Private Bancorp
OF AMERICA, INC.

ANNUAL REPORT 2020

2020 CORPORATE OVERVIEW

Mission

Cultivate a premier banking experience by building enduring relationships with our clients, shareholders, team members, partners, & the communities we serve.

Vision

Coastal Southern California's premier relationship focused private and business bank.

Exchange: Ticker

OTCQX: PBAM

Client Focus

High Net Worth Individuals & Small / Mid-Market Businesses

Branches

6 Branch Locations Across 3 Counties, Headquartered in La Jolla, CA

Outstanding Shares

$5.6M (1)

Market Cap

$134.6M (2)

Total Assets

$1.3B

(1) - As of December 31, 2020

(2) - As of March 24, 2021

Board of Directors

Selwyn Isakow, *Chairman of the Board*

Rick L. Sowers, *President & CEO*

David S. Engelman

Leon Kassel

Ernest Rady

Larraine Segil

Thomas V. Wornham

Board of Directors

Selwyn Isakow, Chairman of the Board

Rick L. Sowers, President & CEO

David Ellman, Director Emeritus

Brett Lawrence

David S. Engelman

Ernest Rady

James R. Parks

Keith B. Jones

Larraine Segil

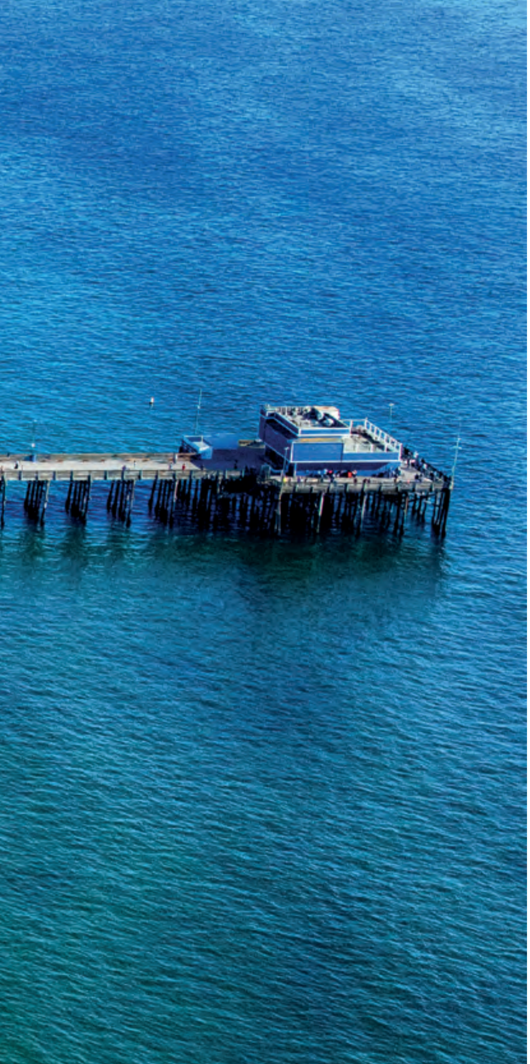
Leda Csanka

Leon Kassel

Richard Smith

SiSi Pouraghabagher

Thomas V. Wornham



Senior Management

Rick L. Sowers, *President & CEO*

Richard Pimentel, *EVP / Chief Financial Officer*

Karen Lister, *EVP / Chief Administrative Officer*

Bob Llorens, *EVP / Chief Credit Officer*

Curtis Birkmann, *EVP / Chief Technology Officer*

Scott Hurtik, *EVP / Chief Information Officer*

Zina Robinson, *EVP / Chief People Officer*

Kevin Campbell, *EVP / Chief Banking Officer, North*

Paul P. Azzi, *EVP / Chief Banking Officer, South*

Steve Pollett, *EVP / Chief SBA Lending Officer*

Community Advisory Board

Mark Abelkop
Bridget Baker
Alan Binder
Cheryl Calhoun
Debby Cushman Parrish
Scott Darnell
David Ellman
John Engle
Bernie Feldman
Gordon T. Frost, Jr.
Harold Frysh
Graeme Gabriel
Maxine Gellens
Selwyn Gerber
Ronald L. Graham
Howard Greenberg
Bradley R. Hall
Star Hughes
Kim Hunter
Robert Kolodny
Sarah Kruer Jager
Sami Ladeki
Isaac Levy
Margo Lewis
Linda LoRe
Mark Mandell
Herb Meistrich
Todd Mikles
Lloyd Russell, Sr.
Jonathan Segal
Javier Serhan
Lawrence Sherman
Michael Stoff
Greg Strangman
Sonja Strzoda
Jerry Suppa
Rick Vann
Paula Winner Barnett

Private Bancorp OF AMERICA, INC.

Dear Fellow Shareholders,

The year 2020 was one of the most challenging and rewarding years on record for Private Bancorp of America and CalPrivate Bank. None of us could have predicted the onset of a global pandemic and how this would affect each one of us, our communities, and the Clients we serve. We are proud to report that despite the challenge of working from home, incredible economic strain, and loss of life, that our company has endured and aided in the continued recovery of our economy. We delivered over 600 SBA Paycheck Protection Loans helping our Clients keep people employed and stay in business. We transitioned over 80% of our Team Members to working remotely within the safety of their homes without sacrificing our Exceptional Client Service or our ability to deliver for our Clients. The long hours and dedication by our Team was nothing short of miraculous.

As we had communicated to shareholders nearly three years ago, our focus was to build franchise value by expanding our geographic reach, hiring the right Team Members and making the infrastructure and people investments required to deliver world class banking services with our Distinctly Different™ approach to Private and Commercial Banking. These investments would lead to lower profits in the short term but were intended to create long term shareholder value by building a unique banking franchise focused on relationships, solutions and trust. These ideals are essential in creating a loyal Client base, a Team focused on Client Service and Execution and a shareholder base that would be energized by a favorable rate of return through increasing profitability and share price. Below are a number of highlights for 2020 that demonstrate the continued progress towards our goals.

2020 Highlights:

- Record net income of $10.9 million, or $1.94 per diluted share
- Added three new Members of the Board of Directors, adding to our diversity and talent set
- Total net loans were $1.0 billion, up 13.3% for the year-over-year
- No doubtful credits and no delinquent loans at year end
- Non-performing assets represent 0.12% of total assets
- Total deposits were $1.1 billion, up 30.9% year-over-year
- Non-interest-bearing deposits increased 98% year-over-year and represent 48% of total deposits
- Return on Average Assets of 0.89% and Return on Average Equity of 10.70%

We have made substantial progress towards our goals, but much work remains. In 2021 we will continue to make investments in our future by implementing leading technology solutions to drive efficiency and continued growth. We know that nothing happens in our business without an outstanding Team standing behind our successful Clients. For this we remain thankful and focused on a prosperous future.

We would like to take this opportunity to thank you for your continued shareholder support and the trust you put in our management team and our Board of Directors. Special thanks to our Community Advisory Board, our Clients and Team Members for making it happen, everyday.

With Appreciation and Gratitude,

Rick L. Sowers,
President & CEO

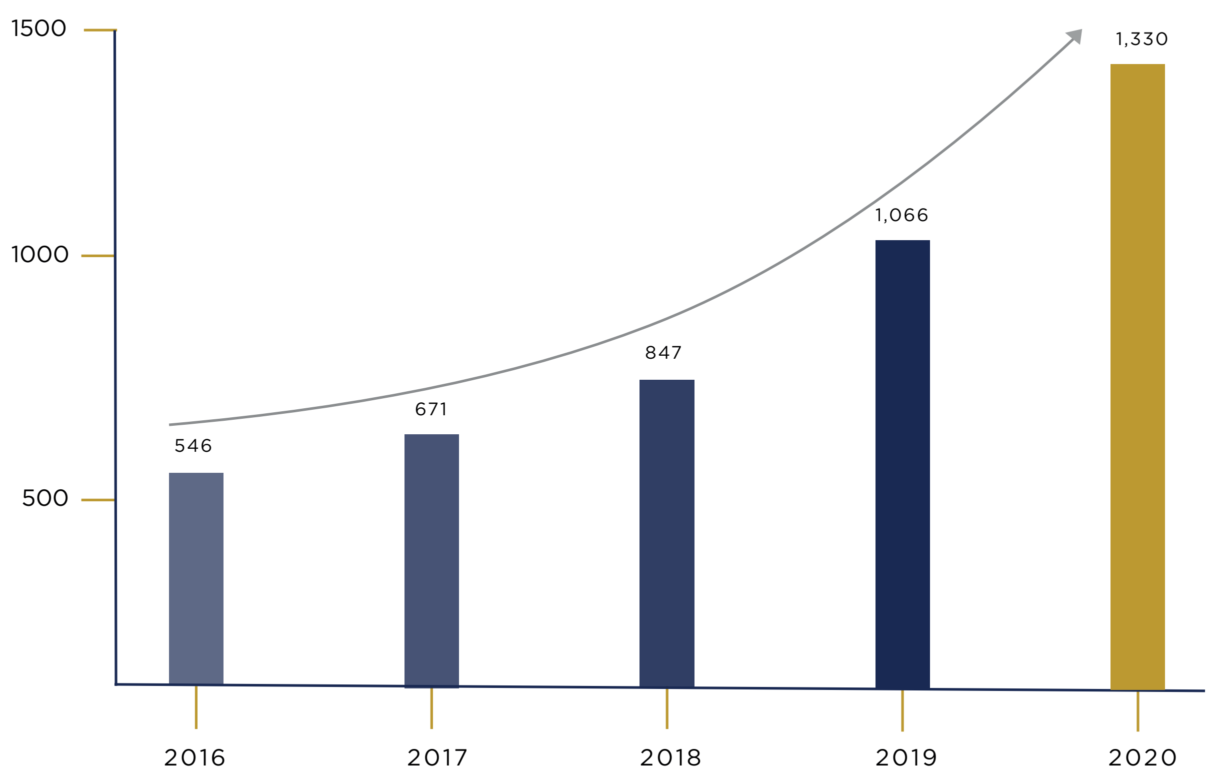
Selwyn Isakow
Chairman of the Board

MARKET EXPANSION

TOTAL ASSETS

CAGR 2016-2020: 25%

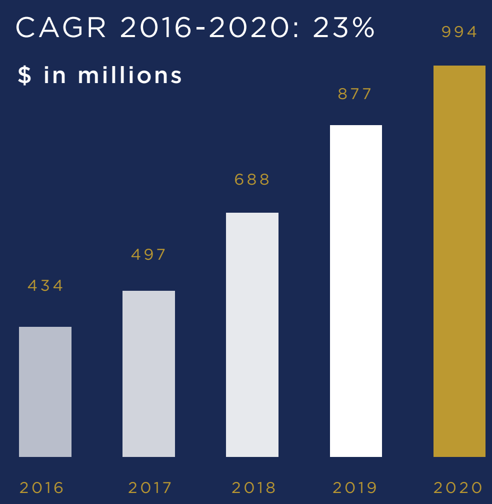
$ in millions



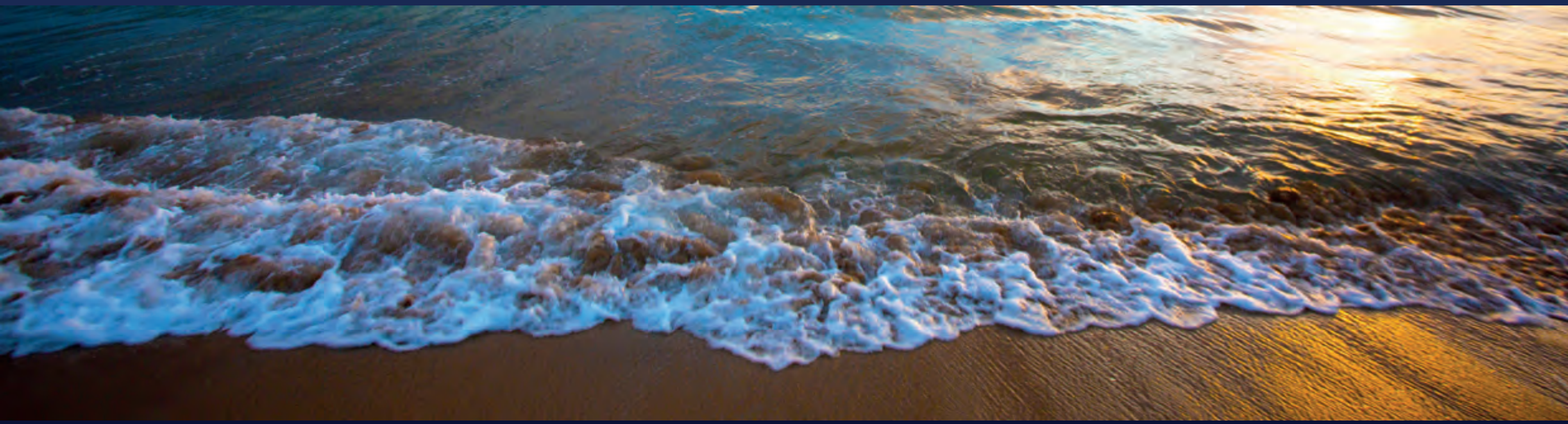
Total assets increased to $1.3 billion, diversified across our market areas.

TOTAL NET LOANS*

The company reported its fifth consecutive year of double-digit loan growth and in 2020, net loans increased 13% to $1.0 billion.

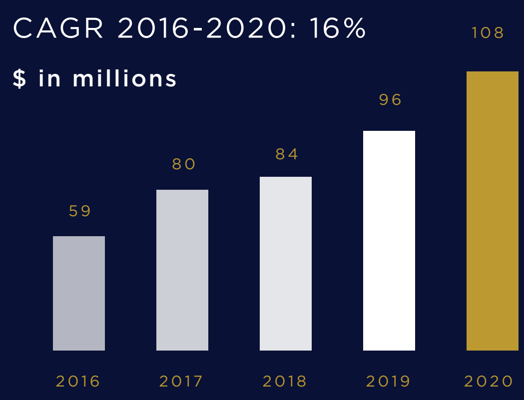


*Includes loans held for sale



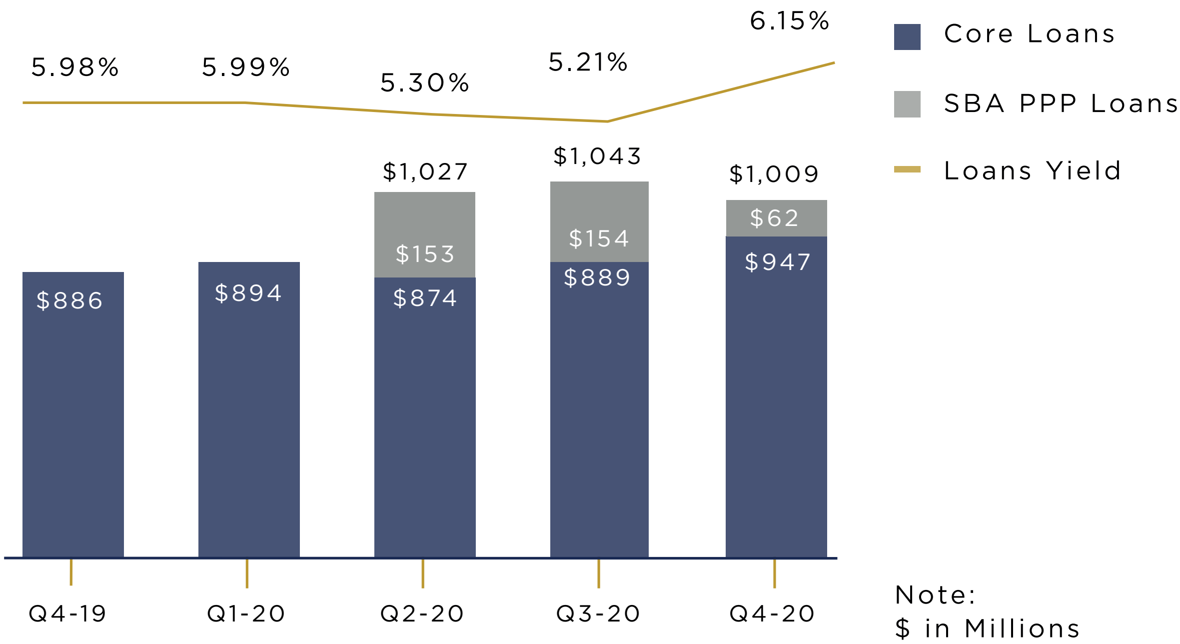
CAPITAL

The company continues building capital with core earnings and in 2020 reported record earnings of $10.9 million.



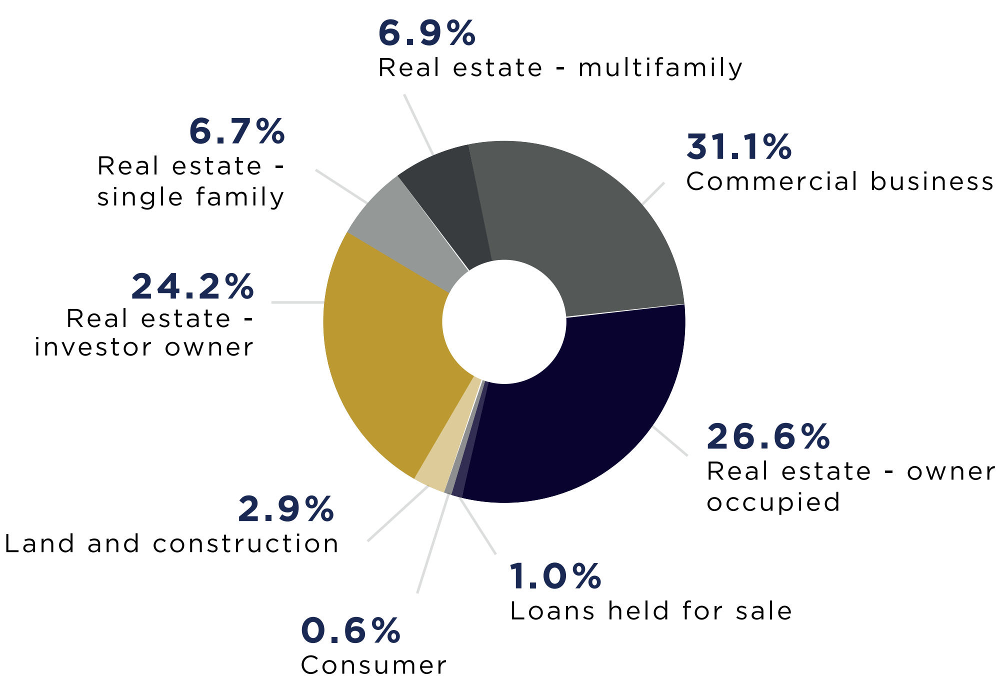
STRONG LOAN PORTFOLIO METRICS

LOAN BALANCES & YIELDS

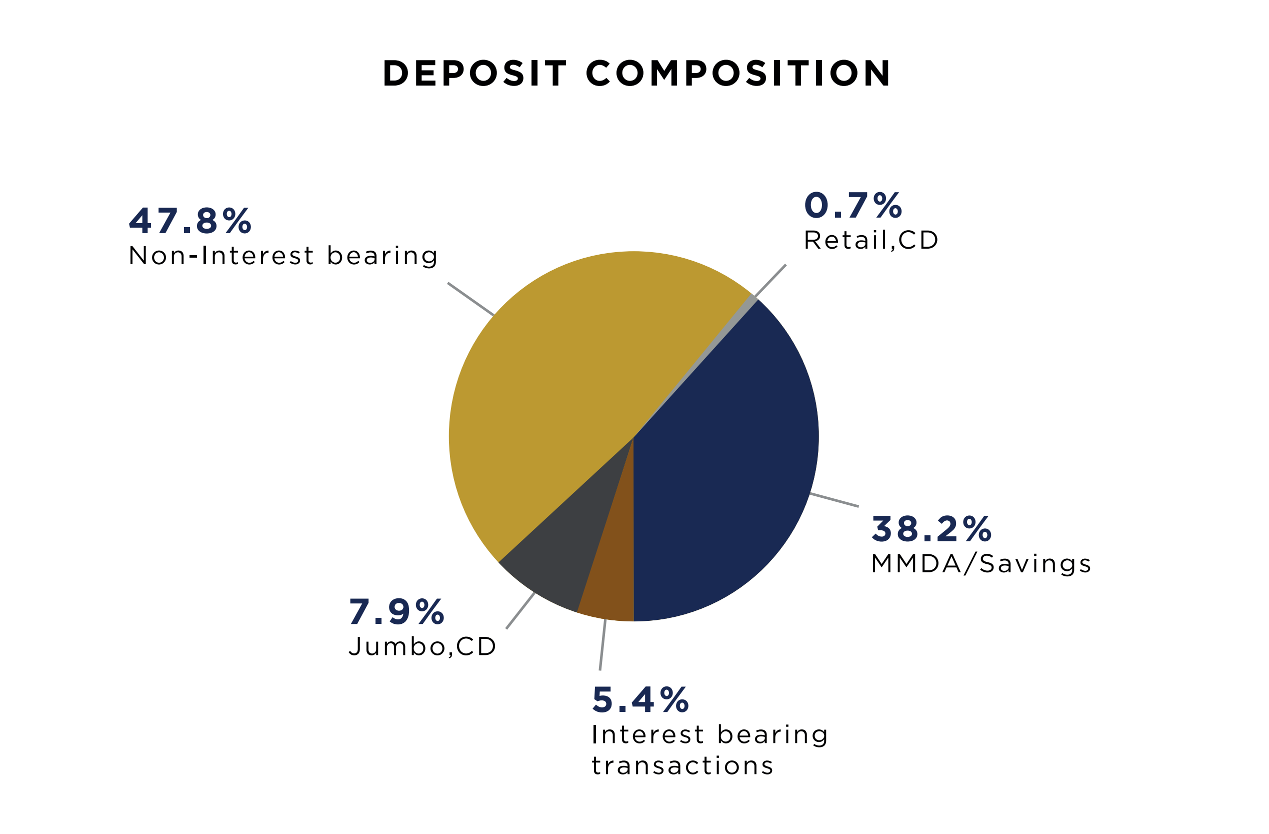


Note:
$ in Millions

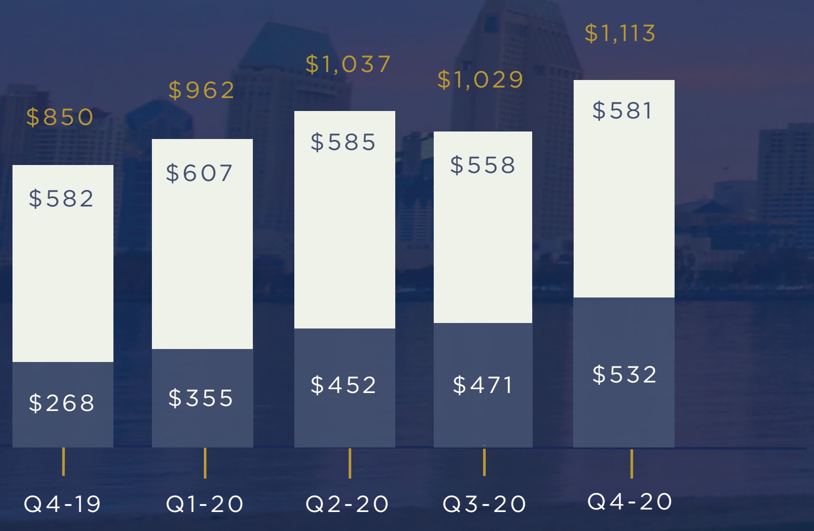
LOAN COMPOSITION



DIVERSE DEPOSIT COMPOSITION



Total deposits were $1.1 billion, up 8.2% from the prior quarter and up 30.9% year-over-year. Non-interest bearing deposits increased 13% during the quarter and represent 48% of total deposits. Cost of deposits dropped to 0.23% in the fourth quarter, down from 0.27% in the prior quarter.



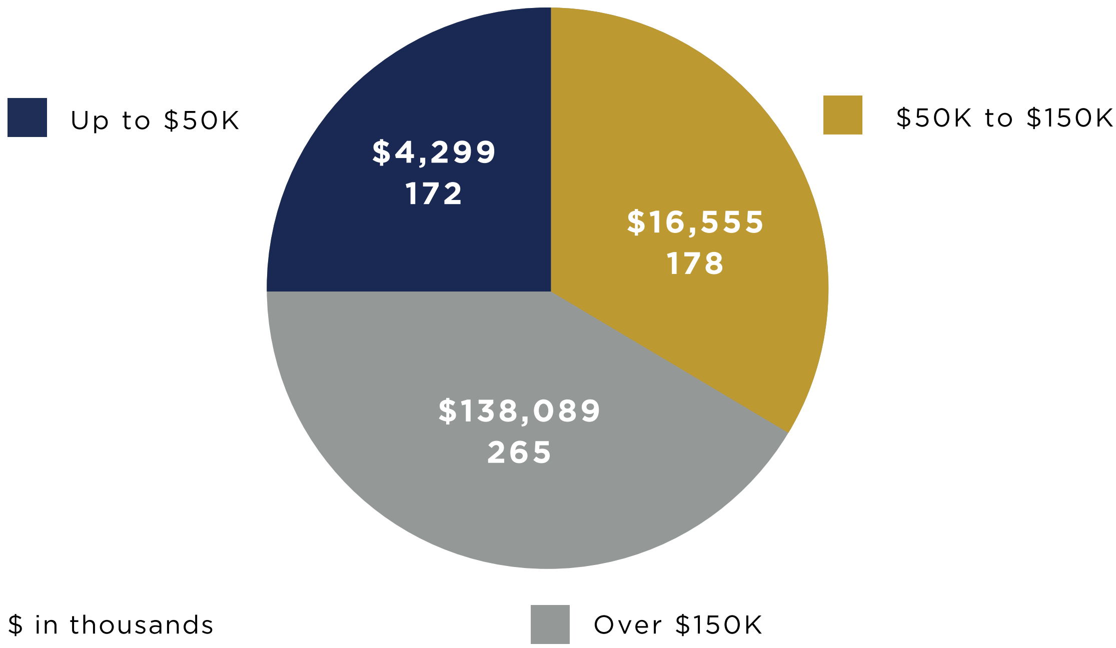
TOTAL DEPOSITS

- Interest bearing deposits
- Non-Interest bearing deposits

Growth in non-interest bearing DDA year-over-year of 98%

SBA PAYCHECK PROTECTION PROGRAM SUCCESS

PPP ORIGINATIONS



615 TOTAL LOANS	$159.0 MILLION

- Participation in Round 2 of PPP began in January 2021
- Total Fees and Interest for 2020 totaled $4.7 million
- Saved over 10,000 jobs *

** As reported by clients*

Private Business Capital
A Division of CalPrivate Bank

SMALL BUSINESS LENDING SOLUTIONS

As a division of CalPrivate Bank, Private Business Capital specializes in SBA lending opportunities, specifically SBA 504 and 7(a) lending solutions.

The solutions provided to local California small business owners impacts growth/expansion, business development and real estate ownership.

These key areas of business can be unique to the operation and client, and financing needs can be overlooked by other traditional lending institutions.

Our specialized team is focused on creative solutions and a quick closing process.

SBA U.S. Small Business Administration

Government-Backed Loans
Small Business Administration

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

DECEMBER 31, 2020 AND 2019

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CPAs & BUSINESS ADVISORS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Private Bancorp of America, Inc. and Subsidiary
La Jolla, California

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Private Bancorp of America, Inc. and Subsidiary (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements").

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

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 22, 2021 expressed an unmodified opinion.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

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

Critical Audit Matter

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

Allowance for Loan Losses

As discussed in Note 3 to the Company's financial statements, the Company has a gross loan portfolio, net of deferred fees and costs of $998.9 million and related allowance for loan losses of $14.3 million as of December 31, 2020. The Company's allowance for loan losses is a material and complex estimate requiring significant management's judgment in the evaluation of the credit quality and the estimation of inherent losses within the loan portfolio. The allowance for loan losses includes a general reserve which is determined based on the results of a quantitative and a qualitative analysis of all loans not measured for impairment at the reporting date.

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

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

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

- Testing the design and operating effectiveness of controls relating to management's timely identification of problem loans, appropriate application of loan rating policy, consistency of application of accounting policies and appropriateness of assumptions used in the allowance for loan losses calculation.

- Evaluating the reasonableness of assumptions and sources of data used by management in forming the loss factors by performing retrospective review of historic loan loss experience and analyzing historical data used in developing the assumptions.

- Evaluating the appropriateness of inputs and factors that the Company used in forming the qualitative loss factors and assessing whether such inputs and factors were relevant, reliable, and reasonable for the purpose used.

- Testing the mathematical accuracy and computation of the allowance for loan losses.

- Evaluating the period to period consistency with which qualitative loss factors are determined and applied.

Eide Bailly LLP

We have served as the Company’s auditor since 2019.

San Ramon, California
March 22, 2021

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020 AND 2019

	2020	2019
ASSETS		
Cash and due from banks	$ 8,039,875	$ 31,050,949
Interest-bearing deposits in other financial institutions	7,308,988	1,242,495
Interest-bearing deposit at Federal Reserve Bank	260,876,369	73,318,486
Cash and Cash Equivalents	276,225,232	105,611,930
Interest-bearing time deposits with other financial institutions	5,760,091	5,755,843
Debt securities available for sale	26,085,973	51,178,996
Loan held for sale	9,686,567	4,564,882
Loans, net of deferred fees and costs	998,902,357	881,116,616
Unaccreted discount on acquired loans	(32,045)	(125,342)
Allowance for loan losses	(14,261,518)	(8,600,925)
Net Loans	984,608,794	872,390,349
Federal Home Loan Bank stock, at cost	4,602,300	4,059,900
Premises and equipment, net	2,648,509	3,164,766
Deferred tax asset	5,982,000	4,141,000
Accrued interest receivable and other assets	14,140,283	15,118,977
Total Assets	$ 1,329,739,749	$ 1,065,986,643
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 531,732,379	$ 268,115,810
Interest-bearing deposits	581,215,413	582,139,374
Total Deposits	1,112,947,792	850,255,184
Other borrowings	92,939,461	107,932,197
Accrued interest payable and other liabilities	16,100,014	12,119,513
Total Liabilities	1,221,987,267	970,306,894
Commitments and Contingencies (Notes 5 and 10)	-	-
Shareholders' Equity		
Common stock, no par value, 20,000,000 shares authorized; 5,600,508 and 5,577,968 shares issued and outstanding for 2020 and 2019, respectively	69,556,589	69,159,292
Additional paid-in-capital	3,496,223	3,048,271
Retained earnings	33,903,732	22,904,355
Net unrealized gains on securities available for sale, net of tax	795,938	567,831
Total Shareholders' Equity	107,752,482	95,679,749
Total Liabilities and Shareholders' Equity	$ 1,329,739,749	$ 1,065,986,643

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Interest Income		
Interest and fees on loans	$ 55,539,157	$ 47,182,164
Interest-bearing deposits at the Federal Reserve Bank	420,051	603,086
Interest on investment securities	892,310	2,095,999
Dividends on Federal Home Loan Bank stock	235,753	206,635
Interest on deposits with other financial institutions	67,018	91,618
Total Interest Income	57,154,289	50,179,502
Interest Expense		
Interest expense on deposits	4,369,027	5,977,063
Interest expense on borrowings	2,517,039	2,437,838
Total Interest Expense	6,886,066	8,414,901
Net Interest Income	50,268,223	41,764,601
Provision for loan losses	5,669,871	11,829,818
Net Interest Income After Provision for Loan Losses	44,598,352	29,934,783
Non-Interest Income		
Service charges on deposit accounts	653,786	485,387
Gain on sale of Small Business Administration ("SBA") loans	2,613,604	1,248,939
Gain on sale of securities	751,085	340,929
Other fees and miscellaneous income	1,103,427	736,334
Total Non-Interest Income	5,121,902	2,811,589
Non-Interest Expense		
Salaries and other employee benefits	21,999,977	22,889,333
Occupancy and equipment	3,422,493	2,941,378
Data processing	2,344,853	2,232,765
Director compensation	441,610	487,430
Professional services	2,950,747	2,121,126
Regulatory assessments	646,215	221,369
Marketing	209,864	353,747
Administrative and other expense	2,028,675	2,084,743
Total Non-Interest Expense	34,044,434	33,331,891
Income (Loss) Before Provision for Income Taxes	15,675,820	(585,519)
Provision for Income Taxes	4,784,420	(157,081)
Net Income (Loss)	$ 10,891,400	$ (428,438)
Basic Earnings (Loss) Per Share	$ 1.94	$ (0.08)
Diluted Earnings (Loss) Per Share	$ 1.94	$ (0.08)

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Net income (loss)	$ 10,891,400	$ (428,438)
OTHER COMPREHENSIVE INCOME:		
Unrealized gains on securities available-for-sale:		
Change in unrealized gains	1,053,095	2,952,697
Reclassification of (gains) recognized in net income	(751,085)	(340,929)
	302,010	2,611,768
Related income tax effect:		
Change in unrealized (gains)	(299,239)	(869,351)
Reclassification of gains recognized in net income	225,336	93,755
	(73,903)	(775,596)
TOTAL OTHER COMPREHENSIVE INCOME	228,107	1,836,172
TOTAL COMPREHENSIVE INCOME	$ 11,119,507	$ 1,407,734

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	Common Stock		Additional		Other	Total
	Shares Outstanding	Amount	Paid-In Capital	Retained Earnings	Comprehensive (Loss) Income	Shareholders' Equity
Balance, January 1, 2019	5,092,993	$ 58,373,164	$ 3,082,711	$ 23,363,920	$ (1,268,341)	$ 83,551,454
Net Loss				(428,438)		(428,438)
Share-based compensation expense			1,146,846			1,146,846
Stock Offering, net of costs of $254,000	444,444	9,745,990				9,745,990
Exercise of stock options	11,333	130,661				130,661
Issuance of restricted shares, net	41,500					-
Vesting of restricted shares		695,350	(695,350)			-
Forfeitures of restricted stock	(9,075)					-
Repurchase of restricted stock for taxes	(13,012)		(271,809)	(31,127)		(302,936)
Issuance of unrestricted shares	9,785	214,127	(214,127)			-
Other comprehensive gain					1,836,172	1,836,172
Balance, December 31, 2019	5,577,968	$ 69,159,292	$ 3,048,271	$ 22,904,355	$ 567,831	$ 95,679,749
Net Income				10,891,400		10,891,400
Share-based compensation expense			1,132,743			1,132,743
Issuance of restricted shares, net	37,137	(162,583)	-	-		(162,583)
Vesting of restricted shares		559,880	(407,417)	10,120		162,583
Forfeitures of restricted stock	(2,875)					-
Repurchase of restricted stock for taxes	(11,722)		(277,374)	97,857		(179,517)
Other comprehensive gain					228,107	228,107
Balance, December 31, 2020	5,600,508	$ 69,556,589	$ 3,496,223	$ 33,903,732	$ 795,938	$ 107,752,482

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Net income (loss)	$ 10,891,400	$ (428,438)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	805,598	671,584
Provision for loan losses	5,669,871	11,829,818
Net premium amortization on securities	31,598	182,735
Gain on sale of Small Business Administration ("SBA") loans	(2,613,604)	(1,248,939)
Net gain on sale of securities	(751,085)	(340,929)
Proceeds from sale of loans	38,986,013	21,141,963
Loans originated for sale	(9,686,567)	(4,564,882)
Share-based compensation expense	1,132,743	1,146,846
Deferred tax benefit	(1,914,000)	(602,000)
Increase (decrease) in accrued interest receivable and other assets	977,791	(10,200,392)
Increase in accrued interest payable and other liabilities	3,987,765	7,902,298
Net Cash Provided by Operating Activities	47,517,523	25,489,664
Cash Flows From Investing Activities		
Decrease in time deposits with other banks	(4,248)	(3,005,321)
Purchases of securities	(2,682,794)	-
Maturities and principal paydowns of securities	10,046,239	27,870,496
Proceeds from sale of securities	18,751,074	21,984,990
Purchase of Federal Home Loan Bank stock	(542,400)	(749,700)
Net increase in loans	(149,695,842)	(215,834,164)
Purchases of property and equipment	(289,341)	(1,613,415)
Net Cash Used in Investing Activities	(124,417,312)	(171,347,114)
Cash Flows From Financing Activities		
Increase in deposits	262,692,608	153,792,048
(Decrease) increase in other borrowings	(15,000,000)	45,000,000
Repurchase of restricted shares	(179,517)	(302,936)
Exercise of stock options	-	130,661
Issuance of stock	-	9,745,990
Net Cash Provided by Financing Activities	247,513,091	208,365,763
Net Increase in Cash and Cash Equivalents	170,613,302	62,508,313
Cash and Cash Equivalents, Beginning of Year	105,611,930	43,103,617
Cash and Cash Equivalents, End of Year	$ 276,225,232	$ 105,611,930
Supplemental Cash Flow Information		
Interest paid	$ 6,967,674	$ 8,263,502
Taxes paid	$ 3,165,000	$ 2,760,000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of Private Bancorp of America, Inc. and its wholly-owned subsidiary CalPrivate Bank ("Bank"), collectively referred to herein as "the Company." All significant intercompany transactions have been eliminated. Private Bancorp of America, Inc. was formed in August 2015 as a one-bank bank holding company.

The Bank is a commercial bank chartered by the State of California and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") to the maximum extent allowed. The Bank provides a full range of deposit and loan services. The Bank specializes in making loans on commercial real estate, as well as small to mid-sized business loans.

The Company is headquartered in La Jolla, California with additional California locations in downtown San Diego, Coronado, Newport Beach, Beverly Hills, El Segundo, Temecula, Mission Valley and Redlands.

The accounting and reporting policies of Private Bancorp of America, Inc. ("the Company") are in accordance with the accounting principles generally accepted in the United States of America and conform to practices within the banking industry. The Company's stock is traded in the over-the-counter markets (stock symbol PBAM) and is therefore considered a public business entity for financial reporting purposes. A summary of significant accounting policies follows:

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 22, 2021 which is the date the financial statements were available to be issued.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the balance sheets, and the reported amounts of revenues and expenses during the reporting periods covered. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets and liabilities.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks and term federal funds sold and interest-bearing deposits in other financial institutions with original maturities of less than 90 days. Net cash flows are reported for customer loan and deposit transactions and interest-bearing deposits in other financial institutions.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Due From Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2020 and 2019.

The Company maintains amounts due from banks that exceed federally insured limits. The Company has not experienced any losses in such accounts.

Debt Securities

Debt securities are classified in three categories and accounted for as follows: debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and are measured at amortized cost; debt securities bought and held principally for the purpose of selling in the near term are classified as trading securities and are measured at fair value, with unrealized gains and losses included in earnings; debt securities not classified as either held-to-maturity or trading securities are deemed as available-for-sale and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Gains or losses on sales of debt securities are determined on the specific identification method. Premiums and discounts are amortized or accreted using the interest method over the expected lives of the related securities.

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

Loans Held for Sale

Small Business Administration ("SBA") loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized through a valuation allowance by charges to income. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfers of Financial Assets

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

Servicing Rights

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

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type, and investor type. For purposes of measuring impairment, the Company has identified each servicing asset with the underlying loan being serviced. A valuation allowance is recorded where the fair value is below the carrying amount of the asset.

Servicing fee income, which is reported on the income statement as Other Income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of mortgage servicing rights is netted against loan servicing fee income.

SBA loans serviced for others totaled approximately $86.4 million and $56.0 million as of December 31, 2020 and 2019, respectively. The carrying value of servicing assets was approximately $1.6 million and $1.1 million as of December 31, 2020 and 2019, respectively. The fair value of servicing assets approximates the carrying value.

Loans

The Company originates real estate, commercial, SBA and consumer loans to borrowing customers. A substantial portion of the loan portfolio is represented by real estate loans in the Los Angeles, Orange County and San Diego counties. The ability of the Company's borrowers to honor their contracts is dependent upon many factors, including the real estate market and general economic conditions in the Company's area. Loans that management has the intent and ability to hold for the foreseeable future, until maturity or until paid off are generally reported at their outstanding unpaid principal balances. These loans, as reported, have been reduced by unadvanced loan funds, net deferred loan fees, and the allowance for loan losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

Loans on which the accrual of interest has been discounted are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in the opinion of management there is reasonable doubt as to collectability. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Interest accruals are resumed on such loans only when they are brought current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to all principal and interest.

Loan origination fees and costs are deferred and amortized as an adjustment of the loan's yield over the life of the loan using the interest method for amortizing loans (generally resulting in a constant rate of return), and the straight-line method for interest-only loans.

Certain Acquired Loans

As part of business acquisitions, the Company acquires certain loans that have shown evidence of credit deterioration since origination. These acquired loans are recorded at the allocated fair value, such that there is no carryover of the seller's allowance for loan losses. Such acquired loans are accounted for individually. The Company estimates the amount and timing of expected cash flows for each purchased loan, and the expected cash flows in excess of the allocated fair value is recorded as interest income over the remaining life of the loan (accretable yield). The excess of the loan's contractual principal and interest over expected cash flows is not recorded (non-accretable difference). Over the life of the loan, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded through the allowance for loan losses. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management confirms that the loan balance is not collectible. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Amounts are charged-off when available information confirms that specific loans or portions thereof, are not collectible. This methodology for determining charge-offs is consistently applied to each segment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

The allowance consists of specific and general reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting all amounts when due. Measurement of impairment is based on the expected future cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

The Company recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

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

General reserves cover non-impaired loans and are based on peer group historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

Portfolio segments identified by the Company include real estate, commercial, SBA and consumer loans. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

FHLB Stock and Other Investments

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank's investment in FHLB stock was approximately $4,602,300 and $4,059,900 at December 31, 2020 and 2019, respectively.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated useful lives of the related asset. The estimated useful lives of furniture, fixtures and equipment are estimated to be three to fifteen years. Leasehold improvements are amortized on a straight-line basis over the estimated useful lives of the improvements or the remaining lease term (including periods covered by renewal options which were reasonably assured at the inception of the lease), whichever is shorter.

Leases

The Company determines if an arrangement contains a lease at contract inception and recognize right-of-use (“ROU”) assets and operating lease liabilities based on their present value of lease payments over the lease term. While operating leases may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such provisions will be reasonably exercised. The present value of lease payments is determined based on the Company’s incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12-months or less are not recorded in the consolidated balance sheets. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to - Accounting Standards Adopted in 2019 below and Note 5 – Leases for further discussion on the Company’s leasing arrangements and related accounting.

Core Deposit Intangible

Core deposit intangible ("CDI") assets arising from whole bank acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years. Amortization expense was $25,000 and $48,000 in 2020 and 2019, respectively. Expected future CDI amortization expense is $7,000 in 2021.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

Deferred income taxes are recognized for estimated future tax effects attributable to income tax carryforwards as well as temporary differences between financial reporting and income tax purposes. Valuation allowances are established when necessary to reduce the deferred tax asset to the amount expected to be realized. Deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes.

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB") that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense; however, there was no penalty or interest expense recorded for the years ended December 31, 2020 and 2019.

Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 10. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Fair Value Measurements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements- Continued

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

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

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

See Note 14 for more information and disclosures relating to the Company's fair value measurements.

Advertising Costs

The Company expenses the cost of advertising in the period incurred.

Revenue Recognition – Noninterest Income

The Company adopted the provisions of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018 and all subsequent ASUs that modified Topic 606. The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. All of the Company’s revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Noninterest Income - Continued

The following is a discussion of key revenues within the scope of ASC 606.

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

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

Comprehensive Income

The change in unrealized gains and losses on securities available for sale is the only component of accumulated comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was $751,085 and $340,929 in 2020 and 2019, respectively.

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS is computed using the weighted-average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation plans. Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company has determined that its outstanding unvested stock awards are participating securities. See Note 13 for additional details of EPS calculations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-Based Compensation

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

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

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity. Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

Recently Adopted Accounting Pronouncements

The Company adopted ASU 2016-02, *Leases (Topic 842)*, effective January 1, 2019. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets of $6.7 million, and operating lease liabilities of $7.1 million as of January 1, 2019. These amounts were determined based on the present value of remaining minimum lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Recent Accounting Guidance Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326).* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). In October 2019, the FASB adopted the August 2019 proposal to delay implementation until January 2023 for small reporting companies, non-SEC companies and public companies with public float less than $250 million or less than $100 million in annual revenues and no public float or public float less than $700 million. The Company/Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

NOTE 2 - DEBT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2020 and 2019, and the corresponding amounts of gross unrealized gains and losses:

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
SBA Loan Pool securities	$ 2,340,358	$ 119,499	$ -	$ 2,459,857
Mortgage-backed securities	22,608,560	1,023,374	(5,818)	23,626,116
Total	$ 24,948,918	$ 1,142,873	$ (5,818)	$ 26,085,973
December 31, 2019				
Securities Available for Sale:				
U.S. Agency securities	$ 1,000,758	$ -	$ (206)	$ 1,000,552
SBA Loan Pool securities	2,738,000	30,843	-	2,768,843
Mortgage-backed securities	46,605,193	812,106	(7,698)	47,409,601
Total	$ 50,343,951	$ 842,949	$ (7,904)	$ 51,178,996

NOTE 2 - DEBT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2020 are shown by contractual maturity below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are presented separately.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	2,340,358	2,459,857
Mortgage-backed securities	22,608,560	23,626,116
Total debt securities	$ 24,948,918	$ 26,085,973

As of December 31, 2020, there were four securities with unrealized losses of $5,818 that had been in a continuous loss position for more than 12 months. Unrealized losses on debt securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2020	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Agency securities	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage-backed securities	-	-	432,629	(5,818)	432,629	(5,818)
Total	$ -	$ -	$ 432,629	$ (5,818)	$ 432,629	$ (5,818)
December 31, 2019						
U.S. Agency securities	$ -	$ -	$ 1,000,553	$ (206)	$ 1,000,553	$ (206)
Mortgage-backed securities	-	-	526,099	(7,698)	526,099	(7,698)
Total	$ -	$ -	$ 1,526,652	$ (7,904)	$ 1,526,652	$ (7,904)

The Company had pledged debt securities with a fair value of $16,564,050 and $40,103,146 to the Federal Home Loan Bank of San Francisco to secure borrowing arrangements discussed in Note 7, as of December 31, 2020 and 2019, respectively.

The Company had a gain on sale of securities of $751,085 in 2020 and a gain on the sale of securities of $340,929 in 2019.

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The following is a summary of the loans and allowance for loan losses as of December 31:

	2020	2019
Real Estate	$ 578,402,242	$ 573,085,620
Commercial	210,487,320	202,504,260
SBA	211,786,060	103,171,741
Consumer	2,115,034	5,711,049
Loans Receivable	1,002,790,656	884,472,670
Unaccreted discount on acquired loans	(32,045)	(125,342)
Loans Receivable, net of Unaccreted Discount on Acquired Loans	1,002,758,611	884,347,328
Net deferred loan origination fees and costs	(3,888,299)	(3,356,054)
Allowances for loan losses	(14,261,518)	(8,600,925)
Loans Receivable, net	$ 984,608,794	$ 872,390,349

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES – Continued

The following table summarizes the allocation of the allowance as well as the activity in the allowance attributed to various segments in the loan portfolio as of and for the years ended December 31, 2020 and 2019:

December 31, 2020	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 4,381,164	$ 3,373,949	$ 764,428	$ 81,384	$ 8,600,925
Provisions	3,098,598	1,374,150	1,238,884	(41,761)	5,669,871
Charge-offs	-	(9,491)	-	-	(9,491)
Recoveries	-	213	-	-	213
End of Year	$ 7,479,762	$ 4,738,821	$ 2,003,312	$ 39,623	$ 14,261,518
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	7,479,762	4,738,821	2,003,312	39,623	14,261,518
	$ 7,479,762	$ 4,738,821	$ 2,003,312	$ 39,623	$ 14,261,518
Loans Evaluated for Impairment:					
Individually	$ 1,609,055	$ -	$ -	$ -	$ 1,609,055
Collectively	576,761,142	210,487,320	211,786,060	2,115,034	1,001,149,556
	$ 578,370,197	$ 210,487,320	$ 211,786,060	$ 2,115,034	$ 1,002,758,611

December 31, 2019	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 2,296,328	$ 2,070,624	$ 1,815,857	$ 69,191	$ 6,252,000
Provisions	2,084,836	10,784,218	(1,051,429)	12,193	11,829,818
Charge-offs	-	(9,481,000)	-	-	(9,481,000)
Recoveries	-	107	-	-	107
End of Year	$ 4,381,164	$ 3,373,949	$ 764,428	$ 81,384	$ 8,600,925
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	4,381,164	3,373,949	764,428	81,384	8,600,925
	$ 4,381,164	$ 3,373,949	$ 764,428	$ 81,384	$ 8,600,925
Loans Evaluated for Impairment:					
Individually	$ -	$ -	$ -	$ -	$ -
Collectively	572,961,271	202,503,267	103,171,741	5,711,049	884,347,328
	$ 572,961,271	$ 202,503,267	$ 103,171,741	$ 5,711,049	$ 884,347,328

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Impaired - A loan is considered impaired, when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Additionally, all loans classified as troubled debt restructurings are considered impaired.

Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions above and smaller, homogeneous loans not assessed on an individual basis.

The risk category of loans by class of loans was as follows as of December 31, 2020:

December 31, 2020	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	$ 18,920,407	$ -	$ -	$ -	$ 18,920,407
Residential real estate	93,249,663	-	3,456,177	-	96,705,840
Multi-family residential	60,501,948	-	-	-	60,501,948
Nonresidential	400,013,946	-	619,001	1,609,055	402,242,002
Commercial	203,863,438	3,854,706	2,769,176	-	210,487,320
SBA	209,641,641	2,078,626	65,793	-	211,786,060
Consumer	2,115,034	-	-	-	2,115,034
	$ 988,306,077	$ 5,933,332	$ 6,910,147	$ 1,609,055	$ 1,002,758,611

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The risk category of loans by class of loans was as follows as of December 31, 2019:

December 31, 2019	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	$ 21,418,308	$ -	$ -	$ -	$ 21,418,308
Residential real estate	74,864,461	-	3,535,808	-	78,400,269
Multi-family residential	59,095,108	-	-	-	59,095,108
Nonresidential	414,047,586	-	-	-	414,047,586
Commercial	202,005,951	-	497,316	-	202,503,267
SBA	103,085,848	-	85,893	-	103,171,741
Consumer	5,711,049	-	-	-	5,711,049
	$ 880,228,311	$ -	$ 4,119,017	$ -	$ 884,347,328

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2020:

	Still Accruing		
December 31, 2020	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Non Residential	$ -	$ -	$ 1,609,055
Residential Real Estate	-	-	-
Commercial	-	-	-
Nonresidential loans	$ -	$ -	$ 1,609,055
Commercial loans	-	-	-
SBA loans	-	-	-
	$ -	$ -	$ 1,609,055

The Company had no past due or nonaccrual loans as of December 31, 2019.

The Company had one loan for $1.6 million considered impaired which did not require a specific allowance. The average loan balance prior to impairment was $1.7 million and $40,000 in interest income was recognized for the period ended December 31, 2020. The Company had $0 loans considered impaired as of December 31, 2019.

The Company had no TDR's as of December 31, 2020 and December 31, 2019.

NOTE 4 - PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31:

	2020	2019
Leasehold improvements	$ 1,858,674	$ 1,814,584
Furniture, fixtures and equipment	3,680,305	3,505,579
	5,538,979	5,320,163
Accumulated depreciation and amortization	(2,890,470)	(2,155,397)
	$ 2,648,509	$ 3,164,766

Total depreciation expense for the years ended December 31, 2020 and 2019, was $805,598 and $671,584, respectively.

NOTE 5 - LEASES

All of the Company leases are operating leases for the main branch office in La Jolla, branch facilities in Coronado, San Diego, Newport Beach, Beverly Hills and El Segundo, a loan servicing office in Temecula, an operations center in Mission Valley, an office in Redlands, and an executive office in San Diego. The Company is responsible for common area maintenance, taxes and insurance on these leases.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The lease for the main branch office in La Jolla was scheduled to terminate at the end of February 2021 and in December 2020 the Company agreed to be renewed for 60 months with an option to terminate after 36 months. Should the company choose to exercise the early termination option, notice must be delivered to the lessor no later than 180 days prior to the end of the early termination option.

During 2020, the Company made the decision to vacate approximately 1,500 square feet of office space in the upstairs portion of the Coronado branch office that it currently occupies and has subleased under an operating lease agreement. The Company entered into a sublease agreement with a third-party for the space for a portion of the remainder of the original lease term. The sublease commenced in October of 2020 and has a term of 22 months and is classified as an operating lease. However, the sublease income is at a lesser rate than the original lease payments required per the original lease. According to the guidance in ASC 842, because the Company is not relieved of its obligation under the original lease, the original lease will continue to be accounted for as it was before the sublease agreement was signed. Because the sublease income is less than the original lease payments that the Company is required to make, management has concluded that the right-of-use asset was impaired when the leased space was sublet to the third-party. In order to measure the amount of impairment, management estimated the future cash flows associated with the sublet space, discounted those cash flows back to the impairment measurement date using the discount rate that was originally used to measure the right-of-use asset and the lease liability per the original lease, and then compared the discounted cash flows to the balance of the right-of-use asset as of the measurement date. The result was that an impairment charge of $82,142 and was recorded related to the subleased space during the year ended December 31, 2020. This amount is included in the occupancy and equipment line on the Consolidated Statements of Operations. Subsequent to the impairment, the right-of-use asset for the sublet space will be amortized on the straight-line basis.

NOTE 5 – LEASES - Continued

The components of total lease cost were as follows for the period ending December 31:

	2020	2019
Operating lease cost	$ 2,020,519	$ 1,714,227
(Less) Sublease income	(12,000)	-
Total lease cost, net	$ 2,008,519	$ 1,714,227

The amount of the lease liability and right-of-use asset is impacted by the lease term and the discount rate applied to determine the present value of the future lease payments. The remaining term of our operating leases is 2.9 years as of December 31, 2020.

Right-of-use assets and lease liabilities and the associated balance sheet classifications are as follows:

	Balance Sheet Classification	December 31, 2020	December 31, 2019
Right-of-use assets:			
Operating leases	Accrued interest receivable and other assets	$ 6,588,241	$ 6,451,594
Total right-of-use assets		$ 6,588,241	$ 6,451,594
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 5,990,334	$ 6,953,237
Total lease liabilities		$ 5,990,334	$ 6,953,237

At December 31, 2020, future minimum annual rental commitments under these operating leases were as follow:

	Amount
2020	$ 1,933,717
2021	1,992,691
2022	1,766,523
2023	866,359
2034	403,646
Thereafter	45,389
Remaining lease commitments	7,008,325
Interest	(420,084)
Present value of lease liability	$ 6,588,241

NOTE 6 - DEPOSITS

Interest-bearing deposits at December 31 consist of the following:

	2020	2019
Interest-bearing checking accounts	$ 60,606,013	$ 112,397,227
Savings and money market	424,539,113	350,562,891
Time certificate of deposit accounts under $250,000	43,565,554	78,631,657
Time certificate of deposit accounts $250,000 and over	52,504,733	40,547,599
	$ 581,215,413	$ 582,139,374

As of December 31, 2020 and 2019, all noninterest-bearing deposits are demand deposits. The maturity of time certificates of deposit is as follows:

	2020	2019
Within one year	$ 82,712,120	$ 55,240,387
One year to three years	9,477,420	27,825,307
Over three years	3,880,747	36,113,562
	$ 96,070,287	$ 119,179,256

NOTE 7 - BORROWING ARRANGEMENTS

The Company's other borrowings include advances from the Federal Home Loan Bank (FHLB) of San Francisco and Subordinated Debt.

A summary of FHLB borrowings as of December 31, 2020, is as follows:

Lender	Maturity	Rate of Interest	Amount
Federal Home Loan Bank	May 13, 2021	0.00%	$ 5,000,000
Federal Home Loan Bank	May 17, 2021	2.98%	10,000,000
Federal Home Loan Bank	June 8, 2021	1.50%	5,000,000
Federal Home Loan Bank	August 9, 2021	1.61%	10,000,000
Federal Home Loan Bank	August 8, 2022	1.67%	10,000,000
Federal Home Loan Bank	March 17, 2023	1.16%	15,000,000
Federal Home Loan Bank	May 17, 2023	3.16%	10,000,000
Federal Home Loan Bank	August 21, 2023	1.67%	10,000,000
			$ 75,000,000

At December 31, 2020 and 2019, approximately $502.6 million and $389.2 million in loans and $16.6 million and $40.1 million in securities were pledged as collateral to the FHLB for the borrowings presented in the table above, respectively. At December 31, 2020 and 2019, the Company had remaining financing availability of approximately $165 million and $128 million based on the level of pledged loans and securities, respectively, after consideration of amounts outstanding and a $35 million letter of credit to secure deposits.

As of December 31, 2020 and 2019, approximately $276.4 million and $0.9 million in loans were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of approximately $187.2 million and $0.5 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2020 and 2019.

The Company has borrowing lines with correspondent banks totaling $70 million as of December 31, 2020. There were no balances outstanding on these borrowing lines.

The Company issued Fixed-to-Floating Subordinated Notes (“Notes”) of $18 million on April 24, 2019 with final maturity on April 25, 2029. The Notes accrued interest at a 6.00% fixed rate for the first five years until April 25, 2024 with quarterly interest payments. After April 25, 2024, interest on the Notes accrues at a variable rate at three-month LIBOR plus 3.42%. Debt issuance cost was $72,646 and is being amortized through the maturity date. The balance net of issuance cost is $17.9 million as of December 31, 2020.

Private Bancorp of America, Inc. entered into an $8.0 million ten-year loan on October 28, 2015 with a final maturity on October 28, 2025 ($7.9 million net of origination costs) that is unsecured, with interest only payable in the first three years. Thereafter the loan will amortize over twenty-five years for the final seven years. The interest rate is fixed at 4.95% for the first five years with the last five years floating at WSJ Prime plus 1.70 percent. There is a 2% or 1% penalty should the loan be pre-paid in years one or two respectively. Principal repayments required over the next five years include $167,000, $175,000, $184,000, $193,000 and $203,000 in 2019, 2020, 2021, 2022 and 2023, respectively. The Company used a portion of the proceeds from the Notes issued in April 2019 to pay off the loan and no balance was outstanding at December 31, 2020 and 2019, respectively.

NOTE 8 - INCOME TAXES

The provision for income tax expense for the years ended December 31, 2020 and 2019 consisted of the following:

	2020	2019
Current Taxes:		
Federal	$ 4,330,249	$ 196,315
State	2,368,171	248,604
	6,698,420	444,919
Deferred	(1,914,000)	(602,000)
Provision for Income Tax	$ 4,784,420	$ (157,081)

A comparison of the Federal statutory income tax rates to the Company's effective income tax rate is as follows:

	2020		2019	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 3,292,000	21.0%	$ (123,000)	21.0%
State Franchise Tax, Net of Federal Benefit	1,381,000	8.8%	(38,000)	6.5%
Other Items, Net	111,420	0.7%	3,919	(0.7%)
Actual Tax Expense	$ 4,784,420	30.5%	$ (157,081)	26.8%

Deferred taxes are a result of differences between income tax accounting and generally accepted accounting principles with respect to income and expense recognition.

The following is a summary of the components of the net deferred tax asset accounts recognized in the accompanying balance sheets at December 31:

Note 8 – INCOME TAXES – Continued

	2020	2019
Deferred Tax Assets:		
Start-up and organization costs	$ 21,000	$ 57,000
Operating loss carryforwards	1,655,000	1,885,000
California State Income Tax	470,000	44,000
Allowance for loan losses due to tax limitations	4,216,000	2,309,000
Lease Liability	1,948,000	2,056,000
Stock-based compensation	289,000	259,000
Bonus	533,000	12,000
Other	367,000	379,000
	9,499,000	7,001,000
Deferred Tax Liabilities:		
Depreciation difference	(382,000)	(200,000)
Deferred costs	(670,000)	(150,000)
Deferred Capital Lease Costs	(1,771,000)	(1,907,000)
Securities available for Sale	(341,000)	(267,000)
Other	(353,000)	(336,000)
	(3,517,000)	(2,860,000)
Net Deferred Tax Assets	$ 5,982,000	$ 4,141,000

The Company has total net operating loss carryforwards of approximately $5.5 million for Federal income and approximately $6.3 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2029 for both Federal and California franchise tax purposes.

These NOL carryforwards were acquired as part of the 2011 acquisition of Coronado First Bank, and the 2013 acquisition of San Diego Private Bank. They are subject to an annual limitation by Section 382 of the Internal Revenue Code. The amount of the annual limitation for Federal and California Franchise Tax purposes is $332,883 for the 2011 acquisition, and $445,559 for the 2013 acquisition. The Company anticipates that these carryforwards will be utilized prior to their expiration and therefore no valuation allowance has been provided.

The Company's Federal income tax returns for the years ended December 31, 2015 through 2019 have been filed, and are open to audit by the Internal Revenue Service. The Company's California franchise tax returns for the years ended December 31, 2014 through 2019 have been filed, and are open to audit by the State of California.

NOTE 9 - SHARE-BASED COMPENSATION

The Company has adopted the 2006 Stock Plan (the 2006 Plan). The options under the 2006 Plan are granted to directors, officers, key employees of the Company, and certain consultants. Under the 2006 Plan, both incentive stock options, nonqualified stock options and restricted stock grants may be granted. The 2006 Plan provided for the issuance of up to 600,000 options, which was increased to 800,000 in 2013 pursuant to the merger agreement with San Diego Private Bank. Option prices may not be less than 100 percent of the fair market value of the stock at the date of grant. Stock options expire no later than ten years from the date of grant and vest based on a schedule determined by the Company's Board of Directors. The 2006 Plan provides for accelerated vesting if there is a change of control, as defined in the 2006 Plan. The 2006 plan expired May 1, 2016.

In 2016, the Company adopted the Private Bancorp of America, Inc. Equity Incentive Plan (the PBAM Plan). The options under the PBAM Plan are granted to directors, officers, key employees of the Company, and certain consultants. Under the PBAM Plan, incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock grants and restricted stock units may be granted. The PBAM Plan provided for the issuance of up to 400,000 options. Option prices may not be less than 100 percent of the fair market value of the stock at the date of grant. Stock options expire no later than ten years from the date of grant and vest based on a schedule determined by the Company's Board of Directors. The PBAM Plan provides for accelerated vesting if there is a change of control, as defined in the PBAM Plan.

The Company recognized share-based compensation cost of $1,132,743 and $1,146,846 in 2020 and 2019, respectively, related to options and restricted stock grants awarded. Tax benefits associated with share-based compensation amounted to approximately $337,053 and $294,000 in 2020 and 2019, respectively.

The Company granted 10,000 stock options in 2020 and none in 2019. The weighted-average fair value of the options granted in 2020 was $3.23. The weighted-average fair value was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2020
Dividend yield	0.00%
Expected life	6.0 Years
Expected volatility	11.75%
Risk-free interest rate	1.38%
Weighted-average fair value at grant date	$ 3.23

Expected volatility is based on historical volatility of the Company's common stock. The expected term represents the estimated average period of time that the options remain outstanding. The risk-free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

NOTE 9 - SHARE-BASED COMPENSATION - Continued

A summary of the status of the stock options issued as of December 31, 2020, and change during the year then ended follows:

	2020		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	Options	Exercise Price		
Balance, beginning of year	239,257	$ 14.39		
Granted	10,000	21.00		
Exercised	-	-		
Forfeited or expired	(21,667)	11.94		
Balance, end of year	227,590	$ 14.91	4.07	$ 3,396,041
Options exercisable	212,790	$ 14.37	3.76	$ 3,058,091

No options shares exercised in 2020 and the intrinsic value of option shares exercised in 2019 was approximately $104,000. As of December 31, 2020, there was $28,566 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.46 years.

No tax benefits were recognized in income relating to exercised stock options in 2020 and 2019.

A summary of the status of the restricted stock grants issued as of December 31, 2020 and 2019, and changes during the years then ended follows:

	2020		2019	
	Unvested Shares	Weighted-Average Grant Date Fair Value	Unvested Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of year	100,385	$ 22.84	105,425	$ 23.49
Granted	37,137	17.83	41,500	23.96
Shares Vested	(35,573)	23.62	(37,465)	25.82
Forfeited or expired	(1,975)	24.11	(9,075)	23.26
Balance, end of year	99,974	$ 20.67	100,385	$ 22.84

The intrinsic value of vested restricted grants was approximately $533,643 and $1,087,068 in 2020 and 2019, respectively. As of December 31, 2020, there was $1,514,000 of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.63 years.

NOTE 10 - COMMITMENTS

The Company is a 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 and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the accompanying balance sheet.

The Company's exposure to credit losses in the event of nonperformance by the other parties for commitments to extend credit and standby letters of credit is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2020 and 2019.

	2020	2019
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 166,037,501	$ 174,630,012
Standby letters of credit	10,682,039	7,423,098
	$ 176,719,540	$ 182,053,110

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any conditions established in the contract. Commitments generally have fixed expiration dates of not more than 12 months and may require payment of a fee. Since many of the commitments are not expected to be drawn upon, the total commitment amounts may not represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include marketable investment securities, accounts receivable, inventory, property, plant, and equipment, and real properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily used public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as the involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

NOTE 11 – RELATED PARTY TRANSACTIONS

Loans to related parties totaled approximately $8,780,000 and $9,313,000 as of December 31, 2020 and 2019, respectively. The following is a summary of changes in related party loans:

	2020	2019
Balance, Beginning of Year	$ 9,312,563	$ 7,765,642
New Loans and Advances	200,255	2,397,454
Repayments	(732,765)	(850,533)
Balance, End of Year	$ 8,780,053	$ 9,312,563

As of December 31, 2020 and 2019, the Company's balance sheet included deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately $26,772,000 and $27,602,000, respectively.

In 2017, the Company entered into a consulting agreement with its Chairman of the Board wherein various services are provided including client development and retention, shareholder development and communications, business model implementation and acquisition strategies. For services provided, the Chairman receives annual compensation of $120,000 and reimbursement for expenses. The term of the consulting agreement was for 12 months and is subject to annual renewal. The contract was renewed in March 2021 for an additional one-year term.

In January 2017, the Bank entered into a Development Services Agreement with a Director wherein various services are provided including planning, monitoring, business development and certain other initiatives in connection with the Bank's entry into the Los Angeles market. For services provided, the Director will receive a retainer of $120,000 per year plus a performance bonus opportunity based on origination of loan and deposit accounts in excess of established thresholds. In February 2021, this Development Services contract was extended for 12 months, expiring February 15, 2022.

NOTE 12 - REGULATORY MATTERS

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

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new "Basel III" rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019.

The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1

NOTE 12 - REGULATORY MATTERS – Continued

capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

In addition, the Basel III rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three-capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). The conservation buffer is being phased-in on a pro rata basis over a four-year period beginning in 2016. If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount (1.875% for 2018) then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. The Bank was not limited by the provisions of the conservation buffer as of and for the year ended December 31, 2020.

As of December 31, 2020, the most recent notification from the FDIC 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 below. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios as of December 31, 2020 and 2019, are presented below (dollar amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2020						
Total capital (to risk-weighted assets)	$ 131,679	14.0%	$ 75,000	8.0%	$ 93,751	10.0%
Tier 1 capital (to risk-weighted assets)	119,919	12.8%	56,250	6.0%	75,000	8.0%
CET1 capital (to risk-weighted assets)	119,919	12.8%	42,188	4.5%	60,938	6.5%
Tier 1 capital (to average assets)	119,919	9.7%	49,274	4.0%	61,593	5.0%
As of December 31, 2019						
Total capital (to risk-weighted assets)	$ 117,243	12.6%	$ 74,554	8.0%	$ 93,192	10.0%
Tier 1 capital (to risk-weighted assets)	108,189	11.6%	55,915	6.0%	74,554	8.0%
CET1 capital (to risk-weighted assets)	108,189	11.6%	41,937	4.5%	60,575	6.5%
Tier 1 capital (to average assets)	108,189	10.6%	40,804	4.0%	51,005	5.0%

The California Financial Code generally acts to prohibit banks from making a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made by the bank's shareholders during the same period. With certain exceptions, a California corporation such as the Company, may not pay a dividend to its shareholders unless its retained earnings are at least equal to the amount of the proposed dividends.

NOTE 13 - EARNINGS PER SHARE ("EPS")

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to participation rights in undistributed earnings. The following is a reconciliation:

	2020		2019	
	Net Income	Shares	Net Loss	Shares
Net income (loss) as reported	$ 10,891,400		$ (428,438)	
Less: Earnings allocated to participating securities	(181,267)		8,223	
Net income (loss) available to common shareholders	10,710,133		(420,215)	
Shares outstanding at year-end		5,600,508		5,577,968
Less unvested restricted shares		(92,992)		(95,621)
Impact of weighting shares issued or retired during the year		(13,093)		(234,080)
Used in Basic EPS	10,710,133	5,494,423	(420,215)	5,248,267
Dilutive effect of outstanding stock options		32,861	-	-
Used in Dilutive EPS	$ 10,710,133	5,527,284	(420,215)	5,248,267

There were 87,400 anti-dilutive option shares as of December 31, 2020, and 45,000 at December 31, 2019.

NOTE 14 - FAIR VALUE MEASUREMENTS

The following is a description of valuation methodologies used for assets measured at fair value on a recurring basis:

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

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2020 and 2019:

	Fair Value Measurements Using:			
December 31, 2020	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 26,085,973	$ -	$ 26,085,973
December 31, 2019				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 51,178,996	$ -	$ 51,178,996

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2020 and 2019.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

Financial Assets

The carrying amounts of cash, short term investments, due from customers on acceptances, and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits with banks. The determination of the fair value of investment securities is discussed in Note 14. The carrying amount of loans, net of the allowance for loan losses is estimated to approximate fair value for purposes of this disclosure. The fair value of loans as estimated in this manner represents an exit price notion as of December 31, 2020 and an entry price notion as of December 31, 2019.

Financial Liabilities

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

Off-Balance Sheet Financial Instruments

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

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2020 and 2019 is summarized as follows (dollar amounts in thousands):

		December 31, 2020		December 31, 2019	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$ 8,040	$ 8,040	$ 34,551	$ 34,551
Interest-bearing deposits at FRB	Level 1	260,876	260,876	74,561	74,561
Interest-bearing deposits-other	Level 1	7,309	7,309	2,256	2,256
Debt securities available for sale	Level 2	26,086	26,086	51,179	51,179
Loans, net	Level 3	998,902	1,013,259	876,955	999,614
Liabilities					
Deposits	Level 2	$ 1,112,948	$ 1,113,524	$ 850,255	$ 850,255
Other borrowings	Level 2	92,939	95,553	107,932	108,892

NOTE 16 - 401K BENEFIT PLAN

The Company maintains a 401K benefit plan that provides for employee contributions up to maximums allowed by law, which are matched up to 5% by the Company. Matching contributions charged to expense amounted to $625,392 and $546,242 in 2020 and 2019, respectively.

NOTE 17 - PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2020 and 2019
(Dollars in Thousands)

	2020	2019
ASSETS		
Cash and cash equivalents	$ 2,287	$ 2,287
Due from interest-bearing	402	401
Other assets	505	474
Investment in bank subsidiary	122,660	110,548
Total Assets	$ 125,854	$ 113,710
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Other borrowings	$ 17,939	$ 17,932
Other liabilities	163	98
Total Liabilities	18,102	18,030
Shareholders' Equity		
Common Stock	69,556	69,159
Additional paid-in capital	3,496	3,048
Retained earnings	33,904	22,905
Accumulated other comprehensive income	796	568
Total Shareholders' Equity	107,752	95,680
Total Liabilities and Shareholders' Equity	$ 125,854	$ 113,710

NOTE 17 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS – Continued

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
Years Ended December 31, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Interest Income	$ 1	$ 2
Interest Expense on Borrowings	1,087	956
Net Interest Expense	(1,086)	(954)
Noninterest Expense	531	456
Income (loss) before equity in undistributed income of subsidiary	(1,617)	(1,410)
Equity in undistributed income of:		
CalPrivate Bank	12,030	585
Income before income taxes	10,413	(825)
Income tax benefit	478	397
Net income (loss)	$ 10,891	$ (428)
Other comprehensive income (loss), net of tax:		
Change in unrealized gains/losses on securities, net of taxes	228	1,836
Comprehensive Income	$ 11,119	$ 1,408

CONDENSED STATEMENTS OF CASH FLOW
Years Ended December 31, 2020 and 2019

(Dollars in Thousands)

	2020	2019
Cash Flows from Operating Activities		
Parent only loss	$ (1,140)	$ (1,013)
(Increase) Decrease in other assets	(31)	(388)
Decrease (Increase) in other liabilities	65	(41)
	(1,106)	(1,442)
Cash Flows from Investment Activities		
Investment in subsidiary	1,100	(18,000)
Increase in interest-bearing deposits	(1)	(1)
	1,099	(18,001)
Cash Flows from Financing Activities		
Increase in other borrowings	7	10,023
Exercise of stock options	-	131
Stock offering proceeds	-	9,746
	7	19,900
Increase in cash and cash equivalents	-	457
Cash and Cash Equivalents Beginning of Year	2,287	1,830
Cash and Cash Equivalents End of Year	$ 2,287	$ 2,287

San Diego
550 West C Street, Suite 110
San Diego, CA 92101
(619) 230-2800

La Jolla
9404 Genesee Ave., Suite 100
La Jolla, CA 92037
(858) 875-6900

Coronado
801 Orange Ave., Suite 101
Coronado, CA 92118
(619) 437-1000

South Bay (Los Angeles)
2321 Rosecrans Ave., Suite 3285
El Segundo, CA 90245
(424) 348-2150

Newport Beach
4675 MacArthur Court, Suite 1450
Newport Beach, CA 92660
(949) 345-7600

Beverly Hills
9606 S. Santa Monica Blvd., Suite 300
Beverly Hills, CA 90210
(424) 303-4880

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