$ 1,077**

Note 8 - Tax Credit Investments

The Bank has invested in two limited partnerships formed for the purpose of investing in low-income housing projects, which qualify for federal low-income housing tax credits. The two limited partnerships are expected to generate tax credits over approximately a 10-year period. The total invested through the years ended December 31, 2012 and 2011, was $3.3 million. The Bank recognized net operating losses from these limited partnerships of $346 thousand and $337 thousand and federal income tax credit benefits of $321 thousand and $320 thousand for the years ended December 31, 2012 and 2011, respectively. The carrying amount for these investments under the cost method of accounting totaled $0.7 million and $1.0 million as of December 31, 2012 and 2011, respectively, and was included in other assets on the consolidated balance sheets. These investments are evaluated regularly to ensure the recorded amounts are supported and no events indicate impairment in value.

Note 9 - Interest-Bearing Deposits

At December 31, 2012, interest-bearing deposits included money market deposits totaling $14.4 million and time certificates totaling $28.7 million, of which $28.4 million and $0.3 million mature in 2013 and 2014, respectively. At December 31, 2011, interest-bearing deposits included money market deposits totaling $10.1 million and time certificates totaling $19.7 million, of which the total balance matured in 2012.

At December 31, 2012 and 2011, the Bank had time deposits of $100 thousand or greater totaling $27.6 million and $18.4 million, respectively, and had no brokered deposits.

Note 10 - Other Borrowings

Borrowings from the FHLB of San Francisco may include overnight advances as well as loans with terms of up to 30 years. As of December 31, 2012, the Bank had a credit facility with the FHLB of San Francisco for up to approximately $20.8 million, which is secured by pledged securities with a fair value of $22.1 million. The total outstanding under this facility was $10 million and $20 million as of December 31, 2012 and 2011, respectively. The outstanding FHLB borrowing of $10 million matures in 2013.

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Note 10 - Other Borrowings

The Company has a line of credit with a financial institution which is secured by 7,796 shares of Bank common stock. At December 31, 2012 and 2011, $5 million was outstanding under this facility. This line of credit bears a floating interest rate equivalent to the prime rate quoted in the Wall Street Journal (3.25 percent at December 31, 2012) with an increment of 1.00 percent and a minimum rate of 4.50 percent. This line of credit matures in September 2019.

The Bank also has a borrowing facility in the amount of $83.7 million with the FRB secured by $125 million of the Bank's loans. There were no amounts outstanding on this facility as of December 31, 2012 and 2011.

Note 11 - Federal Funds Purchased

Information concerning federal funds purchased for the years ended December 31 is as follows (in thousands):

	2012	2011
Average balance during the year	$ 10	$ 185
Average interest rate during the year	0.20%	0.07%
Interest rate at year-end	N/A	N/A
Federal funds purchased outstanding at year-end	$ - -	$ - -

Note 12 - Trust Preferred Securities

On November 13, 2003, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust I, issued $7.2 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 2.85 percent (3.16 percent at December 31, 2012). Interest is payable quarterly.

Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company's Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed twenty consecutive quarters. The Trust Preferred Securities will mature November 8, 2033 and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

On September 28, 2006, the Company's wholly owned special-purpose trust subsidiary, PCBB Trust II, issued $12.4 million in cumulative Trust Preferred Securities. The securities bear a variable rate of interest, indexed to the three-month LIBOR plus 1.70 percent (2.01 percent at December 31, 2012), payable quarterly. Concurrent with the issuance of the Trust Preferred Securities, the trust used the proceeds from the Trust Preferred Securities offering to purchase a like amount of the Company's Junior Subordinated Debentures. The Junior Subordinated Debentures are the sole assets of the trust. The Company will pay interest on the Junior Subordinated Debentures to the trust, which represents the sole revenue and source of dividend distributions to the holders of the Trust Preferred Securities. The Company has the right, assuming no default has occurred, to defer payment of interest on the Junior Subordinated Debentures, at any time, for a period not to exceed twenty consecutive quarters. The Trust Preferred Securities will mature September 28, 2036, and can be redeemed at any time, at par. The obligations of the trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

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Note 12 - Trust Preferred Securities

Of the $19.6 million received by the Company from the trust upon issuance of the Junior Subordinated Debentures, contributions of $15.0 million were distributed to the Bank to increase its capital. The balance was retained by the Company for general corporate purposes. Issuance costs of $140 thousand related to the Trust Preferred Securities have been deferred and are being amortized over the life of the securities. Interest expense on the Trust Preferred Securities totaled $0.7 million and $1.3 million for the years ended December 31, 2012 and 2011, respectively, including the impact of designated interest rate hedges in connection with these securities. Amortization expense was minimal for both periods.

Note 13 - Salary Continuation Agreements

The Bank has established individual salary continuation agreements for certain executive officers. These benefits are substantially equivalent to those available under single premium life insurance policies purchased by the Bank on the lives of its executives. The estimated present value of these future benefits is accrued over the period from the effective dates of the plans until the executives' expected retirement dates. During the year ended December 31, 2012, the expense of these agreements was $248 thousand and the accrued liability was $1.9 million. During the year December 31, 2011, the expense of these agreements was $278 thousand and the accrued liability was $1.8 million.

The Company has purchased single premium life insurance policies to be used to satisfy the salary continuation liabilities. The cash surrender value of the single premium life insurance policies totaled $6.9 and $6.7 million as of December 31, 2012 and 2011, respectively. Payments made on agreements to former executives totaled $133 thousand for the years ended December 31, 2012 and 2011.

Note 14 - Commitments and Contingencies

Operating Leases

The Company leases its facilities under noncancellable operating leases expiring in 2020. Minimum rental commitments under these leases for future years ending December 31 are as follows (in thousands):

2013	$	599
2014		459
2015		437
2016		445
2017		454
2018		462
2019		471
2020		79
Total minimum lease obligations	**$**	**3,406**

Rent expense totaled $810 thousand and $852 thousand in 2012 and 2011, respectively.

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Note 14 - Commitments and Contingencies

Transactions with Clearing Organization

The Broker-Dealer has an agreement with J.P. Morgan, whereby J.P. Morgan clears all securities transactions, carries all customer accounts and performs certain other services. The agreement is cancellable upon 30 days' prior written notice of either party. As a part of this agreement, the Broker-Dealer is required to maintain deposits with the clearing organization. The amount of such balances for the years ended December 31, 2012 and 2011 totaled $300 thousand and is included in cash and due from banks on the consolidated balance sheets.

Employment Agreements

The Company, the Bank and the Broker-Dealer have employment agreements with executives, which provide for incentive compensation and severance provisions that include compensation and noncompetition agreements. The employment agreements provide that employment is at-will and, therefore, may be terminated by either party.

Management Incentive Compensation Plan

In 2012, the Company approved a management incentive plan to reward executive management for productivity, performance, and implementing the business plan of the Company. Members of executive management are eligible to participate in the plan. The plan provides executive management with both current and deferred cash incentives that are paid over three years. For 2012, the expense recognized by the Company was $1.4 million. The incentive compensation is also subject to a "clawback" provision. The plan is effective for the years 2012 through 2014.

Note 15 - Risks and Uncertainties

The Company's direct exposure to credit risk is concentrated in any cash deposits in excess of applicable insurance limits. The Company reduces its exposure to this risk by maintaining cash deposits with only high-quality financial institutions.

Additionally, in the normal course of business, the Company enters into financial transactions involving the execution and settlement of transactions for the benefit of its clients. These activities may expose the Company to indirect credit risk, representing interest foregone, in the event a client or a third party is unable to fulfill its contractual obligation.

Because of the nature of its activities, the Company is subject to pending and threatened legal actions which arise in the ordinary course of business. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on the financial position of the Company.

Note 16 - Savings Plans

The Company offers a 401(k) defined contribution plan to employees who have successfully completed 90 days of service. The plan is a non-matching, self-directed plan to defer compensation as provided in Section 401(k) of the Internal Revenue Code. Eligible and participating employees may contribute up to 15 percent of their compensation, subject to certain limits based on federal tax laws.

The Company offers a profit sharing plan to employees, who are eligible to participate after working 1,000 hours. Contributions to the profit sharing plan are at the Company's discretion. Contributions vest to the employee equally over a four-year period. The Company contributed $100 thousand for the years ended December 31, 2012 and 2011.

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Note 17 - Employee Stock Ownership Plan

The Company sponsors an Employee Stock Ownership Plan (ESOP). The purpose of the plan is to enable full-time employees who are at least 21 years of age and have been credited with 1,000 hours or more of service in the plan year to acquire stock ownership in the Company. Contributions to the plan are at the discretion of the board of directors. For the years ended December 31, 2012 and 2011, no contributions had been made to the plan and no compensation expense was recognized related to the plan.

In the event a terminated plan participant desires to sell his or her shares of the Company's stock, or for certain employees who elect to diversify their account balances, the Company may be required to purchase the shares from the participant at their fair market value. Dividends paid on unallocated shares reduce the Company's cash contribution to the ESOP. Shares of the Company's common stock purchased by the ESOP are held by the ESOP until released to participants. At December 31, 2012, the plan held 6,683 shares of the Company's stock and $54 thousand in cash. As of December 31, 2012, no shares have been allocated to participants. The fair value of the shares held by the ESOP at December 31, 2012 was $254 thousand.

Note 18 - Stock Compensation Plans

Stock Options Awards

Under the Company's 2005 stock option plan, 200,000 shares of its common stock are authorized for distribution to certain key employees. The exercise price of each option equals the fair market value of the Company's stock on the date of grant and an option's maximum term is 10 years. Options granted vest over a three- to four-year period. During 2008, the 2005 stock option plan was replaced with the Parent Company's 2008 Equity Plan. No additional grants will be made under the 2005 plan.

In August 2008, the Company adopted the 2008 Equity Plan (the Plan). Under the Plan, equity awards may be granted to certain key employees and directors. The Plan authorizes the grant of equity awards as long as the number of shares of common stock granted under the Plan added to the number of options granted under the 2005 stock option plan does not exceed 276,860 shares. The Plan became effective August 31, 2008 and will terminate 10 years after its effective date.

The Company has 242,530 options/shares remaining to grant at December 31, 2012.

No equity awards were granted to Company employees or directors during the years ended December 31, 2012 and 2011.

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Note 18 - Stock Compensation Plans

The following summarizes stock option activity during the year ended December 31, 2012:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding at December 31, 2011	57,220	$ 45.98	$ - -
Exercised	- -	- -	- -
Forfeited	9,930	43.62	- -
Outstanding at December 31, 2012	**47,290**	**$ 46.47**	**$ - -**
Vested and expected to vest at December 31, 2012	**47,290**	**$ 46.47**	**$ - -**
Vested and exercisable at December 31, 2012	**46,290**	**$ 46.44**	**$ - -**

The remaining contractual life of options outstanding is 2.7 years. During the year ended December 31, 2012, no stock options were exercised.

Restricted Stock Awards

The restricted stock grants are valued at fair market value at date of grant. The restricted stock grants vest over a period of three to five years and expense is recognized using the straight-line method in the accompanying consolidated financial statements.

The following summarizes the non-vested restricted stock activity during the year ended December 31, 2012:

	Shares	Weighted-Average Grant Price
Nonvested restricted stock grants at December 31, 2011	13,475	$ 45.01
Granted		
Vested	6,438	44.87
Forfeited	966	46.01
Nonvested restricted stock grants at December 31, 2012	**6,071**	**$ 44.99**

Total stock-based compensation expense recognized for the year ended December 31, 2012, totaled $288 thousand and no tax benefit was realized. Total stock-based compensation expense recognized for the year ended December 31, 2011, totaled $335 thousand and no tax benefit was realized.

Compensation expense yet to be recognized for stock-based awards that have been awarded is $160 thousand and will be recognized in the next year.

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Note 19 - Other Non-Interest Expense

Other non-interest expense at December 31 comprises the following (in thousands):

	2012	2011
Professional fees	$ 1,474	$ 1,826
Provision for foreclosed real estate valuation allowance	860	900
Data processing and software maintenance	801	754
Meals, travel and entertainment	533	455
Director fees and expenses	480	434
Advertising and business development	397	374
FDIC assessment	382	563
Insurance	260	346
Broker fees	163	182
Supplies and postage	109	105
Other	1,350	2,578
Total	**$ 6,809**	**$ 8,517**

Note 20 - Income Taxes

The provision for income taxes for the years ended December 31 consists of the following (in thousands):

	2012	2011
Current:		
Federal	$ 5,414	$ 3,315
State	1,409	747
Total current	**6,823**	**4,062**
Deferred liability (benefit):		
Federal	(1,749)	(1,009)
State	4	(73)
Total deferred benefit	**(1,745)**	**(1,082)**
Total income tax provision	**$ 5,078**	**$ 2,980**

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Note 20 - Income Taxes

The following is a reconciliation between the statutory federal income tax rate of 34 percent and the Company's effective tax rate for the years ended December 31 (in thousands):

	2012		2011	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Income tax at statutory rates	$ 4,167	34.00%	$ 2,436	34.00%
Increase (decrease) resulting from:				
Low-income housing tax credit	(321)	(2.62)	(320)	(4.46)
Other, primarily state income taxes	1,232	10.08	864	12.06
Total income tax expense	**$ 5,078**	**41.46%**	**$ 2,980**	**41.60%**

Components of the Company's net deferred tax assets (liabilities) at December 31 are as follows (in thousands):

	2012	2011
Deferred Tax Assets		
Allowance for loan losses	$ 2,203	$ 2,181
Net operating loss carryforward	- -	323
Salary continuation plans	794	731
Real estate owned write-downs	693	987
State income taxes	446	357
Stock-based compensation	285	323
Unrealized loss on derivatives	45	- -
Other	387	112
Total deferred tax assets	**4,853**	**5,014**
Deferred Tax Liabilities		
Depreciation	(49)	(211)
Deferred loan costs	(62)	(124)
Unrealized gain on securities available for sale	(850)	(742)
Prepaid expenses	(274)	(134)
Fair value of derivative contracts, net	- -	(1,763)
Other	(318)	(422)
Total deferred tax liabilities	**(1,553)**	**(3,396)**
Net deferred tax assets	**$ 3,300**	**$ 1,618**

Management has assessed the likelihood that the deferred tax assets will be realized and believes it is more-likely-than-not that all deferred tax assets will be realized in the normal course of business.

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Note 21 - Derivatives

Derivatives Provided as a Service to Customers

Derivatives in which the Company is an intermediary arise when the Company enters into derivatives with customer banks and offsetting derivatives with other counterparties to meet the needs of its customers. The notional principal of interest rate exchange agreements arising from the Company entering into derivatives with customers and offsetting derivatives with other counterparties was approximately $2.1 billion at December 31, 2012 and $4.1 billion at December 31, 2011.

The contractual or notional amounts of interest rate exchange agreements reflect the extent of the Bank's involvement in particular classes of financial instruments. The notional amount does not represent the exposure to credit loss. The amount potentially subject to credit loss is the estimated cost of replacing an interest rate exchange agreement that has a net positive market value if the counterparty defaults; this amount is substantially less than the notional amount.

Maximum credit risk is defined as the estimated cost of replacing all interest rate exchange agreements the Bank has transacted with counterparties where the Bank is in a net favorable position (has a net unrealized gain) if the counterparties all defaulted and the related collateral proved to be of no value to the Bank. At December 31, 2012 and 2011, the Bank's maximum credit risk, as defined above, was estimated at approximately $58.9 million and $48.4 million, respectively. The legal right to offset assets and liabilities by a counterparty (under which amounts recognized for individual transactions may be offset against amounts recognized for other transactions with the same counterparty) is considered in determining the maximum credit risk. The Bank held cash, time deposits and investment grade securities and other collateral valued at approximately $42.6 million and $46.6 million as collateral from counterparties as of December 31, 2012 and 2011, respectively. No collateral held at the Bank from counterparties was re-pledged to other counterparties at December 31, 2012 and 2011. A significant number of the Bank's interest rate exchange agreements are transacted with financial institutions such as major banks and broker-dealers. Some of these banks and broker-dealers or their affiliates buy, sell and distribute consolidated obligations.

The fair values of derivative contracts are located separately on the consolidated balance sheets. Net gains from the change in fair value of derivatives and realized gains on derivative contract settlements are separately located on the consolidated statements of income.

Derivatives not designated as hedging instruments are as follows at December 31, 2012 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Interest rate swaps	$ 850,651	$ 78,360	$ 1,169,703	$ (60,801)
Written options	- -	- -	39,514	(66)
Purchased options	28,014	5	- -	- -
Total derivative financial instruments not designated as hedging instruments	**$ 878,665**	**$ 78,365**	**$ 1,209,217**	**$ (60,867)**

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Note 21 - Derivatives

Derivatives as Hedging Instruments

For the years ended December 31, 2012 and 2011, the Company recognized no net income or loss resulting from ineffectiveness of cash flow hedges. For the years ended December 31, 2012 and 2011, the Company recognized a net gain of $27 thousand and $32 thousand, respectively (reported in net change in fair value of derivatives on the consolidated statements of income), which represented the ineffective portion of all fair-value hedges. The components of the derivative's gain or loss are included in the assessment of hedge effectiveness and are outlined in Note 26. The fair value hedges are included in fair value of derivative contracts on the consolidated balance sheets and totaled $1.5 million and $1.5 million as of December 31, 2012 and 2011, respectively.

Derivatives designated as hedging instruments are as follows at December 31, 2012 (in thousands):

	Asset Derivatives		Liability Derivatives	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Interest rate swaps designated as a fair value hedge	$ - -	$ - -	$ 13,033	$ (1,237)
Interest rate swaps designated as a cash flow hedge	- -	- -	7,000	(298)
Total derivative financial instruments designated as hedging instruments	**$ - -**	**$ - -**	**$ 20,033**	**$ (1,535)**

Derivatives Summary

The gross positive and negative fair values of derivatives are as follows (in thousands):

	2012		2011	
	Notional Amount	**Estimated Fair Value**	**Notional Amount**	**Estimated Fair Value**
Interest Rate Swap Agreements				
Gross positive fair value	$ 1,121,442	$ 92,982	$ 1,984,571	$ 114,510
Gross negative fair value	918,945	(76,958)	2,020,979	(101,632)
Purchased Options				
Gross positive fair value	28,014	5	45,511	273
Written Options				
Gross negative fair value	39,514	(66)	80,261	(605)

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Note 22 - Financial Instruments and Fair Value

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of those instruments and is usually limited to amounts funded or drawn. The contract or notional amounts of these agreements, which are not included on the consolidated balance sheets, are an indicator of the Bank's credit exposure. Commitments to extend credit generally carry variable interest rates and are subject to the same credit standards used in the lending process for on-balance-sheet instruments. Additionally, the Bank periodically reassesses the customer's creditworthiness through ongoing credit reviews. The Bank generally requires collateral or other security to support commitments to extend credit. A summary of the Bank's commitments at December 31 is as follows (in thousands):

	2012	2011
Financial instruments whose contract amounts represent credit risk:		
Undisbursed loan commitments	$ 341	$ 5,107
Letters of credit	380	433
Total commitments to extend credit	**$ 721**	**$ 5,540**

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial and residential properties.

The estimated fair value of the Company's financial instruments at December 31 is as follows (in thousands):

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Assets				
Cash and cash equivalents	$ 244,682	$ 244,682	$ 207,959	$ 207,959
Investment securities	110,056	110,056	145,155	145,155
FHLB and FRB stocks	3,726	3,726	3,699	3,699
Loans, net	192,061	193,218	172,866	172,230
Investment in PCBB Trust I & II	589	589	589	589
Interest rate cap and floor agreements	5	5	273	273
Interest rate swap agreements	58,863	58,863	48,468	48,468
Synthetic swaps	19,497	19,497	25,990	25,990
Interest receivable	2,120	2,120	2,769	2,769

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Note 22 - Financial Instruments and Fair Value

	2012		2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial Liabilities				
Deposits	$ 493,850	$ 493,820	$ 459,379	$ 458,568
Other borrowings	15,000	15,043	25,000	25,031
Trust preferred securities	19,589	15,245	19,589	15,134
Interest rate cap and floor agreements	66	66	387	387
Interest rate swap agreements	62,336	62,336	61,798	61,798
Interest payable	124	124	174	174

The fair values of the Company's financial instruments are exposed to fluctuations in market interest rates, which could lead to either favorable or unfavorable outcomes for the Company's results and business. The Company's practice to manage interest rate risk is to match maturities of assets and liabilities to the extent believed necessary. The Company also adjusts terms of new loans and deposits by investing in securities with terms that mitigate the Company's overall interest rate risk.

Assets and Liabilities Measured at Fair Value

The following are assets and liabilities measured at fair value on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2012				
Assets at fair value:				
Securities available for sale:				
U.S. government agency residential mortgage-backed securities	$ - -	$ 110,056	$ - -	$ 110,056
Interest rate swaps, caps and floors	- -	58,868	- -	58,868
Synthetic interest rate swaps	- -	19,497	- -	19,497
Total	**$ - -**	**$ 188,421**		**$ 188,421**
Liabilities at Fair Value				
Interest rate swaps, caps and floors	**$ - -**	**$ 62,402**	**$ - -**	**$ 62,402**
December 31, 2011				
Assets at fair value:				
Securities available for sale:				
U.S. government agency residential mortgage-backed securities	$ - -	$ 145,155	$ - -	$ 145,155
Interest rate swaps, caps and floors	- -	48,741	- -	48,741
Synthetic interest rate swaps	- -	25,990	- -	25,990
Total	**$ - -**	**$ 219,886**	**$ - -**	**$ 219,886**
Liabilities at Fair Value				
Interest rate swaps, caps and floors	**$ - -**	**$ 62,185**	**$ - -**	**$ 62,185**

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Note 22 - Financial Instruments and Fair Value

Securities available for sale are securities reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Derivatives are reported at fair value utilizing Level 2 inputs. The Company utilizes internal valuation models with observable market data inputs to estimate fair values of customer interest rate swaps, caps and floors. The Company also obtains dealer quotations for these derivatives for comparative purposes to assess the reasonableness of the model valuations.

For purposes of potential valuation adjustments to its derivative positions, the Company evaluates the credit risk of its counterparties as well as that of the Company. Accordingly, the Company has considered factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life, among other things, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting arrangements, as well as considering the amount of collateral securing the position. The Company reviews its counterparty exposure on a regular basis and, when necessary, appropriate business actions are taken to adjust the exposure. The Company also utilizes this approach to estimate its own credit risk on derivative liability positions. To date, the Company has not realized any significant losses due to a counterparty's inability to pay any net uncollateralized position. The change in value of derivative assets and derivative liabilities attributable to credit risk was not significant during the reported periods.

Certain assets are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following presents such assets carried on the consolidated balance sheet by caption and by level within the fair value hierarchy (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total**
December 31, 2012				
Impaired loans	$ - -	$ - -	$ 3,601	$ 3,601
Foreclosed real estate	- -	- -	1,164	1,164
Total	**$ - -**	**$ - -**	**$ 4,765**	**$ 4,765**
December 31, 2011				
Impaired loans	$ - -	$ - -	$ 3,346	$ 3,346
Foreclosed real estate	- -	- -	2,310	2,310
Total	**$ - -**	**$ - -**	**$ 5,656**	**$ 5,656**

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Note 22 - Financial Instruments and Fair Value

Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. During 2011, certain impaired loans were remeasured and reported at fair value in the table above, which is not adjusted for costs to sell in accordance with ASC 820, *Fair Value Measurements and Disclosures*. Under ASC 310, *Receivables*, certain impaired loans are reported at fair value of the underlying collateral less costs to sell if repayment is based solely from collateral. The differences between impaired loans shown above and those reported in Note 5 are selling costs and the fact that some of the impaired loans have sufficient collateral and therefore are not carried at fair value.

Certain foreclosed real estate is reported at the fair value of the underlying collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 inputs based on customized discounting criteria. At the time of foreclosure, foreclosed real estate is recorded at fair value less costs to sell, which becomes the property's new basis. The fair value measurement of foreclosed real estate presented above is not reduced by the estimated costs to sell.

Note 23 - Regulatory Matters

The Bank and the Company are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory -- and possibly additional discretionary -- actions by regulators that, if undertaken, could have a direct material effect in the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items, as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2012, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2012, the most recent notification from the FRB categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

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Note 23 - Regulatory Matters

The Bank's and the Company's actual capital amounts and ratios are also presented as follows (in thousands, except for ratio inputs).

	Actual		Capital Adequacy Purposes		To be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2012						
Tier 1 capital (to average assets):						
Consolidated	$ 67,009	9.90%	$ 27,080	4.00%	N/A	N/A
Bank	69,337	10.38%	26,722	4.00%	$ 33,402	5.00%
Tier 1 capital (to risk-weighted assets):						
Consolidated	67,009	25.54%	10,495	4.00%	N/A	N/A
Bank	69,337	26.75%	10,368	4.00%	15,552	6.00%
Total capital (to risk-weighted assets):						
Consolidated	72,561	27.66%	20,990	8.00%	N/A	N/A
Bank	72,604	28.01%	20,736	8.00%	25,920	10.00%
December 31, 2011						
Tier 1 capital (to average assets):						
Consolidated	$ 65,320	9.59%	$ 27,244	4.00%	N/A	N/A
Bank	67,184	9.97%	26,948	4.00%	$ 33,684	5.00%
Tier 1 capital (to risk-weighted assets):						
Consolidated	65,320	27.00%	9,677	4.00%	N/A	N/A
Bank	67,184	27.92%	9,626	4.00%	14,446	6.00%
Total capital (to risk-weighted assets):						
Consolidated	71,016	29.36%	19,353	8.00%	N/A	N/A
Bank	70,220	29.18%	19,252	8.00%	24,065	10.00%

Restrictions on Retained Earnings

The Broker-Dealer is subject to the SEC's Uniform Net Capital Rule (SEC rule 15c 3-1), which requires the maintenance of minimum net capital and also requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c 3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2012 and 2011, the Broker-Dealer had net capital of $3.3 million and $2.5 million, respectively, which was $3.1 million and $2.4 million, respectively, in excess of its required net capital of $160 thousand and $152 thousand, respectively. The Broker-Dealer's net capital ratio was 0.73 to 1.00 at December 31, 2012, and 0.90 to 1.00 at December 31, 2011.

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval.

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Note 24 - Capital Purchase Program

In July 2011, the Company entered into a letter agreement with the Treasury in connection with the Company's participation in the Troubled Asset Relief Program. Pursuant to the letter agreement, the Company redeemed 11,600 outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock Series A, with a liquidation value of $1,000 per share and for a redemption price of $11.7 million, including accrued but unpaid dividends to date of redemption of $118 thousand. Under the same agreement, the Company redeemed 580 Fixed Rate Cumulative Perpetual Preferred Stock Series B, with a liquidation value of $1,000 per share and a redemption price of $591 thousand, including accrued but unpaid dividends to date of redemption of $11 thousand.

Note 25 - Small Business Lending Fund

In July 2011, the Company entered into a letter agreement with the Treasury in connection with the Small Business Lending Fund program (SBLF). The Company entered into the SBLF to provide lending to small business through commercial and industrial loans, as well as owner-occupied nonfarm, nonresidential real estate loans to small businesses, as defined by the SBLF.

Under the agreement, the Company issued and sold to the Treasury 11,960 shares of Non-Cumulative Perpetual Preferred Stock Series C (Series C), with a liquidation value of $1,000 per share. The SBLF Preferred Stock qualifies as Tier 1 capital. The Series C stock is entitled to receive non-cumulative dividends, payable quarterly, on each first day of the months of January, April, July and October, commencing on October 1, 2011. The dividend rate is calculated as a percentage of the liquidation amount, for which it may fluctuate quarterly during the first 10 quarters in which the Series C may be outstanding. Dividends are subject to the level of "Qualified Small Business Lending" (QSBL), as defined in the letter agreement. The dividend paid for the initial period was $105 thousand, or 5 percent. For the second through the ninth calendar quarters, dividend rates may range from 1 to 5 percent. Subsequent dividend percentages are subject to the QSBL level.

In addition, the SBLF terms impose limits on the Company's ability to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Stock, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the Series C, including junior securities and specifically, common stock, during the current quarter and for the next three quarters following the failure to declare and pay dividends on Series C, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach. Furthermore, under the terms of the agreement, the Company may only declare and pay a dividend on the common stock or other stock junior to the Series C, or repurchase shares of any such class or series of stock, if the dollar amount of the Company's Tier 1 Capital would be at least 90 percent of the Signing Date Tier 1 Capital after payment, excluding any subsequent net charge-offs and any redemption of Series C shares.

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December 31, 2012 and 2011

Note 26 - Other Comprehensive Income (Loss)

The components of comprehensive income (loss) as it relates to securities available for sale are as follows (in thousands):

	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Year Ended December 31, 2012			
Beginning of year balance	$ 2,248	$ (899)	$ 1,349
Net unrealized holding gain arising during the year	48	(20)	28
Net unrealized gain (loss)	**$ 2,296**	**$ (919)**	**$ 1,377**
Year Ended December 31, 2011			
Beginning of year balance	$ (164)	$ 66	$ (98)
Net unrealized holding gain arising during the year	2,412	(965)	1,447
Net unrealized gain (loss)	**$ 2,248**	**$ (899)**	**$ 1,349**

The components of comprehensive income (loss) as it relates to derivative contracts are as follows (in thousands):

	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax Amount
Year Ended December 31, 2012			
Beginning of year balance	$ (439)	$ 176	$ (263)
Net unrealized holding gain arising during the year	176	(71)	105
Net unrealized gain (loss)	**$ (263)**	**$ 105**	**$ (158)**
Year Ended December 31, 2011			
Beginning of year balance	$ (1,037)	$ 415	$ (622)
Net unrealized holding gain arising during the year	598	(239)	359
Net unrealized gain (loss)	**$ (439)**	**$ 176**	**$ (263)**

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Note 27 - Condensed Financial Information - Parent Company Only

Condensed Balance Sheets - December 31 (in thousands)

	2012	2011
Assets		
Cash	$ 1,425	$ 2,581
Investment in Bank	70,715	68,583
Investment in PCBB Capital Markets	4,455	3,778
Investment in PCBB Trust I & II	589	589
Other assets	20,382	25,872
Loans, net	473	547
Total assets	**$ 98,039**	**$ 101,950**
Liabilities and Shareholders' Equity		
Liabilities		
Trust preferred securities	$ 19,589	$ 19,589
Other borrowings	5,000	5,000
Accrued interest payable and other liabilities	21,724	27,011
Total liabilities	**46,313**	**51,600**
Shareholders' Equity	51,726	50,350
Total liabilities and shareholders' equity	**$ 98,039**	**$ 101,950**

Condensed Statements of Income - Years Ended December 31 (in thousands)

	2012	2011
Income	$ 8,551	$ 2,400
Expenses	1,494	2,039
Net income	**7,057**	**361**
Income tax expense	2,398	686
Income (loss) before undistributed income of subsidiaries	**4,659**	**(325)**
Equity in undistributed income of subsidiaries	2,510	4,512
Net income	**$ 7,169**	**$ 4,187**

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Note 27 - Condensed Financial Information - Parent Company Only

Condensed Statements of Cash Flows - Years Ended December 31 (in thousands)

	2012	**2011**
Cash Flows from Operating Activities		
Net income	$ 7,169	$ 4,187
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	- -	2
Stock-based compensation expense	288	335
Equity in income of the Bank	(4,441)	(3,418)
Equity in income of the Broker-Dealer	(6,570)	(3,595)
Other, net	39	759
Net cash used in operating activities	**(3,515)**	**(1,730)**
Cash Flows from Investing Activities		
Loans funded, net	**73**	**65**
Cash Flows from Financing Activities		
Capital distribution from subsidiary	8,500	2,500
Issuance of preferred stock	- -	11,934
Repurchase of preferred stock	- -	(12,180)
Repurchase of common stock	(3,068)	(148)
Cash dividends paid on common stock	(2,548)	- -
Cash dividends paid on preferred stock	(598)	(550)
Net cash provided by financing activities	**2,286**	**1,556**
Net decrease in cash	**(1,156)**	**(109)**
Cash		
Beginning of the year	2,581	2,690
End of the year	**$ 1,425**	**$ 2,581**

Pacific Coast Bankers' Bancshares
1676 N. California Blvd, Suite 300 | Walnut Creek, CA 94596
888.399.1930 | 415.399.1920 (f)
www.pcbb.com