Private Bancorp
OF AMERICA, INC.

2021

ANNUAL REPORT

RELATIONSHIPS. SOLUTIONS. TRUST.

2021

CORPORATE OVERVIEW

Private Bancorp
OF AMERICA, INC.

BOARD OF DIRECTORS

Selwyn Isakow
Chairman of the Board

Rick L. Sowers
President | Chief Executive Officer

Leon Kassel

SiSi Pouraghabagher

Ernest Rady

Larraine Segil

Thomas V. Wornham

MISSION STATEMENT

Cultivate a premier banking experience by building enduring **Relationships** with our Clients, Shareholders, Team Members, Partners, and the Communities we serve

We achieve this by providing creative **Solutions** while earning the **Trust** and meeting the goals of our Clients, Stakeholders, and Shareholders

Relationships. Solutions. Trust.

Vision

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

Branches

6 branch locations in Los Angeles, Orange and San Diego counties, headquartered in La Jolla, CA

OTCQX: PBAM

$1.5B
Total Assets

$1.2B
Total Loans

$1.3B
Total Deposits

5.6MM
Outstanding Shares
As of March 25, 2022

$169.2MM
Market Cap
As of March 25, 2022

Private Bancorp
OF AMERICA, INC.

Dear Fellow Shareholders,

2021 was a year of success and growth for Private Bancorp of America and CalPrivate Bank with continued record loan and deposit growth, improving credit dynamics, and strong increases in tangible book value. It was also a challenging year as we adapted to the global pandemic and the continued effect on our Team, our Clients and the Communities we serve. Despite these challenges, we sharpened our focus on providing our Clients with a "Distinctly Different" service experience and creative solutions.

We continued our focus on being Coastal Southern California's premier **Relationship** focused private and business bank, while creating long term shareholder value, by building a unique banking franchise through exceptional Client **Relationships**, superior client **Solutions**, and unassailable mutual **Trust**. We added new Team members and implemented new technologies to support continued growth and expansion, while strengthening our enterprise risk management framework. Together with a talented and committed Team, these factors drove full-year diluted earnings per share to a record $3.69, an increase of 90.2% over 2020, and tangible book value to a new high of $22.26.

2021 Highlights

- Record net income of $21.0 million, an increase of 93.1% over prior year
- Return on average assets of 1.5% and return on average equity of 17.8%
- Total assets increased 14.0% year-over-year to $1.5 billion
- Total net loans increased 22.6% year-over-year to $1.2 billion
- Non-interest bearing deposits increased 28.4% year-over-year to $682.6 million, representing 51% of total deposits
- Strong capital and liquidity ratios, while maintaining healthy credit quality

We start 2022 operating from a position of strength, but remain vigilant and continue to focus on our core markets, superior talent, credit quality, risk management and the implementation of leading technology solutions to drive efficiency and growth. We are confident we can continue to leverage our resources, talent and expertise to respond to our Clients' needs while delivering strong risk-adjusted returns for our shareholders and increasing value to our Team and the Communities we serve.

As always, we appreciate the support and **Trust** of our Shareholders and the loyalty of our Clients, Team members and Board of Directors.

With Appreciation and Gratitude,

Rick L. Sowers
President | Chief Executive Officer

Selwyn Isakow
Chairman of the Board

CalPrivate BANK

Relationships. Solutions. Trust.

BOARD OF DIRECTORS

Selwyn Isakow

Chairman of the Board

Rick L. Sowers

President | Chief Executive Officer

Leda Csanka

Keith Jones

Leon Kassel

Brett Lawrence

James Parks

SiSi Pouraghbagher

Ernest Rady

Larraine Segil

Richard Smith

Thomas V. Wornham

David Engelman

Director Emeritus

David Ellman

Director Emeritus

EXECUTIVE MANAGEMENT

Rick L. Sowers
President | Chief Executive Officer

Mag Wangsuwana
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 OUTREACH

The participation and involvement that CalPrivate has in our Community is far reaching and continuously growing. We participate in Community focused projects through donation and participation, across a wide range of community groups from Los Angeles to San Diego.

- Employee donations are matched
- Team members have donated approximately 1,800 volunteer hours in 2021
- A Community Advisory Board is present in each market, made up of civic and business leaders to provide input to the Board and Management

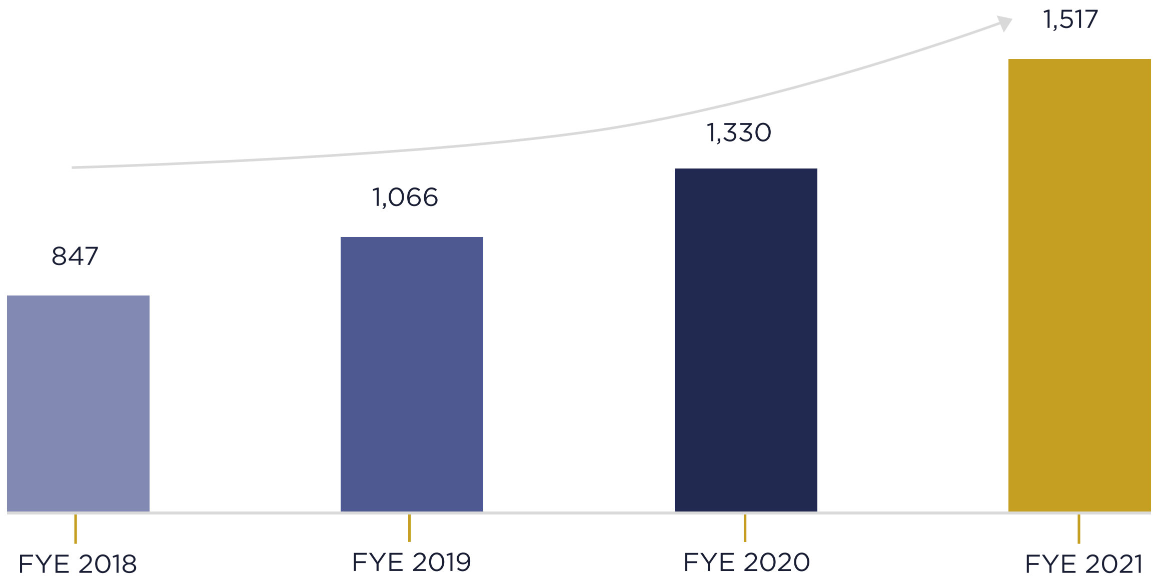
COMMUNITY ADVISORY BOARD

GROWING BALANCE SHEET

Compelling Growth In
The CalPrivate Franchise

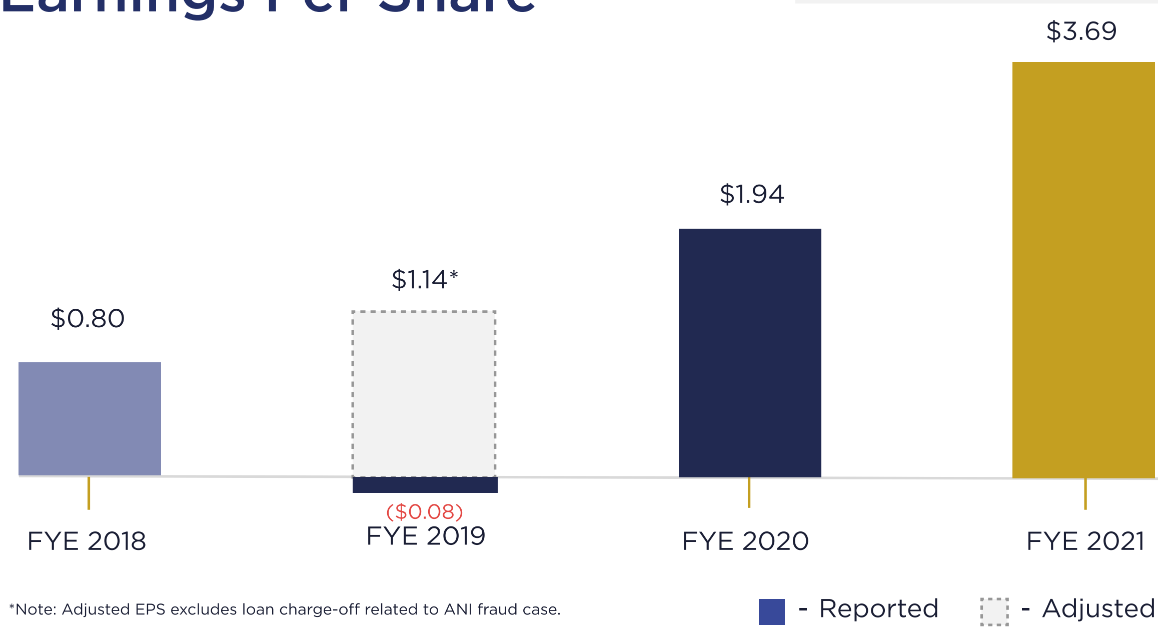
Total Assets

3 YR CAGR: **21.4%**
$ in millions



Earnings Per Share

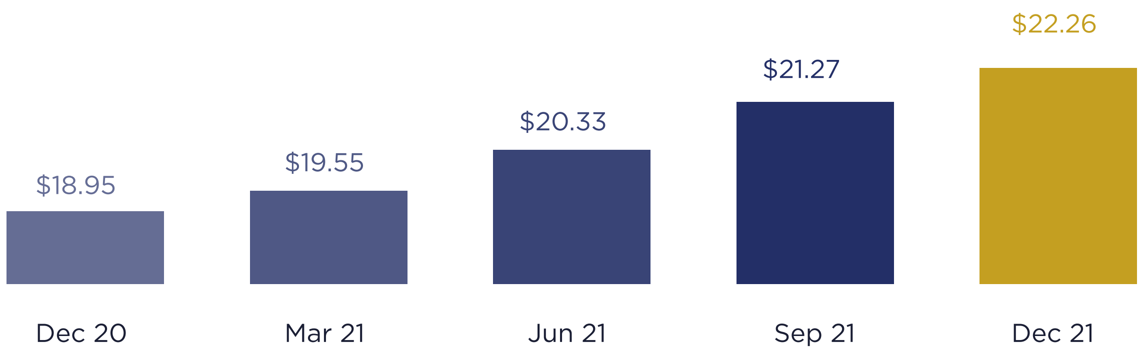
3 YR CAGR: **66.5%**



*Note: Adjusted EPS excludes loan charge-off related to ANI fraud case.

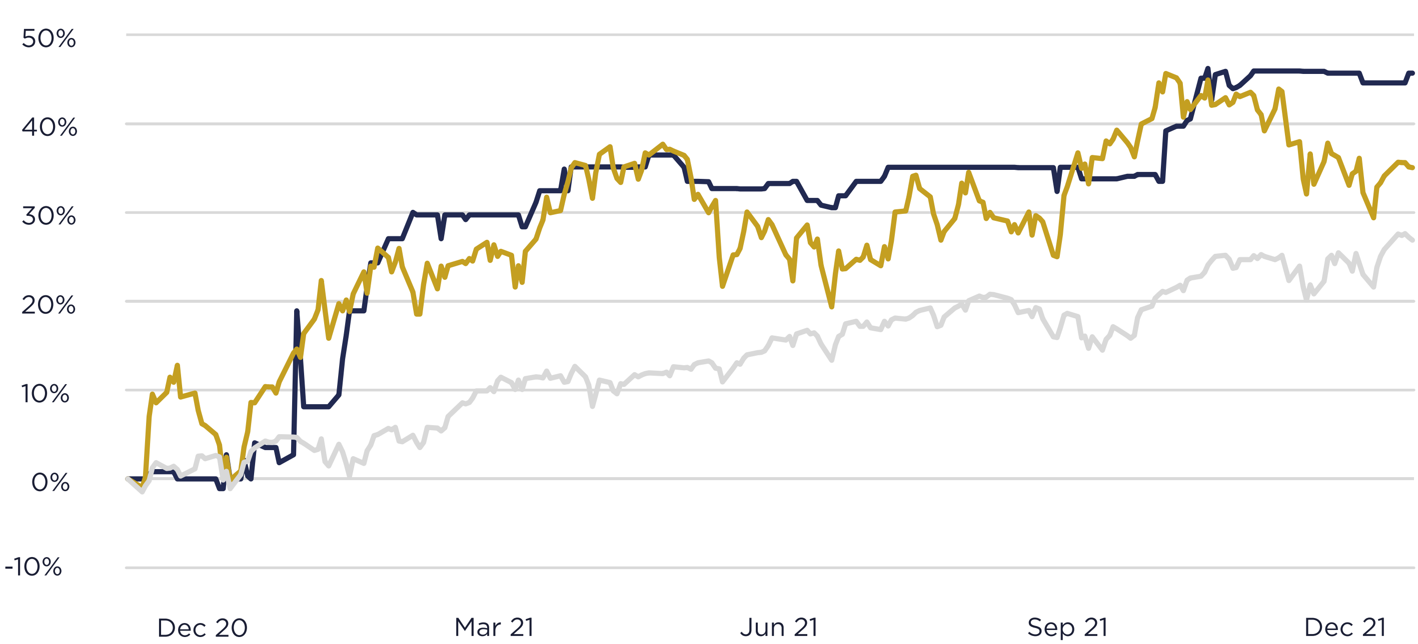
VALUE CREATION FOR SHAREHOLDERS

Record High Tangible Book Value Per Share



PBAM 2021 stock total return: **45.7%**

Superior Market Performance[1]



[1] As measured by relative performance

PBAM

KBW NASDAQ Bank Index

S&P 500

A YEAR IN REVIEW

2021 Performance Highlights

- Record full year net income of $21.0 million or $3.69 per share
- Our assets exceeded $1.5 billion at year end
- Net loans of $1.2 billion and deposits of $1.3 billion
- Increased our mix of non-interest bearing deposits to 51%
- Tangible book value per share increased to $22.26

Strong Credit Quality

- Our credit risk metrics improved throughout 2021, with no loans 30 days past due at year end, and no Other Real Estate Owned (OREO) at year end
- Allowance for loan loss reserve of $17.0 million, or 1.39% of loans held for investment
- Non-performing assets to total assets of 0.10%

Distinctly Different Service

- Our concierge level of service sets us apart
- Our dedicated personal bankers offer tailored solutions
- Our Distinctly Different service drives worth-of-mouth referral business

2021 Top Service-Focused Brands [1]	
86	**CalPrivate Bank [2]**
73	First Republic Bank [3]
71	Alaska
66	Ritz Carlton
60	Apple [4]
43	Airbnb
34	U.S. Banking Industry Banking Average

Tech-Forward Investments

- Our growth was enabled by being tech-forward bankers
- We invested in a financial technology fund that has already given us access to FinTech partners and solutions
- We implemented the nCino Commerical Banking platform which will continue to increase internal efficiency and enhance the Client experience
- Our Board level Technology & Innovations Committee provides forward-thinking industry insight

CPB Client satisfaction over 2.5x higher than U.S. Banking Industry
• Exceptional service is our key organic growth driver; word-of-mouth referrals from very satisfied Clients
• NPS Measures Client loyalty and likelihood to actively "refer"
• Leads to strong growth and very low deposit attrition rates

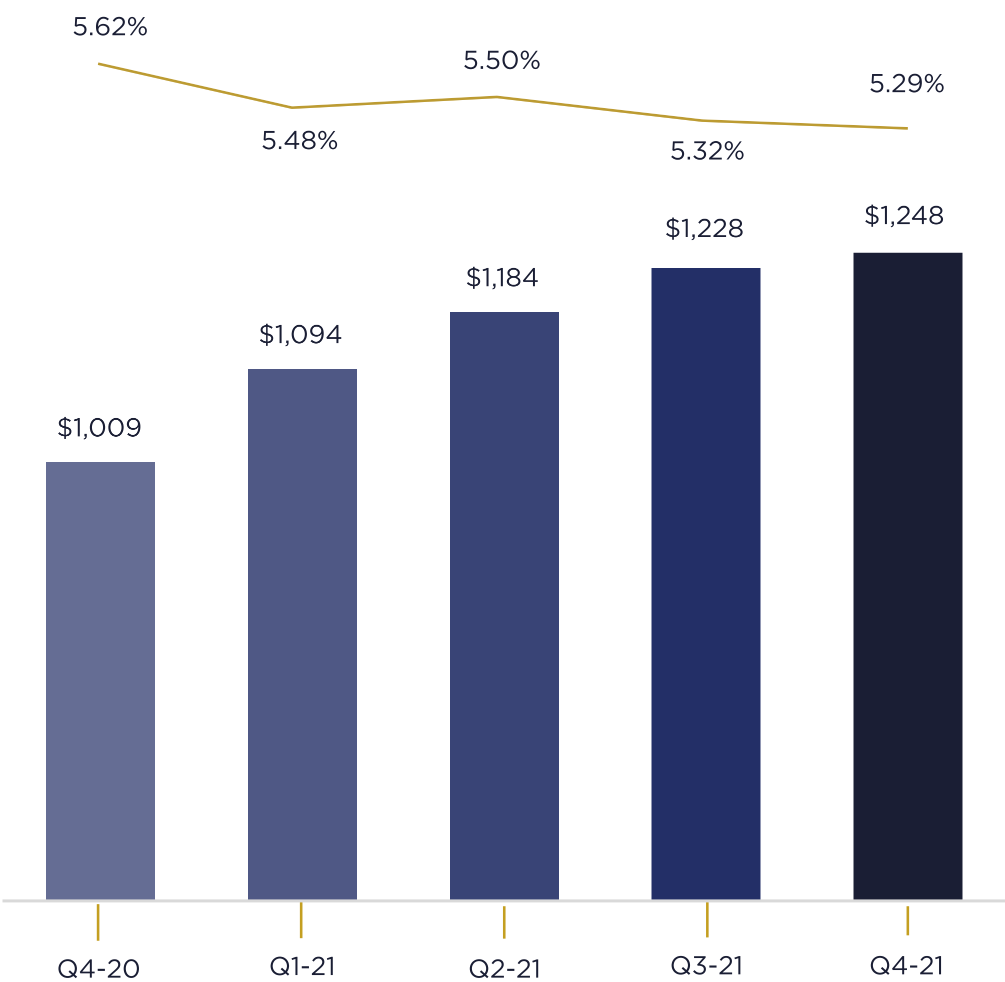
(1) Source: NICE Satmetrix NPS U.S. Consumer 2021 Net Promoter Benchmarks for brands listed and U.S. Banking Industry Average, excluding CPB. Please note: the brands listed under 'Top Service-Focused Brands' are brands selected for comparison purposes. (2) Source: CPB NPS survey during the period of May through December 2021. (3) Source: Overall NPS for First Republic Bank is from their 2020 Corporate Responsibility Report (4) Reflects Apple's industry score for computers and tablets.

LOAN PORTFOLIO

Demonstrated organic growth in loans

- 27% Year-over-Year excluding PPP
- **Relationship** based lending results in superior loan yields

Loan Balances & Yields

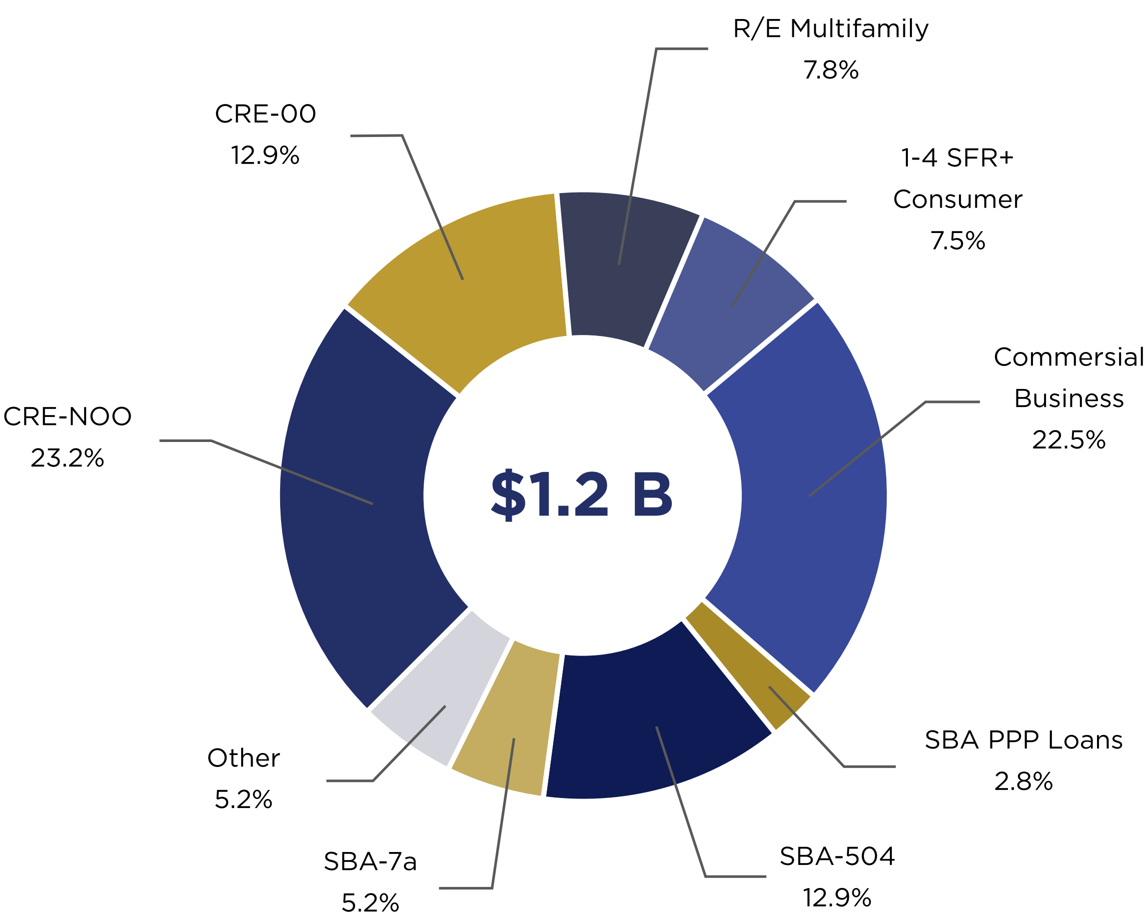


Note: Dollars in Millions, Loan Yield excludes PPP Loans

LOAN COMPOSITION

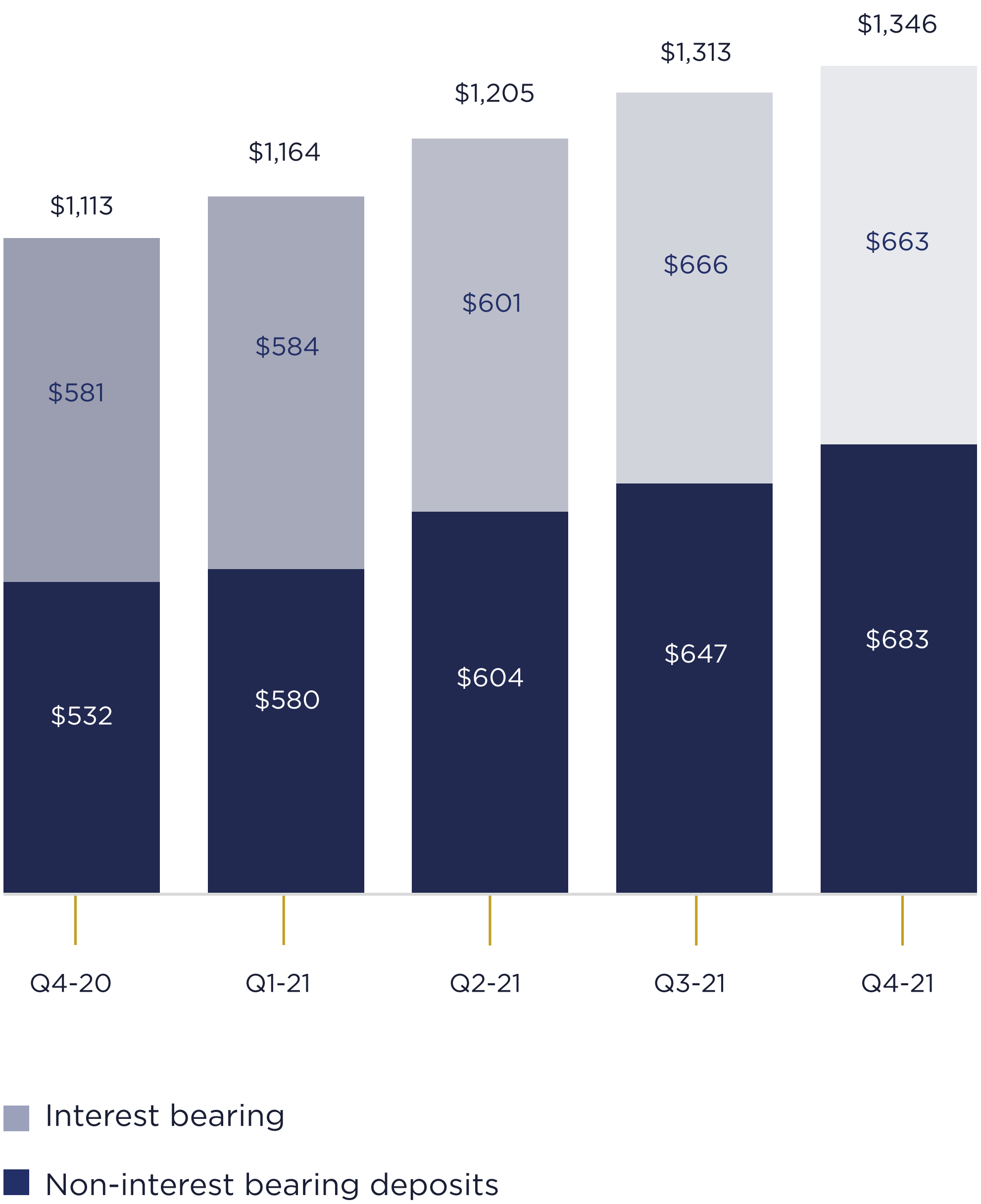
Diversified Loan Profile

- Primary credit concentration continues to be in commercial real estate, representing 52.5% of total loans
- Geographically, CalPrivate Bank lends primarily in the major metropolitan areas of coastal Southern California
- Los Angeles represents 48.1%, San Diego represents 22.2% and Orange County represents 10.8% of total loans

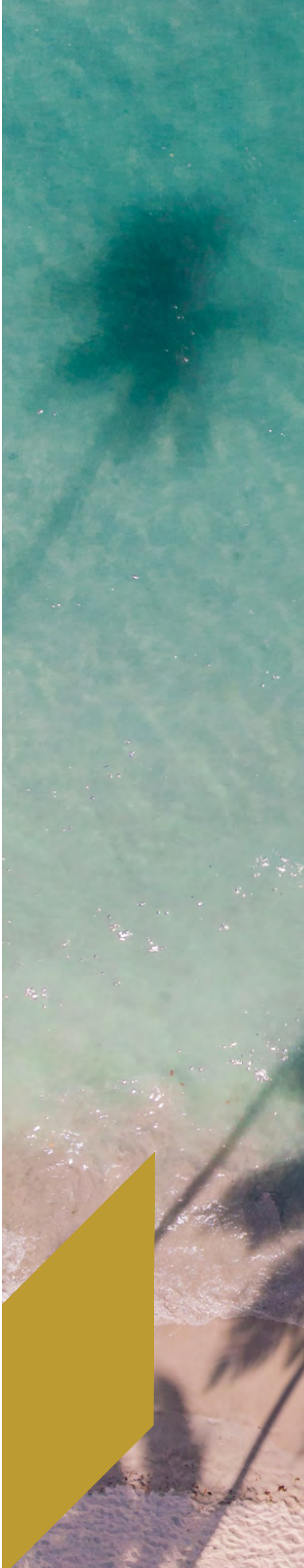


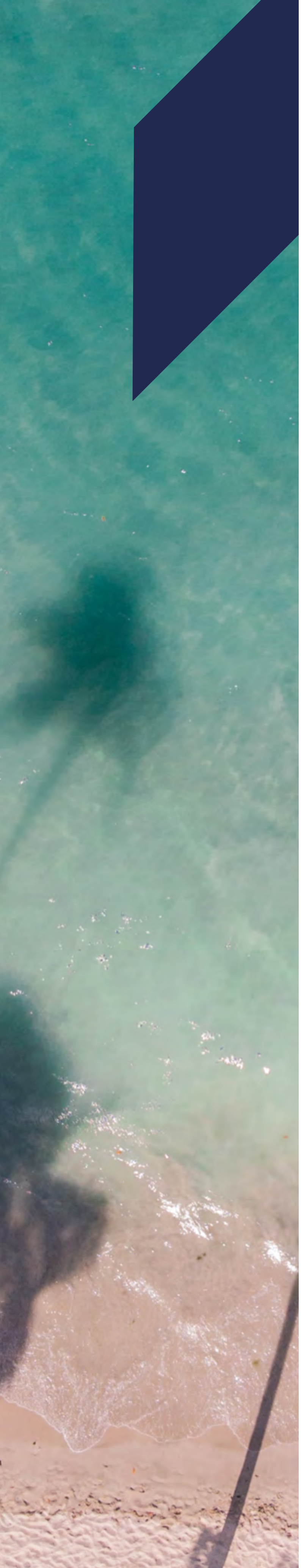
STRONG CORE DEPOSIT FRANCHISE

97% of Total Funding Provided by Growing Deposits from Core Relationships



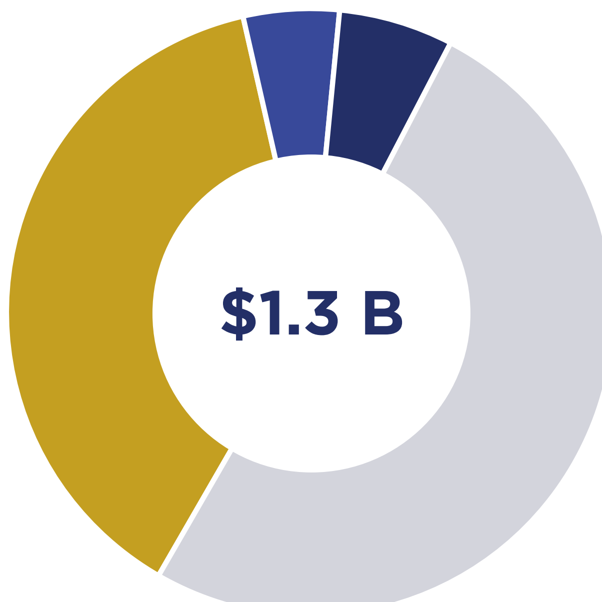
Note: Dollars in millions





STABLE LOW COST FUNDING

- Core deposits attest to stable and deep relationships
- Low cost of deposits of 10bps
- Average demand deposit account size of $135k
- Average savings deposit account size of $335k



- Non-interest bearing DDA, 50.7%
- Saving & MMDA, 38.1%
- Interest Bearing DDA, 6.1%
- Certificates of Deposit, 5.1%

CALPRIVATE CONTINUES TO SUPPORT THE COMMUNITIES WE SERVE

Paycheck Protection Program (PPP)

1,009
Funded PPP Loans

$366MM
in PPP Loans

1 OUT OF 4
PPP Loan to New Relationships

256
New deposit accounts with close to $56MM in balances

SBA U.S. Small Business Administration

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 small business owners help in their growth and expansion plans, overall business development and real estate ownership goals. These key growth areas of any small business are unique to their operations and often require customized solutions by our **Relationship** bankers.

CalPrivate Bank meets all SBA Preferred Lender program eligibility criteria, including proficiency in processing and servicing SBA-guaranteed loans.

The Private Business Capital Team Is Focused On Delivering Customized Solutions With Speed

SBA U.S. Small Busines Administration

Approved to offer SBA loan products under SBA's Preferred Lender programs

DIVERSITY, EQUITY, & INCLUSION

Our Commitments Create A Culture Of Inclusion

At CalPrivate Bank, our uncompromising commitment is for equal and fair treatment and respect for all people, regardless of race, gender identity, sexual orientation, economic status, disability, or religion. This commitment is a core tenet of our mission with respect to our Team as well as the communities that we serve.

- Over 50% of the workforce identifies as female
- Over 55% of the workforce consists of members of under-represented communities
- A dedicated DEI Committee consists of all levels of management and employee engagement

A DEI Committee was established and actively pursues and executes on goals through actionable activities. Within the early stages of the program, we have done the following:

- Provided training and practical tools for both employees and managers on how to effectively cultivate a Diverse and Inclusive environment
- Established an internship program for those in underserved and low income communities
- Awarded scholarships to organizations that support individuals in low income, under served or MBE / WBE communities
- Conducted internal compensation analysis to evaluate internal pay equity and competitive compensation programs to ensure CalPrivate Bank is the Employer of Choice
- Continue to review and update all internal policies and programs including AAP to be sure they are consistent with our DEI mission

Our mission is to foster an environment where CalPrivate Bank Team Members can fully be themselves without fear and to operate under practices and behaviors that support our commitment to Diversity, Equity and Inclusion. In addition to our internal commitment, we adopt programs that support our external commitment to give back in the communities that we serve.

RELATIONSHIPS, SOLUTIONS, TRUST

The **Relationships** with our Clients are valued partnerships. Living out the mission that is built on **Relationships. Solutions. Trust.**

The core value of our business is based on **Relationships**. When I met the team at CalPrivate Bank, I knew they were ethically driven and valued our personal relationship. I knew immediately they were the right team for us.

JADE WORK
Owner, Monserate Winery

I appreciate the approachability and personal **Relationship** that CalPrivate Bank provides, their additional services have made all the difference. Their support in the business development role was integral and the value they provide is continuous.

DR. APRIL SEGAL
PHARMD, BCPS, APH
Pharmacist & Owner, Remedy

Our **Relationship** Manager did a great job explaining the process and executing our PPP loan with the government.

DEVIN BEALE
President, Black Diamond Construction

CalPrivate Bank took the time to understand our business, our history and allowed us to tell our story to the credit committee. Other banks would have passed on the opportunity, but CalPrivate offers such a highly personalized banking experience that they had a better understanding of our company and took a chance on us. Their team looked beyond the numbers and also saw our future growth. CalPrivate Bank has been an integral part of our turnaround in the restructuring of our business. Overall, as a community-focused bank, they really understand our needs.

RICK RODRIGUEZ Owner, La Princesita Tortilleria

La Princesita Tortilleria created a scholarship competition for employees and their families who are actively pursuing higher education. They have granted nine scholarships so far and plan to continue this program each year as their way of giving back to their incredibly committed team members.

Cadence is in the **Relationship** business and just happens to sell travel; CalPrivate is in the **Relationship** business and just happens to provide banking services. The synergy behind our partnership and our shared ideal of taking great care of others is simply remarkable.

WENDY BURK CEO & Founder, Cadence

PB Capital was amazing. They made the whole process super easy. They got this deal done when other mortgage companies had let me down.

DR. HENRY OYHARCABAL Owner, Atlas Health Center

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2021 AND 2020

CONTENTS

[This page intentionally left blank]

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, 2021 and 2020, 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, 2021 and 2020, 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, 2021, 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 17, 2022 expressed an unmodified opinion.

Basis for Opinion

These financial statements are the responsibility of the Company'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 $1.22 billion and related allowance for loan losses of $16.97 million as of December 31, 2021. The Company's allowance for loan losses is a material and complex estimate requiring significant management judgment in the evaluation of the credit quality and the estimation of inherent losses within the loan portfolio. The allowance for loan losses includes a general reserve which is determined based on the results of a quantitative and a qualitative analysis of all loans not measured for impairment at the reporting date.

The Company's general reserves cover non-impaired loans and is based on historical loss rates for each 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

San Ramon, California

March 17, 2022

We have served as the Company's auditor since 2019. Vavrinek, Trine, Day & Co., LLP, who joined Eide Bailly LLP in 2019, had served as the Company's auditor since 2006.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2021 AND 2020

	2021	2020
ASSETS		
Cash and due from banks	$ 12,336,365	$ 8,039,875
Interest-bearing deposits in other financial institutions	39,662,598	7,308,988
Interest-bearing deposit at Federal Reserve Bank	97,085,901	260,876,369
Cash and Cash Equivalents	149,084,864	276,225,232
Interest-bearing time deposits with other financial institutions	5,759,847	5,760,091
Debt securities available for sale	102,065,924	26,085,973
Loans held for sale	24,657,697	9,686,567
Loans, net of deferred fees and costs and unaccreted discounts	1,224,157,828	998,870,312
Allowance for loan losses	(16,974,371)	(14,261,518)
Net Loans	1,207,183,457	984,608,794
Federal Home Loan Bank stock, at cost	4,909,100	4,602,300
Premises and equipment, net	2,293,552	2,648,509
Deferred tax asset	7,355,000	5,982,000
Servicing assets, net	3,078,978	1,594,698
Accrued interest receivable and other assets	10,695,548	12,545,585
Total Assets	$ 1,517,083,967	$ 1,329,739,749
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 682,588,486	$ 531,732,379
Interest-bearing deposits	663,074,420	581,215,413
Total Deposits	1,345,662,906	1,112,947,792
Borrowings	27,946,726	92,939,461
Accrued interest payable and other liabilities	15,110,467	16,100,014
Total Liabilities	1,388,720,099	1,221,987,267
Commitments and Contingencies (Note 6 and 11)	-	-
Shareholders' Equity		
Common stock, no par value, 20,000,000 shares authorized; 5,627,735 and 5,600,508 shares issued and outstanding for 2021 and 2020, respectively (Note 18)	70,850,225	69,556,589
Additional paid-in-capital	3,343,299	3,496,223
Retained earnings	54,921,456	33,903,732
Accumulated other comprehensive (loss) income	(751,112)	795,938
Total Shareholders' Equity	128,363,868	107,752,482
Total Liabilities and Shareholders' Equity	$ 1,517,083,967	$ 1,329,739,749

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Interest and Dividend Income		
Interest and fees on loans	$ 61,806,195	$ 55,539,157
Interest-bearing deposits at the Federal Reserve Bank	221,464	420,051
Interest on investment securities	1,055,227	892,310
Dividends on Federal Home Loan Bank stock	272,852	235,753
Interest on deposits with other financial institutions	9,458	67,018
Total Interest and Dividend Income	63,365,196	57,154,289
Interest Expense		
Interest expense on deposits	1,688,875	4,369,027
Interest expense on borrowings	2,885,097	2,517,039
Total Interest Expense	4,573,972	6,886,066
Net Interest Income	58,791,224	50,268,223
Provision for loan losses	2,712,854	5,669,871
Net Interest Income After Provision for Loan Losses	56,078,370	44,598,352
Non-Interest Income		
Service charges on deposit accounts	945,105	653,786
Gain on sale of Small Business Administration ("SBA") loans	9,309,049	2,613,604
Gain on sale of securities	-	751,085
Servicing income, net	416,428	262,922
Other fees and miscellaneous income	667,357	840,505
Total Non-Interest Income	11,337,939	5,121,902
Non-Interest Expense		
Salaries and employee benefits	24,277,753	21,999,977
Occupancy and equipment	3,854,644	3,422,493
Data processing	2,827,414	2,344,853
Professional services	2,836,992	2,950,747
Director compensation	802,638	441,610
Regulatory assessments	515,459	646,215
Marketing	299,949	209,864
Administrative and other expense	2,137,985	2,028,675
Total Non-Interest Expense	37,552,834	34,044,434
Income Before Provision for Income Taxes	29,863,475	15,675,820
Provision for Income Taxes	8,833,594	4,784,420
Net Income	$ 21,029,881	$ 10,891,400
Basic Earnings Per Share	$ 3.75	$ 1.94
Diluted Earnings Per Share	$ 3.69	$ 1.94

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Net income	$ 21,029,881	$ 10,891,400
OTHER COMPREHENSIVE (LOSS) INCOME:		
Unrealized (losses) gains on securities available-for-sale:		
Change in unrealized (losses) gains	(2,210,071)	1,053,095
Reclassification of (gains) recognized in net income	-	(751,085)
	(2,210,071)	302,010
Related income tax effect:		
Change in unrealized losses (gains)	663,021	(299,239)
Reclassification of gains recognized in net income	-	225,336
	663,021	(73,903)
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(1,547,050)	228,107
TOTAL COMPREHENSIVE INCOME	$ 19,482,831	$ 11,119,507

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	Common Stock		Additional		Accumulated Other	Total
	Shares Outstanding	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income	Shareholders' Equity
Balance, January 1, 2020	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 income	-	-	-	-	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
Net income	-	-	-	21,029,881	-	21,029,881
Share-based compensation expense	-	-	1,225,632	-	-	1,225,632
Exercise of stock options, net settled	5,023	59,322	(15,256)	-	-	44,066
Issuance of restricted shares, net	13,500	-	-	-	-	-
Vesting of restricted shares	-	779,688	(779,688)	-	-	-
Forfeitures of restricted stock	(5,099)	-	-	-	-	-
Repurchase of restricted shares for taxes	(5,680)	-	(128,986)	(12,157)	-	(141,143)
Issuance of unrestricted shares	19,483	454,626	(454,626)	-	-	-
Other comprehensive loss	-	-	-	-	(1,547,050)	(1,547,050)
Balance, December 31, 2021	5,627,735	$ 70,850,225	$ 3,343,299	$ 54,921,456	$ (751,112)	$ 128,363,868

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	2020
Cash Flows From Operating Activities		
Net income	$ 21,029,881	$ 10,891,400
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	915,723	805,598
Provision for loan losses	2,712,854	5,669,871
Net (discount accretion) premium amortization on securities	(1,560,564)	31,598
Net gain on sale of securities	-	(751,085)
Gain on sale of Small Business Administration ("SBA") loans	(9,309,049)	(2,613,604)
Proceeds from sale of loans	95,896,467	38,986,013
Loans originated for sale	(103,620,494)	(9,686,567)
Amortization of servicing assets	577,666	326,190
Amortization of debt issuance costs	7,265	7,264
Share-based compensation expense	1,225,632	1,132,743
Deferred tax benefit	(709,979)	(1,914,000)
Change in accrued interest receivable and other assets	1,850,037	651,601
Change in accrued interest payable and other liabilities	(989,547)	3,980,501
Net Cash Provided by Operating Activities	8,025,892	47,517,523
Cash Flows From Investing Activities		
Change in time deposits with other banks	244	(4,248)
Purchases of securities	(95,394,447)	(2,682,794)
Maturities and principal paydowns of securities	18,764,989	10,046,239
Proceeds from sale of securities	-	18,751,074
Purchase of Federal Home Loan Bank stock	(306,800)	(542,400)
Net increase in loans	(225,287,517)	(149,695,842)
Purchases of property and equipment	(560,766)	(289,341)
Net Cash Used in Investing Activities	(302,784,297)	(124,417,312)
Cash Flows From Financing Activities		
Increase in deposits	232,715,114	262,692,608
Repayment of other borrowings	(65,000,000)	(15,000,000)
Repurchase of restricted shares	(141,143)	(179,517)
Proceeds from exercise of stock options	44,066	-
Net Cash Provided by Financing Activities	167,618,037	247,513,091
Net (Decrease) Increase in Cash and Cash Equivalents	(127,140,368)	170,613,302
Cash and Cash Equivalents, Beginning of Year	276,225,232	105,611,930
Cash and Cash Equivalents, End of Year	$ 149,084,864	$ 276,225,232
Supplemental Cash Flow Information		
Interest paid	$ 4,764,041	$ 6,967,674
Taxes paid	$ 10,401,000	$ 3,165,000

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 products. 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 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 17, 2022 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, the fair value of servicing assets, the value of SBA loans sold, 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.

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, 2021 and 2020.

The Company maintains amounts due from banks that exceed federally insured limits. The Company has not

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 statement of operations 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. Interest income on these loans is accrued daily. Loan origination fees and costs are deferred and included in the cost basis of the loan held for sale. Gains and losses on the sale of loans are recognized pursuant to ASC 860, Transfers and Servicing. 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Servicing Rights

Servicing rights are recognized separately when they are acquired through the sale of loans. Servicing rights are initially recorded at fair value with the statement of operations 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. 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 fee income, which is reported on the Consolidated Statement of Operations as Other Fees and Miscellaneous 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.

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 lending 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 are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of deferred loan origination fees and costs, or unamortized premiums or discounts on purchased loans.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Purchase Credit Impaired Loans

As part of business acquisitions, the has Company acquired certain loans that had shown evidence of credit deterioration since origination. Purchased credit impaired ("PCI") 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 loan segment.

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 loan balance, or the fair value of the collateral less the disposition costs.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Allowance for Loan Losses (Continued)

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.

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. Loan balances in excess of the fair value of the real estate acquired at the date of acquisition are charged-off against the allowance for loan losses. 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.

Qualified Affordable Housing Project Investments

The Company invests in partnerships that sponsor affordable housing projects utilizing the Low-Income Housing Tax Credit ("LIHTC") pursuant to Section 42 of the Internal Revenue Code. These investments are recorded on the Consolidated Balance Sheets net of accumulated amortization, using the proportional amortization method. Under the proportional amortization method, the initial cost of the investments is amortized in proportion to the tax credits and other tax benefits received, and the amortization is recognized as part of the provision for income taxes in the Consolidated Statements of Operations. At December 31, 2021, the net LIHTC investment totaled $50,000 and was included in accrued interest receivable and other assets on the Consolidated Balance Sheet. There were no gross investments outstanding as of December 31, 2020.

FHLB Stock

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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 recognizes 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 Note 6 – Leases for further discussion on the Company’s leasing arrangements and related accounting.

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, 2021 and 2020.

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 11. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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:

> 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 15 and 16 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

In accordance with Accounting Standards Codification (“ASC”) 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.

All of the Company’s revenue from contracts with customers within the scope of ASC 606 is recognized in non-interest income. The following is a discussion of key revenues within the scope of ASC 606.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition – Noninterest Income (Continued)

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. There were no amounts reclassified out of accumulated other comprehensive income relating to realized gains on securities available for sale in 2021. The amount reclassified out of other accumulated comprehensive income relating to realized gains on securities available for sale was $751,085 in 2020.

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 (Restricted Stock 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 14 for additional details of EPS calculations.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

in the statement of operations 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.

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 existing guidance delays recognition of credit losses. The standard will replace the current "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. In October 2019, the FASB adopted the August 2019 proposal to delay implementation until years beginning after December 15, 2022, 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. Early adoption is permitted. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848). The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying generally accepted accounting principles (GAAP) to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with the method of adoption varying based on transaction type. The Company has no loans but one subordinated debt agreement that references LIBOR. Therefore, the impact of this ASU on the Company's consolidated financial statements is anticipated to be minimal. The Company will continue to assess the applicability of the ASU and monitor guidance for reference rate reform from the FASB and its impact on the Company's financial condition and results of operations.

NOTE 2 – DEBT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2021 and 2020, and the corresponding amounts of gross unrealized gains and losses:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
SBA Loan Pool securities	$ 1,566,523	$ 35,268	$ -	$ 1,601,791
Mortgage-backed securities	100,322,417	366,572	(1,474,856)	99,214,133
Corporate debt securities	1,250,000	-	-	1,250,000
Total	$ 103,138,940	$ 401,840	$ (1,474,856)	$ 102,065,924
December 31, 2020				
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

At December 31, 2021 and December 31, 2020, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of our shareholders' equity.

The amortized cost and fair value of the investment securities portfolio as of December 31, 2021 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	2,816,523	2,851,791
Mortgage-backed securities	100,322,417	99,214,133
Total debt securities	$ 103,138,940	$ 102,065,924

As of December 31, 2021, there were four securities with unrealized losses of $117,148 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.

NOTE 2 – DEBT SECURITIES – Continued

The following table summarizes the investment securities with unrealized losses by security type and length of time in a continuous, unrealized loss position as of the dates indicated:

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2021	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Mortgage-backed securities	$ 77,402,031	$ (1,357,708)	$ 2,804,820	$ (117,148)	$ 80,206,851	$ (1,474,856)
Total	$ 77,402,031	$ (1,357,708)	$ 2,804,820	$ (117,148)	$ 80,206,851	$ (1,474,856)
December 31, 2020						
Mortgage-backed securities	$ -	$ -	$ 432,629	$ (5,818)	$ 432,629	$ (5,818)
Total	$ -	$ -	$ 432,629	$ (5,818)	$ 432,629	$ (5,818)

The Company had pledged debt securities with a fair value of $9,281,242 and $16,564,050 to the Federal Home Loan Bank of San Francisco to secure borrowing arrangements discussed in Note 8, as of December 31, 2021 and 2020, respectively.

The Company had no gains on sales of securities in 2021 and a gain on the sale of securities of $751,085 in 2020.

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:

	2021	2020
Real estate	$ 740,536,755	$ 578,402,242
Commercial	249,633,905	210,487,320
SBA	235,078,188	211,786,060
Consumer	1,908,310	2,115,034
Loans receivable, gross	1,227,157,158	1,002,790,656
Unaccreted discount on acquired loans	(30,594)	(32,045)
Net deferred loan origination fees and costs	(2,968,736)	(3,888,299)
Allowances for loan losses	(16,974,371)	(14,261,518)
Loans receivable, net	$ 1,207,183,457	$ 984,608,794

In April 2020, the Company began participating in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Company an origination fee of 1%-5% depending on the loan amount, which was deferred (and included in net deferred loan origination fees and costs) and accreted into interest income using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the SBA forgives the

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – Continued

loan and/or the loan is paid off prior to maturity. PPP loans are fully guaranteed by the SBA and have virtually no risk of loss. The Bank expects the vast majority of the PPP loans to be fully forgiven by the SBA. Included in the SBA loan category above are $35.5 million and $62.3 million of PPP loans as of December 31, 2021 and 2020, respectively.

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, 2021 and 2020:

December 31, 2021	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 7,479,762	$ 4,738,821	$ 2,003,312	$ 39,623	$ 14,261,518
Provisions	684,691	1,033,268	1,007,611	(12,717)	2,712,853
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	$ 8,164,453	$ 5,772,089	$ 3,010,923	$ 26,906	$ 16,974,371
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	8,164,453	5,772,089	3,010,923	26,906	16,974,371
	$ 8,164,453	$ 5,772,089	$ 3,010,923	$ 26,906	$ 16,974,371
Loans Evaluated for Impairment:					
Individually	$ 1,509,983	$ -	$ 621,922	$ -	$ 2,131,905
Collectively	739,026,772	249,633,905	234,456,266	1,908,310	1,225,025,253
	$ 740,536,755	$ 249,633,905	$ 235,078,188	$ 1,908,310	$ 1,227,157,158

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					
Individually	$ 1,609,055	$ -	$ -	$ -	$ 1,609,055
Collectively	576,793,187	210,487,320	211,786,060	2,115,034	1,001,181,601
	$ 578,402,242	$ 210,487,320	$ 211,786,060	$ 2,115,034	$ 1,002,790,656

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, 2021 and 2020:

December 31, 2021	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	$ 29,426,714	$ -	$ -	$ -	$ 29,426,714
Residential real estate	109,984,763	-	3,371,397	-	113,356,160
Multi-family residential	94,902,864	-	-	-	94,902,864
Nonresidential	501,341,034	-	-	1,509,983	502,851,017
Total real estate	735,655,375	-	3,371,397	1,509,983	740,536,755
Commercial	242,044,343	2,806,270	4,783,292	-	249,633,905
SBA	230,281,795	1,062,150	3,112,321	621,922	235,078,188
Consumer	1,908,310	-	-	-	1,908,310
	$ 1,209,889,823	$ 3,868,420	$ 11,267,010	$ 2,131,905	$ 1,227,157,158

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – Continued

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	400,045,991	-	619,001	1,609,055	402,274,047
Total real estate	572,718,009	-	4,075,178	1,609,055	578,402,242
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
	$ 988,338,122	$ 5,933,332	$ 6,910,147	$ 1,609,055	$ 1,002,790,656

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2021 and 2020:

	Still Accruing		
December 31, 2021	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real Estate:			
Construction	$ -	$ -	$ -
Residential real estate	-	-	-
Multi-family residential	-	-	-
Nonresidential	-	-	1,509,983
Total real estate	$ -	$ -	$ 1,509,983
Commercial	-	-	-
SBA	-	-	-
Consumer	-	-	-
	$ -	$ -	$ 1,509,983

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES – Continued

	Still Accruing		
December 31, 2020	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real Estate:			
Construction	$ -	$ -	$ -
Residential real estate	-	-	-
Multi-family residential	-	-	-
Nonresidential	-	-	1,609,055
Total real estate	$ -	$ -	$ 1,609,055
Commercial	-	-	-
SBA	-	-	-
Consumer	-	-	-
	$ -	$ -	$ 1,609,055

As of December 31, 2021, the Company had 1 loan for $1.5 million considered impaired which did not require a specific allowance. The average loan balance was $1.6 million, and no interest income was recognized for the year ended December 31, 2021. As of December 31, 2020, the Company had one loan for $1.6 million considered impaired which did not require a specific allowance. The average loan balance was $1.7 million and $40,000 in interest income was recognized for the year ended December 31, 2020.

The Company had no TDR's as of December 31, 2021 or 2020.

NOTE 4 – TRANSFERS AND SERVICING

The Company sells the guaranteed portion of certain SBA loans in the secondary market and retains the servicing responsibility for those loans subsequent to the sale. The loans serviced for others are accounted for as sales and are therefore not included in the accompanying Consolidated Balance Sheets. Loans serviced for others totaled $157,981,771 and $83,057,989 at December 31, 2021 and 2020, respectively.

Consideration for each SBA loan sale includes the cash received and a related servicing asset. The Company receives servicing fees ranging from 0.25% to 1.00% for the services provided over the life of the loan. The servicing asset is based on the estimated fair value of these future cash flows to be collected. The risks inherent in SBA servicing assets primarily relates to accelerated prepayment of loans in excess of what was originally modeled driven by changes in interest rates and a reduction in the estimated future cash flows.

NOTE 4 – TRANSFERS AND SERVICING - Continued

The activity in servicing assets during the year includes additions from loan sales with servicing retained and reductions from amortization as the serviced loans are repaid and the servicing fees are earned. The servicing asset activity is summarized below for the years ended December 31:

	2021	2020
Balance, beginning of period	$ 1,594,698	$ 1,048,481
Additions	2,061,946	872,407
Amortization	(577,666)	(326,190)
Balance, end of period	$ 3,078,978	$ 1,594,698

NOTE 5 – PREMISES AND EQUIPMENT

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

	2021	2020
Leasehold improvements	$ 1,883,772	$ 1,858,674
Furniture, fixtures and equipment	3,974,842	3,680,305
	5,858,614	5,538,979
Accumulated depreciation and amortization	(3,565,062)	(2,890,470)
	$ 2,293,552	$ 2,648,509

Total depreciation and amortization expense for the years ended December 31, 2021 and 2020, was $915,723 and $805,598, respectively.

NOTE 6 – 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, 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 2022; in December of 2020 the Company agreed

a renewal option 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

NOTE 6 – LEASES – Continued

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 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.

During 2021, the Company made the decision to vacate a portion of the leased space in its downtown San Diego administrative office space. The Company was not able to locate a sublessor for the space and is required to continue to make the payments under the terms of the lease agreement through the end of the lease term in May of 2024 even though the space is no longer being used. Because the Company is not relieved of its obligation under the original lease, the Company continues to have a lease liability associated with this leased space. As of September 2021, the date at which the leased space was vacated, the Company had a right-of-use asset recorded in the amount of $680,768. This amount was recorded as an impairment loss as of the date that the leased space was vacated. This impairment charge is included in the occupancy and equipment line on the Consolidated Statements of Operations.

The components of total lease costs were as follows for the years ending December 31:

	2021	2020
Operating lease cost	$ 2,488,206	$ 2,020,519
Less sublease income	(48,000)	(12,000)
Total lease cost, net	$ 2,440,206	$ 2,008,519

NOTE 6 – LEASES – Continued

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 average remaining term of our operating leases is 2.5 years as of December 31, 2021. The Company used a weighted average discount rate of 5.00% for measuring its operating lease liability.

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

	Balance Sheet Classification	December 31, 2021	December 31, 2020
Right-of-use assets:			
Operating leases	Accrued interest receivable and other assets	$ 3,759,278	$ 6,588,241
Total right-of-use		$ 3,759,278	$ 6,588,241
Lease liabilities:			
Operating leases	Accrued interest payable and other liabilities	$ 4,846,384	$ 5,990,334
Total lease liabilities		$ 4,846,384	$ 5,990,334

At December 31, 2021, future minimum annual rental commitments under these operating leases were as follows:

	Amount
2022	$ 2,023,309
2023	1,766,208
2024	865,728
2025	403,016
2026	68,083
Remaining lease commitments	5,126,344
Interest	(279,960)
Present value of lease liability	$ 4,846,384

NOTE 7 – DEPOSITS

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

	2021	2020
Interest-bearing checking accounts	$ 81,787,931	$ 60,606,013
Savings and money market	513,070,397	424,539,113
Time certificate of deposit accounts under $250,000	23,886,475	43,565,554
Time certificate of deposit accounts $250,000 and over	44,329,617	52,504,733
	$ 663,074,420	$ 581,215,413

As of December 31, 2021 and 2020, all noninterest-bearing deposits are demand deposits.

Total deposits above include brokered non-maturity deposits of $15,004,233 and $19,896,990 as of December 31, 2021 and 2020, respectively. In addition, time certificate of deposit accounts under $250,000 includes deposits obtained through reciprocal deposit programs of $17,564,200 and $30,899,191 at December 31, 2021 and 2020, respectively.

The maturity of time certificates of deposit as of December 31, 2021 is as follows:

	2021
Within one year	$ 48,527,591
One year to three years	6,504,154
Over three years	13,184,347
	$ 68,216,092

NOTE 8 – 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, 2021, is as follows:

Lender	Maturity	Rate of Interest	Amount
Federal Home Loan Bank	August 8, 2022	1.67%	$ 10,000,000

At December 31, 2021 and 2020, approximately $434.9 million and $502.6 million in loans and $9.3 million and $16.6 million in securities were pledged as collateral to the FHLB for the borrowings presented in the table above, respectively. At December 31, 2021 and 2020, the Company had remaining financing availability of approximately $178 million and $165 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, 2021 and 2020, approximately $213.4 million and $276.4 million in loans were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of

NOTE 8 – BORROWING ARRANGEMENTS - Continued

approximately $136.5 million and $187.2 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2021 and 2020.

The Company has borrowing lines with correspondent banks totaling $80 million as of December 31, 2021. There were no balances outstanding on these borrowing lines as of or for the year ended December 31, 2021.

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 accrue 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 costs were $72,646 and is being amortized through the maturity date. The balance net of issuance cost is $17.9 million as of December 31, 2021 and 2020.

NOTE 9 – INCOME TAXES

The provision for income tax for the years ended December 31, 2021 and 2020 consisted of the following:

	2021	2020
Current Taxes:		
Federal	$ 6,101,457	$ 4,330,249
State	3,442,137	2,368,171
	9,543,594	6,698,420
Deferred Taxes	(710,000)	(1,914,000)
Provision for Income Tax	$ 8,833,594	$ 4,784,420

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

	2021		2020	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 6,271,000	21.0%	$ 3,292,000	21.0%
State Franchise Tax, Net of Federal Benefit	2,573,000	8.6%	1,381,000	8.8%
Other Items, Net	(10,406)	(0.1%)	111,420	0.7%
Actual Tax Expense	$ 8,833,594	29.5%	$ 4,784,420	30.5%

NOTE 9 – INCOME TAXES – Continued

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

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

	2021	2020
Deferred Tax Assets:		
Start-up and organization costs	$ 3,000	$ 21,000
Operating loss carryforwards	1,558,000	1,655,000
California State Income Tax	697,000	470,000
Allowance for loan losses	5,018,000	4,216,000
Lease liability	1,433,000	1,948,000
Stock-based compensation	309,000	289,000
Bonus accrual	39,000	533,000
Securities available for sale	322,000	-
Other	470,000	367,000
	9,849,000	9,499,000
Deferred Tax Liabilities:		
Depreciation difference	(51,000)	(382,000)
Deferred loan costs	(1,074,000)	(670,000)
Deferred capital lease costs	(1,111,000)	(1,771,000)
Securities available for sale	-	(341,000)
Other	(258,000)	(353,000)
	(2,494,000)	(3,517,000)
Net Deferred Tax Assets	$ 7,355,000	$ 5,982,000

At December 31, 2021, the Company had total net operating loss carryforwards of approximately $4.7 million for Federal income and approximately $6.6 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2029 for Federal and 2030 for California franchise tax purposes.

NOTE 9 – INCOME TAXES – Continued

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, 2018 through 2020 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, 2017 through 2020 have been filed, and are open to audit by the State of California

NOTE 10 – 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 exercise 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 awards and restricted stock units (collectively “Equity Grants”) may be granted. The PBAM Plan provided for the issuance of up to 400,000 Equity Grants. Equity Grant prices may not be less than 100 percent of the fair market value of the stock at the date of grant. Equity Grants 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 $1,225,632 and $1,132,743 in 2021 and 2020, respectively, related to options and restricted stock grants awarded. Tax benefits associated with share-based compensation amounted to $399,929 and $337,503 in 2021 and 2020, respectively.

The Company did not grant stock options in 2021 and granted 10,000 stock options in 2020. The weighted-average fair value of the options granted during the year ended December 31, 2020, was $3.23. The weighted-average fair value of options granted during 2020 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

NOTE 10 – SHARE-BASED COMPENSATION – Continued

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.

A summary of the status of the stock options issued as of December 31, 2021, and change during the year then ended, is as follows:

	Options	Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Balance, beginning of year	227,590	$ 14.91		
Granted	-	-		
Exercised	(6,593)	12.80		
Forfeited or expired	(16,800)	19.54		
Balance, end of year	204,197	$ 14.59	2.96	$ 2,979,898
Fully vested and expected to vest	-	$ -	-	$ -
Options exercisable	197,530	$ 14.38	2.78	$ 2,839,898

The intrinsic value of option shares exercised during 2021 was $53,000. As of December 31, 2021, there was $12,221 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.08 years.

No tax benefits were recognized in income relating to exercised stock options in 2021 and 2020.

A summary of the status of the restricted stock grants issued as of December 31, 2021 and 2020, and changes during the years then ended follows:

	2021		2020	
	Unvested Shares	Weighted-Average Grant Date Fair Value	Unvested Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of year	99,974	$ 20.67	100,385	$ 22.84
Granted	13,500	25.24	37,137	17.83
Shares Vested	(39,776)	22.84	(35,573)	23.62
Forfeited or expired	(5,099)	24.08	(1,975)	24.11
Balance, end of year	68,599	$ 20.06	99,974	$ 20.67

NOTE 10 – SHARE-BASED COMPENSATION – Continued

The intrinsic value of vested restricted grants was $1,365,534 and $553,643 in 2021 and 2020, respectively. As of December 31, 2021, there was $1,161,568 of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.42 years.

NOTE 11 – 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, 2021 and 2020.

	2021	2020
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 238,035,088	$ 166,037,501
Standby letters of credit	8,380,617	10,682,039
	$ 246,415,705	$ 176,719,540

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 – COMMITMENTS – Continued

The Company has committed to invest in a partnership that sponsors affordable housing projects utilizing the Low-Income Housing Tax Credit ("LIHTC") pursuant to Section 42 of the Internal Revenue Code. The purpose of this investment is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing projects, and to assist in achieving goals associated with the Community Reinvestment Act ("CRA"). Capital contributions are called for up to an amount specified in the partnership agreement. In addition, the Company invests in other CRA investments including Small Business Investment Companies. At December 31, 2021, the Company had gross commitments to contribute capital to these LIHTC and other CRA investments totaling $3,500,000. There were no gross commitments at December 31, 2020.

NOTE 12 – RELATED PARTY TRANSACTIONS

The following is a summary of changes in related party loans:

	2021	2020
Balance, Beginning of Year	$ 8,780,053	$ 9,312,563
New Loans and Advances	-	200,255
Repayments	(1,260,178)	(732,765)
Balance, End of Year	$ 7,519,875	$ 8,780,053

As of December 31, 2021 and 2020, the Company's balance sheet included deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately $27,262,000 and $26,772,000, respectively.

In 2017, the Bank entered into a Strategic Services 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, plus a performance bonus opportunity. The term of the Strategic Services Agreement was for 12 months and is subject to annual renewal. The contract was renewed in March 2022 for an additional one-year term.

In 2017, the Bank entered into a Development Services Agreement with a Director wherein various services are provided including planning, monitoring and business development. For services provided, the Director receives annual compensation of $120,000 per year and reimbursement for expenses, plus $1,400 monthly for country club dues, and a performance bonus opportunity based on origination of loan and deposit accounts. The term of the Development Services Agreement was for 12 months and is subject to annual renewal. The contract was renewed in February 2022 for an additional one-year term.

NOTE 13 – 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, 2020.

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 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 (2.5% for 2021 and 2020) 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 years ended December 31, 2021 or 2020.

As of December 31, 2021, 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.

NOTE 13 – REGULATORY MATTERS – Continued

The Bank's actual and required capital amounts and ratios as of December 31, 2021 and 2020, 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, 2021						
Total capital (to risk-weighted assets)	$ 155,326	12.9%	$ 96,454	8.0%	$ 120,408	10.0%
Tier 1 capital (to risk-weighted assets)	140,219	11.6%	72,340	6.0%	96,703	8.0%
CET1 capital (to risk-weighted assets)	140,219	11.6%	54,255	4.5%	78,571	6.5%
Tier 1 capital (to average assets)	140,219	9.3%	60,489	4.0%	75,387	5.0%
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%

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 14 – 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:

	2021		2020	
	Net Income	Shares	Net Income	Shares
Net income as reported	$ 21,029,881		$ 10,891,400	
Less: Earnings allocated to participating securities	(283,647)		(181,267)	
Net income available to common shareholders	20,746,234		10,710,133	
Shares outstanding at year-end		5,627,735		5,600,508
Less unvested restricted shares		(75,684)		(92,992)
Impact of weighting shares issued or retired during the year		(16,470)		(13,093)
Used in Basic EPS	20,746,234	5,535,581	10,710,133	5,494,423
Dilutive effect of outstanding stock options		81,436		32,861
Used in Dilutive EPS	$ 20,746,234	5,617,017	$ 10,710,133	5,527,284

There were 15,000 anti-dilutive option shares as of December 31, 2021, and 87,400 at December 31, 2020.

NOTE 15 – 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).

NOTE 15 – FAIR VALUE MEASUREMENTS – Continued

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2021 and 2020:

	Fair Value Measurements Using:			
December 31, 2021	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 102,065,924	$ -	$ 102,065,924
December 31, 2020				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 26,085,973	$ -	$ 26,085,973

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2021 and 2020.

NOTE 16 – FAIR VALUES 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. The fair value of financial instruments fulfills the accounting requirements per the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification ("ASC") topic 825 - Financial Instruments. The 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 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS – Continued

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2021 and 2020 is summarized as follows (dollar amounts in thousands):

		December 31, 2021		December 31, 2020	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$ 12,336	$ 12,336	$ 8,040	$ 8,040
Interest-bearing deposits-other	Level 1	39,663	39,663	7,309	7,309
Interest-bearing deposits at FRB	Level 1	97,086	97,086	260,876	260,876
Interest-bearing time deposit with other financial institutions	Level 1	5,760	5,760	5,760	5,760
Debt securities available for sale	Level 2	102,066	102,066	26,086	26,086
Loans held for sale	Level 3	24,658	24,740	9,687	9,734
Loans, net	Level 3	1,207,183	1,211,191	984,609	998,761
Servicing assets	Level 2	3,078,978	3,272,030	1,594,698	1,649,414
Accrued interest receivable	Level 1	3,355	3,355	3,539	3,539
Liabilities					
Deposits	Level 2	$ 1,345,663	$ 1,345,803	$ 1,112,948	$ 1,113,524
Borrowings	Level 2	27,947	28,571	92,939	95,553
Accrued interest payable	Level 1	69	69	252	252

NOTE 17 – 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 $734,873 and $625,392 in 2021 and 2020, respectively.

NOTE 18 – SHAREHOLDERS' EQUITY

Stock Repurchase Program

Since announcing the terms of the stock repurchase program in July 2021, the Company has not repurchased any shares of its common stock. The remaining number of shares authorized to be repurchased under this program at December 31, 2021, was 75,000 shares and expires at the end of July 2022.

NOTE 19 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

Condensed financial information of Private Bancorp of America, Inc. is as follows:

CONDENSED BALANCE SHEETS
December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
ASSETS		
Cash and cash equivalents	$ 4,575	$ 2,287
Due from interest-bearing	403	402
Other assets	29	505
Investment in bank subsidiary	141,477	122,660
Total Assets	$ 146,484	$ 125,854
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Other borrowings	$ 17,947	$ 17,939
Other liabilities	173	163
Total Liabilities	18,120	18,102
Shareholders' Equity		
Common Stock	70,850	69,556
Additional paid-in capital	3,343	3,496
Retained earnings	54,922	33,904
Accumulated other comprehensive (loss) income	(751)	796
Total Shareholders' Equity	128,364	107,752
Total Liabilities and Shareholders' Equity	$ 146,484	$ 125,854

NOTE 19 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS – Continued

CONDENSED STATEMENTS OF OPERATIONS
Years Ended December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Dividends from subsidiary	$ 2,942	$ 1,279
Interest income	1	1
Interest expense on borrowings	(1,087)	(1,087)
Net interest and dividend income	1,856	193
Noninterest expense	453	531
Income (loss) before equity in undistributed income of subsidiary	1,403	(338)
Equity in undistributed income of subsidiary	19,138	10,751
Income before income taxes	20,541	10,413
Income tax benefit	489	478
Net income	$ 21,030	$ 10,891

CONDENSED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020
(Dollars in Thousands)

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 21,030	$ 10,891
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(19,138)	(10,751)
Amortization of debt issuance costs	8	7
Decrease (Increase) in other assets	476	(31)
Increase in other liabilities	10	65
Net Cash Provided By Operating Activities	2,386	181
Cash Flows from Investment Activities		
Increase in interest-bearing deposits	(1)	(1)
Net Cash Used In Investing Activities	(1)	(1)
Cash Flows from Financing Activities		
Repurchase of restricted shares	(141)	(180)
Proceeds from exercise of stock options	44	-
Net Cash Used In Financing Activities	(97)	(180)
Change in Cash and Cash Equivalents	2,288	-
Cash and Cash Equivalents Beginning of Year	2,287	2,287
Cash and Cash Equivalents End of Year	$ 4,575	$ 2,287

BRANCH LOCATIONS

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

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

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

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

Beverly Hills
9606 S. Santa Monica Boulevard, 3rd Floor
Beverly Hills, CA 90210
(424) 303-4880

South Bay
2321 Rosecrans Avenue, Suite 3285
El Segundo, CA 90245
(424) 348-2150

CalPrivate BANK
Relationships. Solutions. Trust.

EQUAL HOUSING LENDER

Member FDIC

To view our Distinctly Different concierge private banking and business services, please visit our website:

www.calprivate.bank