Private Bancorp
OF AMERICA, INC.

2022
ANNUAL REPORT

RELATIONSHIPS. SOLUTIONS. TRUST.

CORPORATE OVERVIEW

MISSION

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

VISION

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

BRANCHES

Our branch-light, high-touch Relationship-based model places Clients at the center of the Relationship resulting in superior outcomes. Locations in Los Angeles, Orange, and San Diego counties. Headquartered in La Jolla, CA.

EXCHANGE: OTCQX

TICKER: PBAM

Private Bancorp OF AMERICA, INC.

BOARD OF DIRECTORS

Selwyn Isakow
Chairman of the Board

Rick L. Sowers
President | Chief Executive Officer

Leda Csanka

Leon Kassel

Brett Lawrence

SiSi Pouraghabagher

Ernest Rady

TOTAL ASSETS
$1.9B

TOTAL LOANS
$1.6B

TOTAL DEPOSITS
$1.7B

OUTSTANDING SHARES
5.6M

MARKET CAP
$180.1M

U.S. Small Business Administration

PREFERRED SBA LENDER

Participated in the Paycheck Protection Program

*Note: All numbers reported are as of 12/31/2022.

Private Bancorp OF AMERICA, INC.

Dear Shareholders and Clients,

We are honored by your **Trust** in Private Bancorp of America and CalPrivate Bank. We strive to continue to build a company and a brand that reflects our belief that **Relationships** matter, that we must differentiate ourselves in the market by providing *Distinctively Different Service* and Creative **Solutions** to earn the right to be Your Bankers.

2022 was a record year; record earnings, record loan growth, record deposit growth, and record Return on Tangible Common Equity of 18.64%. We continued to expand Client Relationships through our Relationship Teams, expansion of our product and service offerings and maintaining focus on execution. We do what we say we are going to do, and this resonates with business owners and families alike. Fundamentally, it is our shared goal to be the premier Relationship focused private and business bank in Coastal Southern California.

Highlights from 2022:

- Record net income of $24.7 million, an increase of 17.5% from FY'21
- Diluted earnings per share of $4.33, an increase of 17.3% from $3.69 for FY'21
- Pre-tax, pre-provision income of $37.1 million, representing a 13.9% increase over FY'21
- Return on average assets of 1.51%, compared to 1.48% for FY'21
- Net interest margin of 4.87%, compared to 4.19% for FY'21
- Total assets increased to $1.9 billion, up 22.3% from 2021
- Loans reached $1.6 billion, an increase of $364.1 million or 29.7% over 2021
- Total deposits reached $1.7 billion, an increase of $329.5 million or 24.5% over 2021

CalPrivate Bank operates in some of the strongest markets in the United States. The level of diversity and wealth throughout our footprint has allowed us to tailor Solutions to a wide variety of Clients in such segments as law firms, wealth managers, real estate entrepreneurs, business services, medical providers, family offices and much more. As we provide value, client referrals to trusted friends and colleagues are our largest source of new business, allowing us to expand our circle of Relationships. We thank you for your confidence and generosity.

Private Bancorp
OF AMERICA, INC.

While many banks talk about great service, few measure it. We believe that Service is at the heart of everything we do. The feedback that we receive from you, our Clients, is that we're getting this right! We utilize the Net Promoter Score system to measure how likely you are to refer friends and family to CalPrivate Bank. Our NPS score of 85 is world class, more than 2.4 times the average rating of US banks and we know of no other bank in the country, larger or smaller, that has scored higher. We recognize that maintaining your confidence takes effort and focus, and we commit to that daily in each of our six regional offices, in person, on the phone, or online. We always welcome your feedback!

Despite recent banking industry challenges, negative global economic expectations, increasing operating costs, and rapid increase in interest rates, we remain optimistic while being prepared for what may lie ahead. At year-end 2022, we maintained strong capital ratios, excellent liquidity, and committed depositors. Our loan portfolio ended the year without a single loan past due. Our net interest margin expanded to an industry leading 5.17% with a well-positioned balance sheet for a rising rate environment.

We continue to make substantial investments in our future. This includes our technology infrastructure where in 2022, among many other programs, we implemented the nCino lending platform to improve the efficiency and effectiveness of our lending and credit functions. We hired an experienced team of finance and accounting professionals to support our goal of continuing to improve internal controls, financial reporting, and transparency, with the stated goal of readying CalPrivate Bank to take advantage of the major public equity markets when the time is right. All of these investments are focused on getting better at what we do – every day.

We thank our loyal Team Members, our board and advisory board members and each client and investor for your support and Trust.

With gratitude.

Rick L. Sowers
President & CEO

Selwyn Isakow
Chairman of the Board

CalPrivate BANK

Relationships. Solutions. Trust.

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Keith Jones

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Brett Lawrence

James Parks

SiSi Pouraghbagher

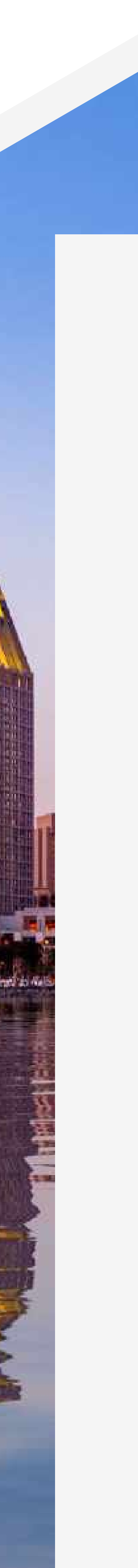
Ernest Rady

Richard Smith

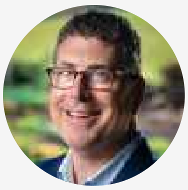
Thomas V. Wornham

David Engelman
Director Emeritus

David Ellman
Director Emeritus

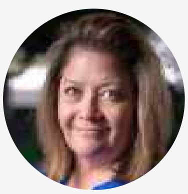


EXECUTIVE MANAGEMENT

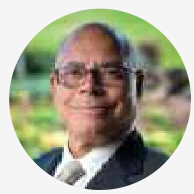


Rick L. Sowers
President | Chief Executive Officer

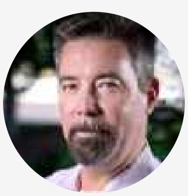
Cory Stewart
EVP | Chief Financial Officer



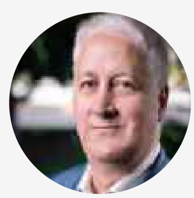
Karen Lister
EVP | Chief Administrative Officer



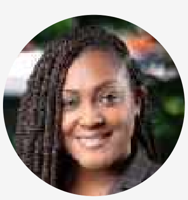
Bob Llorens
EVP | Chief Credit Officer



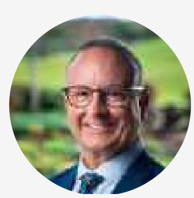
Curtis Birkmann
EVP | Chief Technology Officer



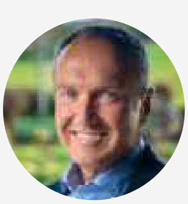
Scott Hurtik
EVP | Chief Information Officer



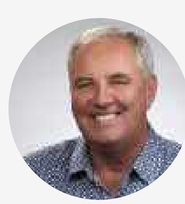
Zina Robinson
EVP | Chief People Officer



Kevin Campbell
EVP | Chief Banking Officer, LA/OC



Paul P. Azzi
EVP | Chief Banking Officer, SD



Steve Pollett
EVP | Chief SBA Lending Officer

COMMUNITY OUTREACH

- An important aspect of our company culture is community engagement.
- Employee contributions are matched.
- Team members donate volunteer hours in a meaningful way.
- A Community Advisory Board is present in each market, made up of civil and business leaders to provide input to the Board and Management.

kindness INITIATIVE

MARCH OF DIMES

Hebrew Free Loan SAN DIEGO

CHALLENGED ATHLETES CAF FOUNDATION

VVSD Veterans Village of San Diego

MYCHAL'S Learning Place

American Heart Association.

VERBUM DEI JESUIT HIGH SCHOOL

San Diego Zoo Wildlife Alliance Academy FORMERLY SAN DIEGO ZOO GLOBAL

Junior Achievement

MAAC Maximizing Access to Advance our Communities

COMMUNITY ADVISORY BOARD

SAN DIEGO

Mark Abelkop
Community Member

Alan Binder
Community Member

Debby Cushman-Parrish
Cush Enterprises, Inc.

Scott Darnell
Darnell Capital Management

John Engle
Scripps Health

Bernie Feldman
Community Member

Gordon T. Frost Jr
Frost Hardwood Lumber Co.

Harold Frysh
Cadence Travel Management

Graeme Gabriel
ColRich

Maxine Gellens
Berkshire Hathaway HomeServices California Properties

Ronald L. Graham
Community Member

Howard Greenberg
Trilogy Real Estate Management, Inc

Bradley R. Hall
Brad Hall CPA

Star Hughes
Hughes Marino

Sarah Kruer Jager
Monarch Group

Robert Kolodny
Law Office of Robert J. Kolodny, APC

Sami Ladeki
Sammy's Restaurant Group

Isaac Levy
Levy and Levy Financial Insurance Services

Margo Lewis
Signature Resolution

Herb Meistrich
EyeTracking LLC

Todd Mikles
Community Member

Jonathan Segal
FAIA & Development Company

Javier Serhan
Cedar Realty Group

Lawrence Sherman
Solomon Ward Seidenwurm & Smith LLP

Lloyd Russell, Sr
Community Member

Michael Stoff
Business Consultant & Real Estate Investor

Greg Strangman
LWP Group, Inc.

Jerry Suppa
Suppa, Inc.

LOS ANGELES/ORANGE COUNTY

Paula Winner Barnett
PWB Law

Drew Boyles
Entrepreneur & Mayor
Endless Pursuit Corporation

Cheryl Calhoun
CBIZ

Gerald Chamales
Digital Dolphin Products

Ryan Choura
Choura Events

Kevin Cody
Easy Reader News

Meredith DeRenzis
Vista Southeby's

Darin DeRenzis
Vista Southeby's

Joe Hiller
Digital Dolphin Products

Bobby Khorshidi
Archway Capital

Kelly Lynch
K&P Janitorial Services

Dan Norville
Vivo Investments

Pete Schmit
PS2 Inc.

Mark Schurgin
Festival Development Corp

Jonathan Schurgin
Festival Development Corp

Mike Sekits
Strandview Capital

Suzanne Sharer
Contemporary Holding Corporation

Mike Simms
Simms Restaurants

Kelly Stroman
The Friendship Foundation

Todd Taugner
The Klabin Company

John Ward
Turnstone

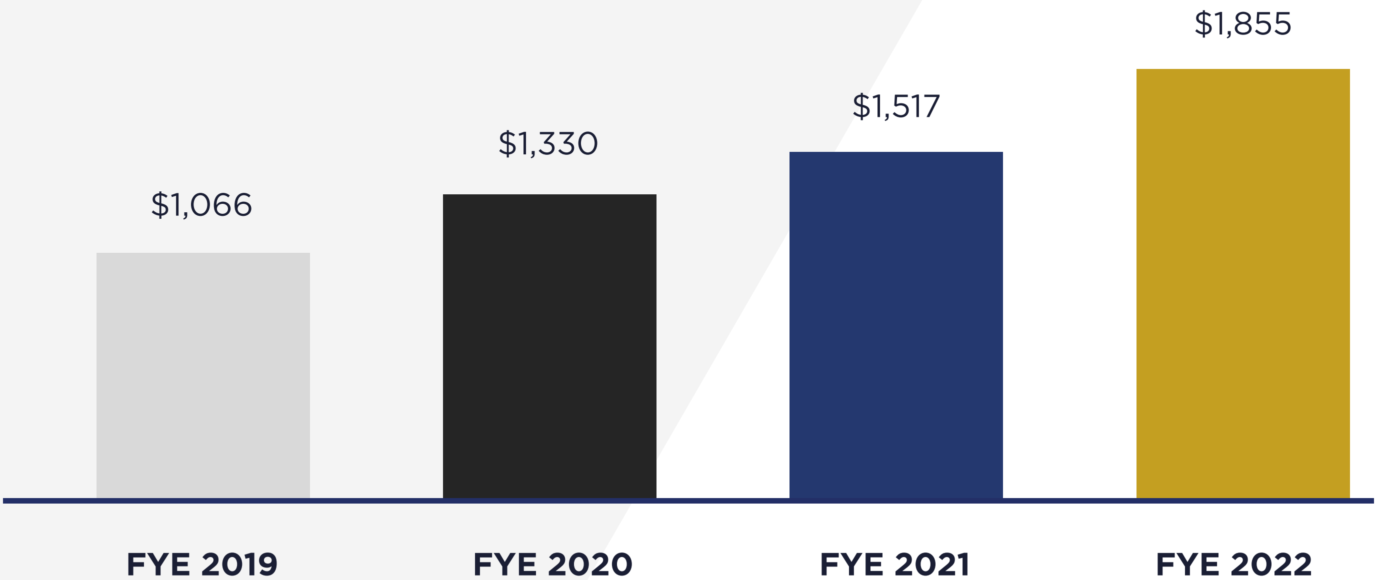
Elka Worner
Hermosa Beach Resident

GROWING BALANCE SHEET

Compelling Growth In the CalPrivate Franchise

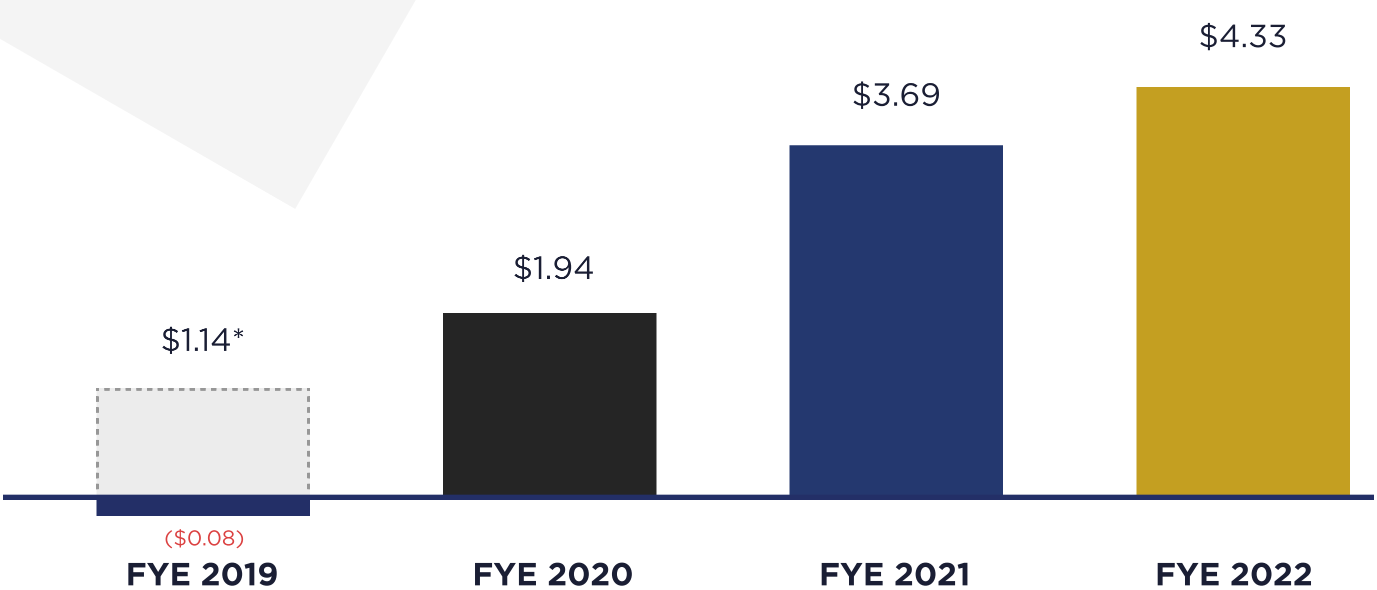
TOTAL ASSETS

3 YR CAGR: **20.3%**
$ in millions



EARNINGS PER SHARE

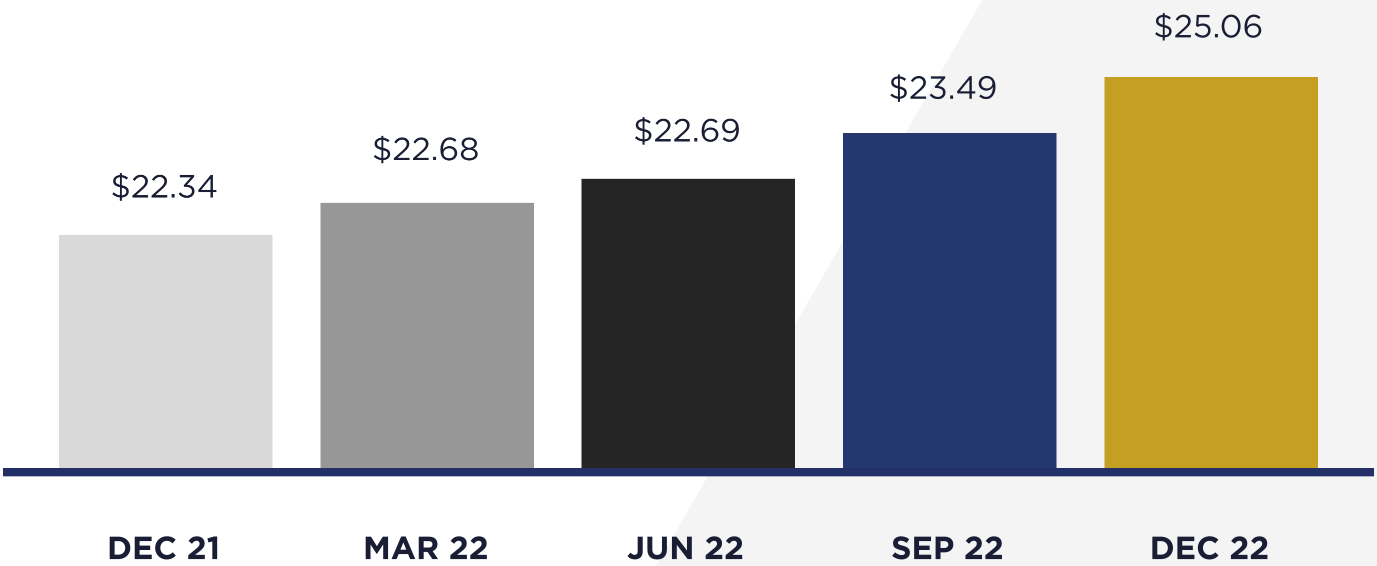
3 YR CAGR: **56.0%**



*Note: Adjusted Diluted Earnings per Share excludes loan charge-off related to ANI fraud case.

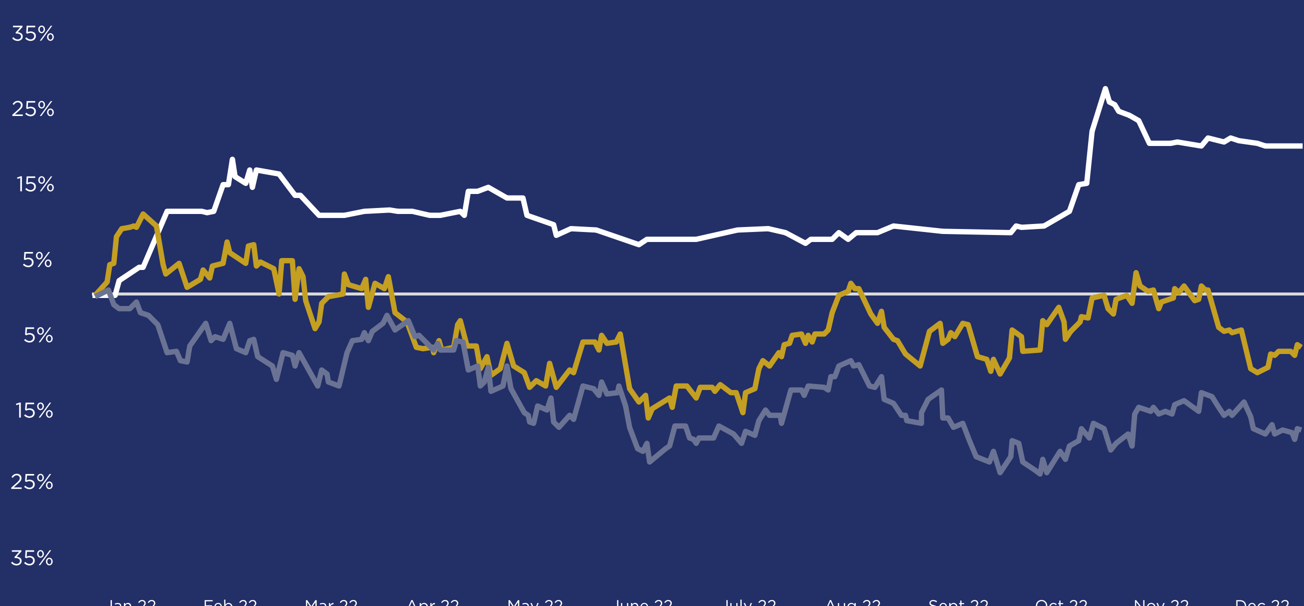
VALUE CREATION FOR SHAREHOLDERS

Record High Tangible Book Value Per Share



SUPERIOR MARKET PERFORMANCE[1]

PBAM 2022 TOTAL RETURN UP 20.2% AS COMPARED TO KBW INDEX DOWN 6.9% AND S&P 500 INDEX DOWN 18.1%



[1] As measured by relative performance

PBAM

KRX NASDAQ Bank Index

S&P 500

CalPrivate BANK

Relationships. Solutions. Trust.

YEAR IN REVIEW

2022 Performance Highlights

- Record full year net income of $24.7 million or $4.33 per share
- Total assets of $1.9 billion at year end
- Net loans of $1.6 billion and deposits of $1.7 billion
- Portfolio loan yields increased to 6.39%
- Tangible book value per share increased to $25.06

Strong Credit Quality

- Our credit risk metrics were strong throughout 2022, 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 $19.2 million, or 1.21% of loans held for investment
- Non-performing assets to total assets of 0.21%

Distinctly Different Service

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

Full-Service Banking Solutions

- Depository and Treasury Management Solutions
- Private and Commercial Lending
- Market Areas of Focus:
  - *High Net Worth Banking*
  - *Business Lending*
  - *Commercial Real Estate*
  - *Small Business Loans*
  - *Legal Services Specialties*
  - *Wealth Management Industry*
  - *International Banking*
  - *Healthcare*
  - *Fraud Management Solutions*
  - *Online and Mobile Banking*
  - *Courier Services*

DISTINCTLY DIFFERENT SERVICE

2022 Net Promoter Score

Our Net Promoter Score is a testament to our *Distinctly Different Service*

2022 Top Service-Focused Brands [1]

85	**CalPrivate Bank** [(2)]
80	First Republic Bank [(3)]
75	USAA
31	JP Morgan
18	Bank of America
16	Morgan Stanley
12	Wells Fargo
34	**U.S. Banking Industry Average**

CPB client satisfaction 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 CB. Please note: the brands listed under 'Top Service-Focused Brands' are brands selected for comparison purposes.

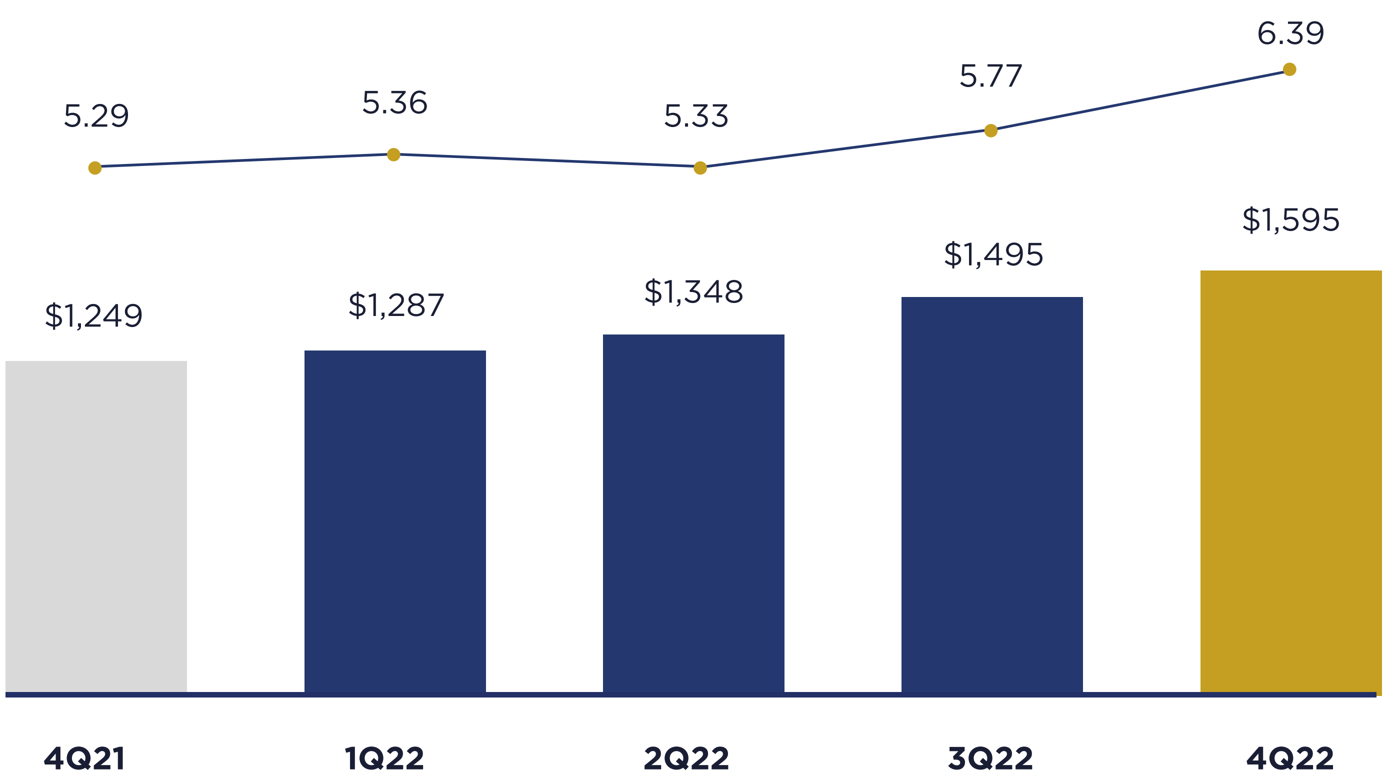
(2) Source: CPB PS survey responses during the period of May through December 2022.

(3) Source: Overall NPS for First Republic Bank is from their 4Q 2022 Investor Presentation

LOAN PORTFOLIO

- Demonstrated organic growth in loans
- 27.8% Year-over-Year Growth
- Relationship-based lending results in superior loan yields

LOAN BALANCES & YIELDS

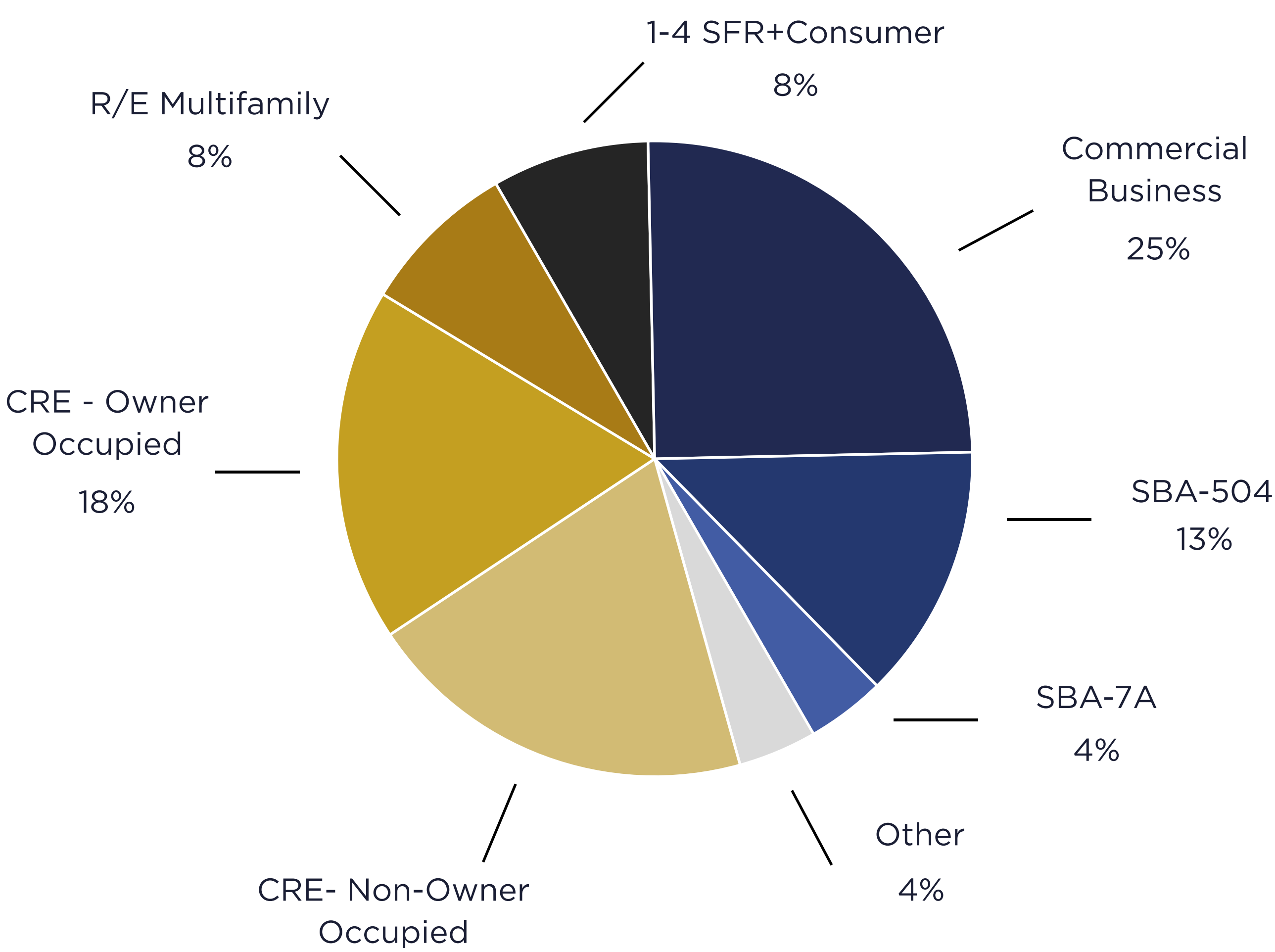


Note: Dollars in Millions, % Loan Yield excludes PPP Loans

DIVERSIFIED LOAN PROFILE

- 80% of the total portfolio is collateralized by Real Estate with an average LTV of 54%
- Geographically, the Bank lends primarily in the major metropolitan areas of coastal Southern California
- Los Angeles County represents 45%, San Diego County represents 23% and Orange County represents 11% of total loans

LOAN PORTFOLIO BY TYPE

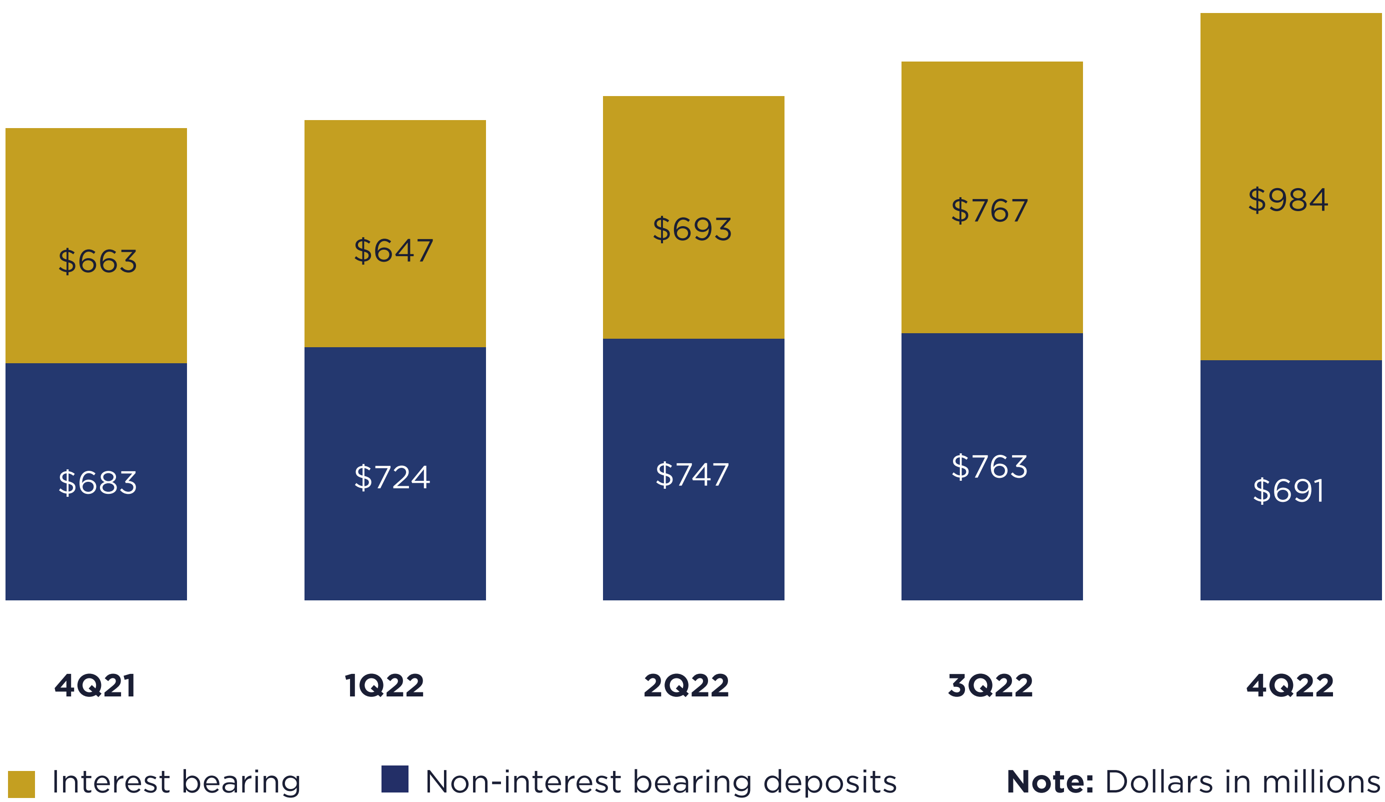


STRONG CORE DEPOSIT FRANCHISE

Emphasis on deposit retention and liquidity management in a competitive rising rate environment. Effective deposit mix strategies and ample access to alternative funding sources available.

- **90.1% of Total Funding is Provided by Deposits from Core Relationships**
- **41% Non-Interest Bearing Deposits**

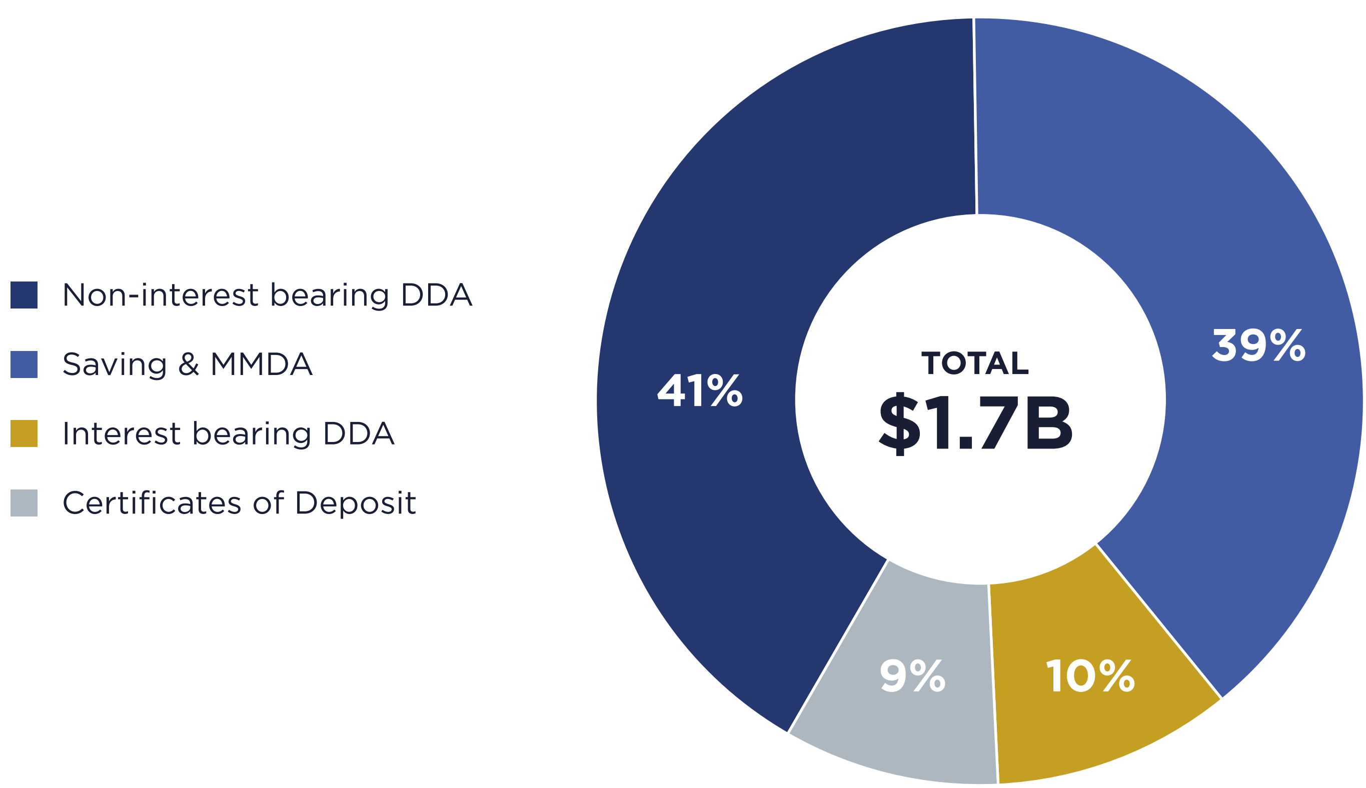
DEPOSIT COMPOSITION



Note: Dollars in millions

STABLE LOW-COST FUNDING

- Remix of deposit portfolio to alleviate the market pressures has proven effective and is desired relative to utilizing alternative wholesale funding sources.
- Focus on deposit retention and opportunistic growth niches
- Weighted average spot deposit rate of 1.13% at 12/31/22
- Operating accounts are a focus to drive core deposits and cash management fees
- Non-interest bearing deposits represent 41.3% of total deposits
- 24% year over year deposit growth



DIVERSITY, EQUITY & INCLUSION

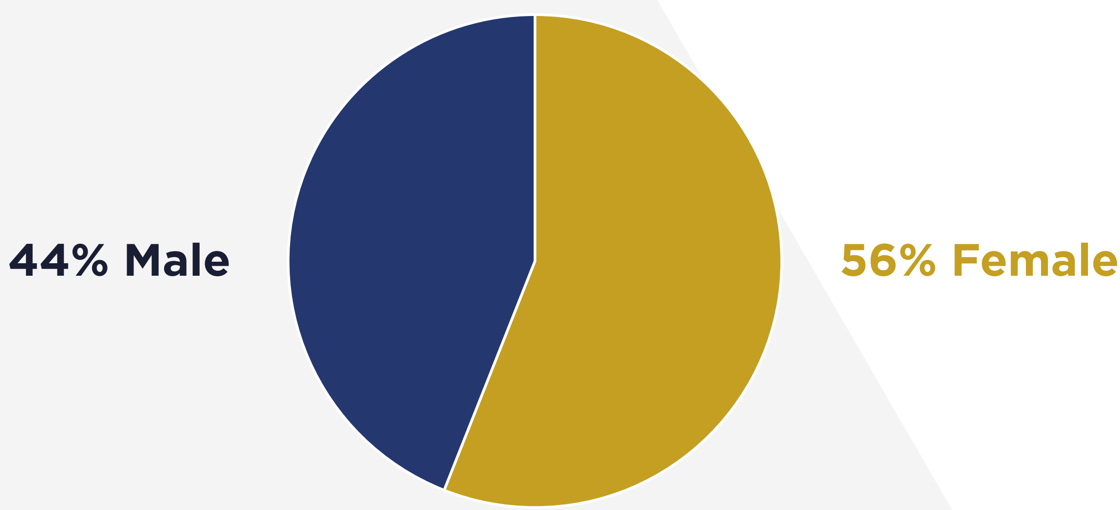
Our Commitments Create a Culture of Inclusion

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 60% 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.

SMALL BUSINESS LENDING (SBA) SOLUTIONS

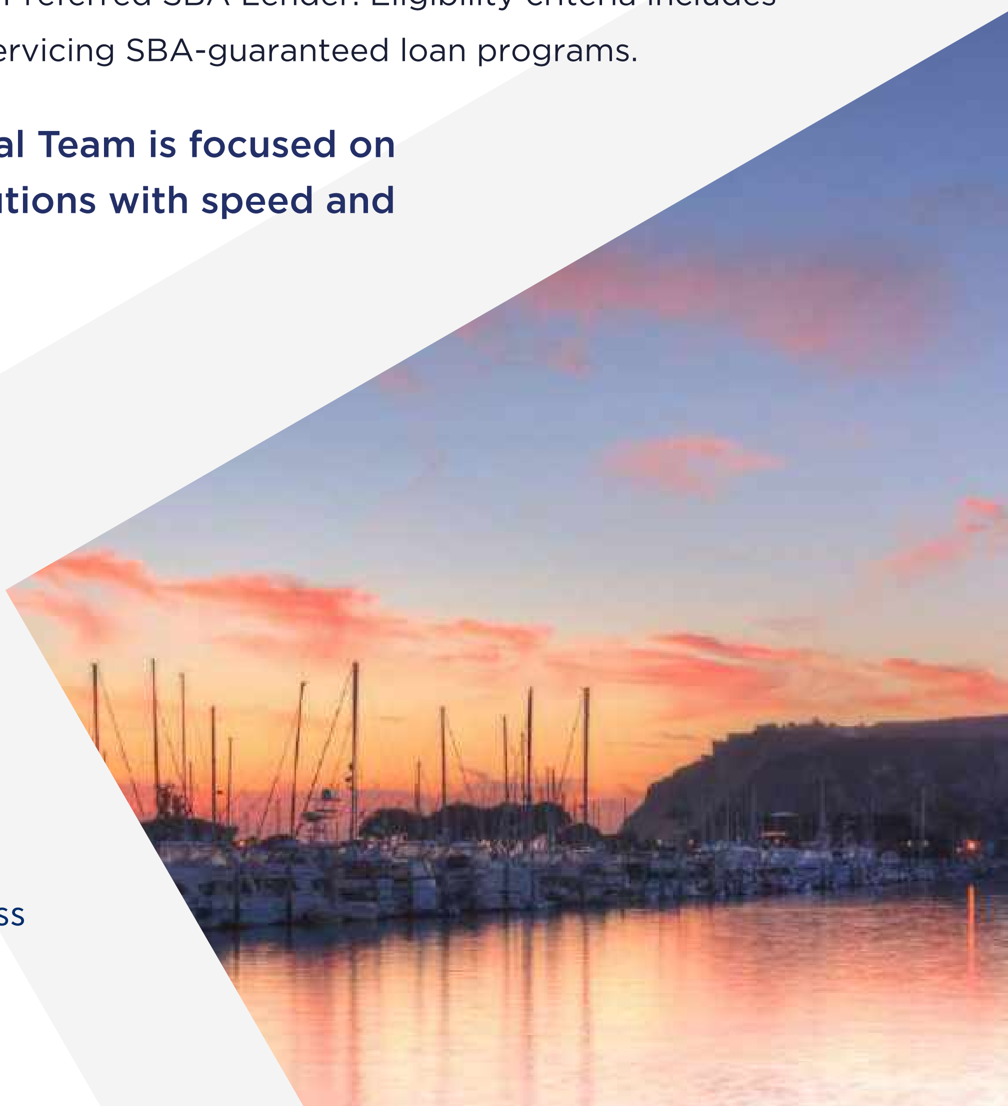
Private Business Capital
A Division of CalPrivate Bank

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 is an approved Preferred SBA Lender. Eligibility criteria includes proficiency in processing and servicing SBA-guaranteed loan programs.

The Private Business Capital Team is focused on delivering Customized solutions with speed and certainty of execution.



SBA U.S. Small Business Administration

Relationships. Solutions. Trust.

LIVING OUR MISSION BUILT ON Relationships. Solutions. Trust.

The relationships with our Clients are valued partnerships.

Dr. Chace Unruh

Founder & Chiropractor, Unruh Spine Centers

"When it came time for our practice to grow and to purchase another medical building, CalPrivate Bank completely stepped up. It was the Relationship that I had with this team that made all of the difference.

Paul Easjian

Fortune Builders

"In my opinion, every business is a family business. No matter how big you get, it starts with people knowing each other and caring about each other. CalPrivate Bank truly understands that about businesses.

I came from the traditional, institutional “big banks,” and frankly, part of what was so frustrating was that you’d try and build Relationships, but you’d constantly get shuffled around. With CalPrivate, it’s more personal.

Arsalun Tafazoli

Consortium Holdings

We reached out to CalPrivate Bank after having an issue securing funds from other financial institutions. This was primarily due to the fact that we are a fairly new business, and in the category of "restaurant/bar" ...typically a red flag for most lenders unless the business has years of available financials. Within one day of our first meeting with our Business Lending Relationship Manager, CalPrivate Bank showed confidence in our business model, and their team of professionals worked tirelessly on assisting in our goals. Once funding was completed, our Relationship Manager personally visited our business to meet the Team. Interestingly enough, CalPrivate Bank had also sealed the deal for a handful of our neighboring businesses in Palm Springs!"

Jimmy Mcgill

Partner,

Boozehounds

Andrea G. Pulsipher

Executive Director at Magnolia Environmental, CAC, CDPH

With our Private Business Capital SBA Loan, we will cut turn-around times and keep costs down, allowing us to hire and expand operational efficiencies and grow our business.

Craig McClellan

Founding Partner,
The McClellan Law Firm

We wanted a Bank that emphasized customer Relationships and extraordinary service—a Bank with an attitude of finding ways to do things to assist its customers, allowing them to concentrate on doing what they do best. We found that bank right here in San Diego. It has been a pleasure working with Becky Mendoza and her staff at CalPrivate Bank, who continue to make our business more productive."

Omar Garrido

Alliance Contracting Services

I was impressed with their ability to follow up and help during the process. A lot of this stuff, you obviously don't do every day, so their ability to help and fully explain each step of the way is what made my experience great.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2022 AND 2021

CONTENTS

EideBailly®

CPAs & BUSINESS ADVISORS

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Private Bancorp of America, Inc. and Subsidiary (the Company) as of December 31, 2022 and 2021, 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 "consolidated financial statements").

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, 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, 2022, based on criteria established in the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Committee (COSO) and our report dated March 24, 2023 expressed an adverse opinion.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the consolidated 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 consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters 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 consolidated financial statements, the Company has a gross loan portfolio, net of deferred fees and costs of $1.6 billion and related allowance for loan losses of $19.2 million as of December 31, 2022. 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 are based on historical loss rates for each portfolio. 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 sufficient 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, implementation, 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 inputs and assumptions used in the quantitative and qualitative components of the allowance for loan losses calculation.

- Obtaining an understanding, testing the operating effectiveness of controls, and 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 identification and measurement of the qualitative loss factors, including the basis for concluding an adjustment was warranted and compared the adjustments utilized by management to both internal portfolio metrics and external macroeconomic data to support the adjustments and evaluated the trends in such adjustments. We searched for and evaluated information that corroborates or contradicts management's identification and measurement of qualitative loss factors.
- Testing the mathematical accuracy and computation of the allowance for loan losses.
- Evaluating the period to period consistency with which the qualitative loss factors were determined and applied.

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.

Eide Bailly LLP

San Ramon, California
March 24, 2023

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2022 AND 2021
(in thousands, except share data)

	2022	2021
ASSETS		
Cash and due from banks	$ 14,495	$ 12,336
Interest-bearing deposits in other financial institutions	30,409	39,663
Interest-bearing deposits at Federal Reserve Bank	83,738	97,086
Cash and Cash Equivalents	128,642	149,085
Interest-bearing time deposits with other financial institutions	7,923	5,760
Debt securities available for sale	104,652	102,066
Loans held for sale	7,061	24,658
Loans, net of deferred fees and costs and unaccreted discounts	1,588,248	1,224,157
Allowance for loan losses	(19,152)	(16,974)
Net Loans	1,569,096	1,207,183
Federal Home Loan Bank stock, at cost	7,020	4,909
Premises and equipment, net	1,742	2,294
Deferred tax asset, net	12,403	7,355
Servicing assets, net	3,007	3,079
Accrued interest receivable	5,291	3,355
Other assets	8,043	7,340
Total Assets	$ 1,854,880	$ 1,517,084
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	$ 691,392	$ 682,589
Interest-bearing deposits	983,730	663,074
Total Deposits	1,675,122	1,345,663
Borrowings	17,954	27,947
Accrued interest payable and other liabilities	18,480	15,110
Total Liabilities	1,711,556	1,388,720
Commitments and Contingencies (Note 11)	-	-
Shareholders' Equity		
Common stock, no par value, 20,000,000 shares authorized; 5,599,025 and 5,627,735 shares issued and outstanding for 2022 and 2021, respectively (Note 18)	72,221	70,850
Additional paid-in-capital	3,353	3,343
Retained earnings	77,810	54,922
Accumulated other comprehensive (loss) income	(10,060)	(751)
Total Shareholders' Equity	143,324	128,364
Total Liabilities and Shareholders' Equity	$ 1,854,880	$ 1,517,084

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands, except per share data)

	2022	2021
Interest and Dividend Income		
Interest and fees on loans	$ 80,922	$ 61,806
Interest-bearing deposits at the Federal Reserve Bank	833	221
Interest on investment securities	1,773	1,056
Dividends on Federal Home Loan Bank stock	370	273
Interest on deposits with other financial institutions	634	9
Total Interest and Dividend Income	84,532	63,365
Interest Expense		
Interest expense on deposits	4,897	1,689
Interest expense on borrowings	1,311	2,885
Total Interest Expense	6,208	4,574
Net Interest Income	78,324	58,791
Provision for loan losses	2,178	2,713
Net Interest Income After Provision for Loan Losses	76,146	56,078
Non-Interest Income		
Service charges on deposit accounts	1,160	945
Gain on sale of Small Business Administration ("SBA") loans	4,678	9,309
Servicing income, net	202	416
Other fees and miscellaneous income	1,000	668
Total Non-Interest Income	7,040	11,338
Non-Interest Expense		
Compensation and employee benefits	30,430	24,278
Occupancy and equipment	3,107	3,855
Data processing	3,411	2,827
Professional services	5,261	2,837
Director compensation	930	803
Regulatory assessments	858	515
Marketing	316	300
Administrative and other expense	3,931	2,138
Total Non-Interest Expense	48,244	37,553
Income Before Provision for Income Taxes	34,942	29,863
Provision for Income Taxes	10,233	8,833
Net Income	$ 24,709	$ 21,030
Basic Earnings Per Share	$ 4.41	$ 3.75
Diluted Earnings Per Share	$ 4.33	$ 3.69

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
Net income	$ 24,709	$ 21,030
OTHER COMPREHENSIVE (LOSS) INCOME:		
Unrealized (losses) gains on securities available-for-sale:		
Change in unrealized (losses) gains	(13,297)	(2,210)
Reclassification of (gains) recognized in net income	-	-
	(13,297)	(2,210)
Related income tax effect:		
Change in unrealized losses (gains)	3,988	663
Reclassification of gains recognized in net income	-	-
	3,988	663
TOTAL OTHER COMPREHENSIVE (LOSS) INCOME	(9,309)	(1,547)
TOTAL COMPREHENSIVE INCOME	$ 15,400	$ 19,483

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands, except share data)

	Common Stock		Additional		Accumulated Other	Total
	Shares Outstanding	Amount	Paid-In Capital	Retained Earnings	Comprehensive Income (Loss)	Shareholders' Equity
Balance, January 1, 2021	5,600,508	$ 69,557	$ 3,496	$ 33,904	$ 796	$ 107,753
Net income	-	-	-	21,030	-	21,030
Share-based compensation expense	-	-	1,226	-	-	1,226
Exercise of stock options, net settled	5,023	58	(15)	-	-	43
Issuance of restricted shares, net	13,500	-	-	-	-	-
Vesting of restricted shares	-	780	(780)	-	-	-
Forfeitures of restricted stock	(5,099)	-	-	-	-	-
Repurchase of restricted stock for taxes	(5,680)	-	(129)	(12)	-	(141)
Issuance of unrestricted shares	19,483	455	(455)	-	-	-
Other comprehensive income (loss)	-	-	-	-	(1,547)	(1,547)
Balance, December 31, 2021	5,627,735	$ 70,850	$ 3,343	$ 54,922	$ (751)	$ 128,364
Net income	-	-	-	24,709	-	24,709
Share-based compensation expense	-	-	1,278	-	-	1,278
Common stock repurchased	(60,000)	-	-	(1,783)	-	(1,783)
Exercise of stock options, net settled	23,032	260	(49)	-	-	211
Issuance of restricted shares, net	1,000	-	-	-	-	-
Vesting of restricted shares	-	714	(714)	-	-	-
Forfeitures of restricted stock	(200)	-	-	-	-	-
Repurchase of restricted stock for taxes	(4,782)	-	(108)	(38)	-	(146)
Issuance of unrestricted shares	12,240	397	(397)	-	-	-
Other comprehensive income (loss)	-	-	-	-	(9,309)	(9,309)
Balance, December 31, 2022	5,599,025	$ 72,221	$ 3,353	$ 77,810	$ (10,060)	$ 143,324

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands)

	2022	2021
Cash Flows From Operating Activities		
Net income	$ 24,709	$ 21,030
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	915	916
Provision for loan losses	2,178	2,713
Net (discount accretion) premium amortization on securities	348	(1,561)
Gain on sale of Small Business Administration ("SBA") loans	(4,678)	(9,309)
Proceeds from sale of loans	64,362	95,896
Loans originated for sale	(43,575)	(103,620)
Amortization of servicing assets	1,256	578
Impairment of servicing assets	304	-
Amortization of debt issuance costs	7	7
Share-based compensation expense	1,278	1,226
Deferred tax expense (benefit)	(1,059)	(710)
Change in accrued interest receivable and other assets	(1,019)	1,850
Change in accrued interest payable and other liabilities	2,372	(990)
Net Cash Provided by Operating Activities	47,398	8,026
Cash Flows From Investing Activities		
Change in time deposits with other banks	(2,163)	-
Purchases of securities	(30,123)	(95,394)
Maturities and principal paydowns of securities	12,768	18,765
Purchase of Federal Home Loan Bank stock	(2,111)	(307)
Net increase in loans	(363,590)	(225,287)
Purchases of property and equipment	(364)	(561)
Net Cash Used in Investing Activities	(385,583)	(302,784)
Cash Flows From Financing Activities		
Net increase in deposits	329,460	232,715
Net repayment of borrowings	(10,000)	(65,000)
Share repurchases	(1,783)	-
Repurchase of restricted shares	(146)	(141)
Proceeds from exercise of stock options	211	44
Net Cash Provided by Financing Activities	317,742	167,618
Net (Decrease) Increase in Cash and Cash Equivalents	(20,443)	(127,140)
Cash and Cash Equivalents, Beginning of Year	149,085	276,225
Cash and Cash Equivalents, End of Year	$ 128,642	$ 149,085
Supplemental Cash Flow Information		
Interest paid	$ 5,953	$ 4,764
Taxes paid	$ 10,209	$ 10,401
Lease liabilities arising from obtaining right-of-use assets	$ 997	$ -

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 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 24, 2023 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 held for sale, 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

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

Interest-Bearing Time Deposits with Other Financial Institutions

Interest-bearing time deposits with other financial institutions mature within one year and are carried at cost.

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.

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. In addition, servicing assets are assessed for impairment based on fair value at each reporting date.

Servicing fee 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 and any impairment is netted against loan servicing fee income.

Loans Held for Investment

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 classified as held-for-investment (HFI) on the balance sheet. 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.

Interest income is accrued on the unpaid principal balance of the loans. 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 and lines of credit.

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.

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 less cost to sell if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

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

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

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, 2022 and 2021, the net LIHTC investment totaled $2.1 million and $1.0 million, respectively, and was included in other assets on the Consolidated Balance Sheets.

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.

Other Equity Investments

The Company carries equity securities at fair value when readily determinable market values are available. Any adjustments to the fair value of these investments are recorded in other fees and miscellaneous income on the Consolidated Statements of Operations. The Company had equity investments carried at fair value of a nominal amount and $0.1 million at December 31, 2022 and 2021, respectively, that were included in other assets on the Consolidated Balance Sheets.

In addition, at December 31, 2022 and 2021, the Company had $1.9 million and $1.3 million, respectively, of other equity investments that were included in other assets on the Consolidated Balance Sheets that do not have readily determinable fair values (non-marketable) and are accounted for at cost minus impairment, if any, plus or minus changes resulting from observable transactions involving the same or similar investments from the same issuer, also referred to as the measurement alternative.

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, 2022 and 2021.

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.

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.

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.

<u>Comprehensive Income</u>

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 2022 and 2021.

<u>Earnings Per Share (“EPS”)</u>

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. For awards subject to both the service and performance conditions, the unrecognized compensation expense is recognized as expense when it is probable that the performance conditions will be achieved. If the performance conditions become probable of being achieved before the end of the requisite service period, the unrecognized compensation expense for which requisite service has not been provided will be recognized as expense prospectively on an accelerated attribution basis over the remaining requisite service period. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit 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. Under the ASU, for available-for-sale ("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, including the effect of the on-going lawsuit for the recovery of the charged-off loan for the ANI Development, LLC/Gina Champion-Cain fraud case and Chicago Title (parent company, Fidelity National

Financial) for its alleged involvement with the fraud scheme.

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. In December 2022, the FASB issued ASU No. 2022-06 that defers the sunset date for applying the reference rate relief in Topic 848 to December 31, 2024. As a result, the amendments in this ASU may be elected as of March 12, 2020 through December 31, 2024. 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, 2022 and 2021, and the corresponding amounts of gross unrealized gains and losses (in thousands):

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
US Treasury securities	$ 20,447	$ -	$ (563)	19,884
SBA Loan Pool securities	3,894	-	(341)	3,553
Mortgage-backed securities	92,931	-	(13,267)	79,664
Corporate debt securities	1,750	-	(199)	1,551
Total	$ 119,022	$ -	$ (14,370)	$ 104,652
December 31, 2021				
Securities Available for Sale:				
SBA Loan Pool securities	$ 1,567	$ 35	$ -	$ 1,602
Mortgage-backed securities	100,322	367	(1,475)	99,214
Corporate debt securities	1,250	-	-	1,250
Total	$ 103,139	$ 402	$ (1,475)	$ 102,066

At December 31, 2022 and December 31, 2021, 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, 2022 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	
(in thousands)	Amortized Cost	Fair Value
Due within one year	$ 8,983	$ 8,878
Due after one year through five years	12,358	11,840
Due after five years through ten years	4,750	4,270
Mortgage-backed securities	92,931	79,664
Total debt securities	$ 119,022	$ 104,652

As of December 31, 2022, there were 20 securities with unrealized losses of $3.4 million that had been in a continuous loss position for less than 12 months and 15 securities with unrealized losses of $11.0 million 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.

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 (in thousands):

	Less than 12 Months		12 Months or Greater		Total	
December 31, 2022	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
US Treasury securities	$ 19,884	$ (563)	$ -	$ -	$ 19,884	$ (563)
SBA Loan Pool securities	3,553	(341)	-	-	3,553	(341)
Mortgage-backed securities	17,909	(2,308)	61,755	(10,959)	79,664	(13,267)
Corporate debt securities	1,551	(199)	-	-	1,551	(199)
Total	$ 42,897	$ (3,411)	$ 61,755	$ (10,959)	$ 104,652	$ (14,370)
December 31, 2021						
Mortgage-backed securities	$ 77,402	$ (1,358)	$ 2,805	$ (117)	$ 80,207	$ (1,475)
Total	$ 77,402	$ (1,358)	$ 2,805	$ (117)	$ 80,207	$ (1,475)

The Company had pledged debt securities with a fair value of $6.5 million and $9.3 million to the Federal Home Loan Bank of San Francisco to secure borrowing arrangements discussed in Note 8, as of December 31, 2022 and 2021, respectively.

The Company had no gains or losses on sales of securities in 2022 and 2021.

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 (in thousands):

	2022	2021
Real estate	$ 1,015,773	$ 740,506
Commercial	306,986	249,634
SBA	265,506	235,078
Consumer	1,798	1,908
Loans receivable, gross	1,590,063	1,227,126
Net deferred loan origination fees and costs	(1,815)	(2,969)
Allowance for loan losses	(19,152)	(16,974)
Loans receivable, net	$ 1,569,096	$ 1,207,183

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 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. Included in the SBA loan category above are $1.3 million and $35.5 million of PPP loans as of December 31, 2022 and 2021, 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, 2022 and 2021 (in thousands):

December 31, 2022	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 8,164	$ 5,772	$ 3,011	$ 27	$ 16,974
Provisions	1,984	(246)	443	(3)	2,178
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	$ 10,148	$ 5,526	$ 3,454	$ 24	$ 19,152
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	10,148	5,526	3,454	24	19,152
	$ 10,148	$ 5,526	$ 3,454	$ 24	$ 19,152
Loans Evaluated for Impairment:					
Individually	$ 1,361	$ -	$ 3,075	$ -	$ 4,436
Collectively	1,014,412	306,986	262,431	1,798	1,585,627
	$ 1,015,773	$ 306,986	$ 265,506	$ 1,798	$ 1,590,063

December 31, 2021	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	$ 7,480	$ 4,739	$ 2,003	$ 40	$ 14,262
Provisions	684	1,033	1,008	(13)	2,712
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	$ 8,164	$ 5,772	$ 3,011	$ 27	$ 16,974
Reserves:					
Specific	$ -	$ -	$ -	$ -	$ -
General	8,164	5,772	3,011	27	16,974
	$ 8,164	$ 5,772	$ 3,011	$ 27	$ 16,974
Loans Evaluated for Impairment:					
Individually	$ 1,510	$ -	$ 622	$ -	$ 2,132
Collectively	738,996	249,634	234,456	1,908	1,224,994
	$ 740,506	$ 249,634	$ 235,078	$ 1,908	$ 1,227,126

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, 2022 and 2021 (in thousands):

December 31, 2022	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	$ 33,710	$ -	$ -	$ -	$ 33,710
Residential real estate	163,366	-	3,285	-	166,651
Multi-family residential	131,896	-	-	-	131,896
Nonresidential	679,925	-	2,230	1,361	683,516
Total real estate	1,008,897	-	5,515	1,361	1,015,773
Commercial	304,486	-	2,500	-	306,986
SBA	258,204	940	3,287	3,075	265,506
Consumer	1,798	-	-	-	1,798
	$ 1,573,385	$ 940	$ 11,302	$ 4,436	$ 1,590,063

December 31, 2021	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	$ 29,427	$ -	$ -	$ -	$ 29,427
Residential real estate	109,985	-	3,371	-	113,356
Multi-family residential	94,903	-	-	-	94,903
Nonresidential	501,310	-	-	1,510	502,820
Total real estate	735,625	-	3,371	1,510	740,506
Commercial	242,045	2,806	4,783	-	249,634
SBA	230,282	1,062	3,112	622	235,078
Consumer	1,908	-	-	-	1,908
	$ 1,209,860	$ 3,868	$ 11,266	$ 2,132	$ 1,227,126

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2022 and 2021 (in thousands):

	Still Accruing		
December 31, 2022	30-89 Days Past Due	Over 90 Days Past Due	Nonaccrual
Real Estate:			
Construction	$ -	$ -	$ -
Residential real estate	-	-	-
Multi-family residential	-	-	-
Nonresidential	-	-	1,361
Total real estate	$ -	$ -	$ 1,361
Commercial	-	-	-
SBA	-	-	2,519
Consumer	-	-	-
	$ -	$ -	$ 3,880

	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	-	-	1,510
Total real estate	$ -	$ -	$ 1,510
Commercial	-	-	-
SBA	-	-	-
Consumer	-	-	-
	$ -	$ -	$ 1,510

As of December 31, 2022, the Company had 4 loans for $4.4 million considered impaired which did not require a specific allowance. The average balance of impaired loans was $3.0 million, and no interest income was recognized for the year ended December 31, 2022. As of December 31, 2021, the Company had two loans for $2.1 million considered impaired which did not require a specific allowance. The average balance of impaired loans was $1.8 million and no interest income was recognized for the year ended December 31, 2021.

The Company had no troubled debt restructurings (“TDR’s”) as of December 31, 2022 or 2021.

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. The carrying value of loans sold was $61.2 million and $88.6 million during 2022 and 2021, respectively. Loans serviced for others totaled $177.3 million and $158.0 million at December 31, 2022 and 2021, respectively.

Consideration for each SBA loan sale includes the cash received and the fair value of the 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.

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 (in thousands):

	2022	2021
Balance, beginning of period	$ 3,079	$ 1,595
Additions	1,488	2,062
Amortization	(1,256)	(578)
Impairment	(304)	-
Balance, end of period	$ 3,007	$ 3,079

NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment at December 31 (in thousands):

	2022	2021
Leasehold improvements	$ 1,888	$ 1,884
Furniture, fixtures and equipment	4,376	3,975
	6,264	5,859
Accumulated depreciation and amortization	(4,522)	(3,565)
	$ 1,742	$ 2,294

Total depreciation and amortization expense for the years ended December 31, 2022 and 2021, was $0.9 million and $0.9 million, 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, an office in Redlands and an executive office in San Diego. The Company is responsible for common area maintenance, taxes and insurance on these leases.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option.

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 $0.7 million. 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.

In October 2022, the Company entered into an amendment of its lease of office space in Beverly Hills, California to extend the term of the lease for an additional 36 months through February 28, 2026. As a result of this lease amendment, the Company obtained operating lease right-of-use assets in exchange for lease obligations of $1.0 million in 2022.

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

	2022	2021
Operating lease cost	$ 1,754	$ 2,488
Less sublease income	(44)	(48)
Total lease cost, net	$ 1,710	$ 2,440

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 2.4 years and 2.5 years as of December 31, 2022 and 2021, respectively. The Company used a weighted average discount rate of 4.83% and 5.00% for measuring its operating lease liability as of December 31, 2022 and 2021, respectively.

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

	Balance Sheet Classification	December 31, 2022	December 31, 2021
Right-of-use assets:			
Operating leases	Other assets	$ 3,265	$ 3,759
Total right-of-use		$ 3,265	$ 3,759
Lease liabilities:			
Operating leases	Other assets	$ 3,985	$ 4,846
Total lease liabilities		$ 3,985	$ 4,846

At December 31, 2022, future lease payments under these operating leases were as follows (in thousands):

	Amount
2023	$ 2,073
2024	1,259
2025	787
2026	109
Total undiscounted lease payments	4,228
Less: Imputed interest	(243)
Present value of lease liability	$ 3,985

NOTE 7 – DEPOSITS

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

	2022	2021
Noninterest-bearing deposits	$ 691,392	$ 682,589
Interest-bearing checking accounts	174,248	81,788
Savings and money market	655,051	513,070
Time deposit accounts under $250,000	59,057	23,886
Time deposit accounts $250,000 and over	95,374	44,330
	$ 1,675,122	$ 1,345,663

As of December 31, 2022 and 2021, all noninterest-bearing deposits are demand deposits.

Total deposits above include brokered non-maturity deposits of $105.2 million and $15.0 million as of December 31, 2022 and 2021, respectively. In addition, time certificate of deposit accounts under $250,000 includes deposits obtained through reciprocal deposit programs of $52.5 million and $17.6 million at December 31, 2022 and 2021, respectively.

The maturity of time deposits as of December 31, 2022 is as follows (in thousands):

	2022
Within one year	$ 82,109
One year to three years	50,449
Over three years	21,873
	$ 154,431

NOTE 8 – BORROWING ARRANGEMENTS

The Company's borrowings include advances from the Federal Home Loan Bank (FHLB) of San Francisco and Subordinated Debt. The Company had no FHLB borrowings as of December 31, 2022.

A summary of FHLB borrowings as of December 31, 2021, is as follows (in thousands):

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

At December 31, 2022 and 2021, approximately $569.3 million and $434.9 million in loans and $6.5 million and $9.3 million in securities were pledged as collateral to the FHLB for the borrowings, respectively. At December 31, 2022 and 2021, the Company had remaining financing availability of approximately $214 million and $178 million based on the level of pledged loans and securities, respectively, after consideration of amounts outstanding and a $45 million letter of credit to secure deposits.

As of December 31, 2022 and 2021, approximately $206.1 million and $213.4 million in loans were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of approximately $157.8 million and $136.5 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2022 and 2021.

The Company has borrowing lines with correspondent banks totaling $80 million as of December 31, 2022. There were no balances outstanding on these borrowing lines as of or for the year ended December 31, 2022.

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 $0.1 million and is being amortized through the maturity date. The balance net of issuance cost is $18.0 million and $17.9 million as of December 31, 2022 and 2021.

NOTE 9 – INCOME TAXES

The provision for income tax for the years ended December 31, 2022 and 2021 consisted of the following (in thousands):

	2022	2021
Current Taxes:		
Federal	$ 7,142	$ 6,101
State	4,122	3,442
	11,264	9,543
Deferred Taxes	(1,059)	(710)
Tax credit investment amortization	28	-
Provision for Income Tax	$ 10,233	$ 8,833

A comparison of the Federal statutory income tax rates to the Company’s effective income tax rate is as follows (in thousands):

	2022		2021	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	$ 7,338	21.0%	$ 6,271	21.0%
State Franchise Tax, Net of Federal Benefit	2,959	8.5%	2,573	8.6%
Other Items, Net	(64)	(0.2%)	(11)	(0.1%)
Actual Tax Expense	$ 10,233	29.3%	$ 8,833	29.5%

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 (in thousands):

	2022	2021
Deferred Tax Assets:		
Operating loss carryforwards	$ 1,328	$ 1,558
California State Income Tax	818	697
Allowance for loan losses	5,662	5,018
Lease liability	1,178	1,433
Securities available for sale	4,311	322
Bonus Accrual	676	39
Other	1,424	782
	15,397	9,849
Deferred Tax Liabilities:		
Deferred loan costs	(1,580)	(1,074)
Deferred capital lease costs	(965)	(1,111)
Other	(449)	(309)
	(2,994)	(2,494)
Net Deferred Tax Assets	$ 12,403	$ 7,355

At December 31, 2022, the Company had total net operating loss carryforwards of approximately $3.9 million for Federal income and approximately $5.8 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2030 for Federal tax purposes and 2032 for California franchise tax purposes.

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

The Company's Federal income tax returns for the years ended December 31, 2019 through 2021 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, 2018 through 2021 have been filed, and are open to audit by the State of California.

NOTE 10 – SHARE-BASED COMPENSATION

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 provides for the issuance of up to 400,000 Equity Grants, of which 159,604 were available as of December 31, 2022. 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.

In 2021, the Company began to grant restricted stock unit (RSU) awards under its Long-Term Incentive Plan ("LTIP"). RSUs are awarded at no cost to the recipient upon their grant. RSUs granted under the LTIP are subject to the Company's achievement of specified performance criteria over a three-year period.

The Company recognized share-based compensation cost of $1.3 million and $1.2 million in 2022 and 2021, respectively, related to options, restricted stock and restricted stock unit grants awarded. Tax benefits associated with share-based compensation amounted to $0.4 million and $0.4 million in 2022 and 2021, respectively.

The weighted-average fair value of options was estimated using the Black-Scholes option-pricing model with the following inputs: (1) expected volatility based on historical volatility of the Company's common stock; (2) the expected term of the option representing the estimated average period of time that the options remain outstanding; (3) the risk-free rate of return reflecting the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options; and (4) the expected dividend yield of the Company's common stock. The Company did not grant stock options in 2022 or 2021.

A summary of the status of the stock options issued as of December 31, 2022, and change during the year then ended, is as follows:

	Options	Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance, beginning of year	204,197	$ 14.38		
Granted	-	-		
Exercised	(26,000)	11.52		
Forfeited or expired	(2,000)	17.00		
Balance, end of year	176,197	$ 15.02	2.18	$ 3,061
Options exercisable	172,863	$ 14.90	2.09	$ 3,023

The intrinsic value of option shares exercised during 2022 was $0.5 million. As of December 31, 2022, total unrecognized compensation cost related to outstanding stock options was nominal.

Tax benefits recognized in income relating to exercised stock options in 2022 was $0.1 million and nominal in 2021.

A summary of the status of the restricted stock grants issued as of December 31, 2022 and changes during the year then ended follows:

	2022	
	Unvested Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of year	68,599	$ 20.06
Granted	1,000	29.45
Shares Vested	(35,562)	23.13
Forfeited or expired	-	-
Balance, end of year	34,037	$ 17.13

As of December 31, 2022, there was $0.5 million of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.5 years.

A summary of the status of the restricted stock unit grants issued as of December 31, 2022 under our LTIP Plan, and changes during the year then ended follows:

	2022	
	Unvested Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of year	27,500	$ 24.26
Granted	40,275	31.48
Shares Vested	-	-
Forfeited or expired	(450)	31.48
Balance, end of year	67,325	$ 28.53

As of December 31, 2022, there was $1.2 million of total unrecognized compensation cost related to restricted stock unit grants that will be recognized over a weighted-average period of 2.1 years subject to the achievement of specified performance criteria.

In addition to the share-based compensation awards described above, the Company also issued 12,240 and 19,483 unrestricted shares to non-employee directors during 2022 and 2021, respectively.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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, 2022 and 2021 (in thousands).

	2022	2021
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	$ 373,273	$ 238,035
Standby letters of credit	8,366	8,381
	$ 381,639	$ 246,416

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, real properties and deposits.

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.

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, 2022 and 2021, the Company had unfunded commitments to contribute capital to these LIHTC and other CRA investments totaling $4.0 million and $3.5 million, respectively.

Contingencies

The Company is subject to legal proceedings arising in the ordinary course of business. The Company accrues losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to reasonably estimate the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued and could materially adversely affect the Company's business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, the Company is unable to estimate reasonably possible losses in excess of any amounts accrued. As of December 31, 2022 and 2021, there were no material loss contingency accruals.

NOTE 12 – RELATED PARTY TRANSACTIONS

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

	2022	2021
Balance, Beginning of Year	$ 7,520	$ 8,780
New Loans and Advances	1,650	-
Repayments	(926)	(1,260)
Balance, End of Year	$ 8,244	$ 7,520

As of December 31, 2022 and 2021, the Company's balance sheet included deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately $22.4 million and $27.3 million, 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 2023 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 2023 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.

The Bank is subject to rules approved by the federal bank regulatory agencies for implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks, commonly referred to as "Basel III."

The rules include a 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 include the concept of a "conservation buffer" of 2.5% applicable to the three-capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount 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, 2022 or 2021.

As of December 31, 2022 and 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.

The Bank's actual and required capital amounts and ratios as of December 31, 2022 and 2021, 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, 2022						
Total capital (to risk-weighted assets)	$ 188,018	11.3%	$ 132,624	8.0%	$165,780	10.0%
Tier 1 capital (to risk-weighted assets)	167,294	10.1%	99,468	6.0%	132,624	8.0%
CET1 capital (to risk-weighted assets)	167,294	10.1%	74,601	4.5%	107,757	6.5%
Tier 1 capital (to average assets)	167,294	9.5%	70,295	4.0%	87,869	5.0%
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%

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 (in thousands):

	2022		2021	
	Net Income	Shares	Net Income	Shares
Net income as reported	$ 24,709		$ 21,030	
Less: Earnings allocated to participating securities	(203)		(284)	
Net income available to common shareholders	24,506		20,746	
Shares outstanding at year-end		5,599		5,628
Less unvested restricted shares		(46)		(76)
Impact of weighting shares issued or retired during the year		2		(16)
Used in Basic EPS	24,506	5,555	20,746	5,536
Dilutive effect of outstanding stock options		97		81
Used in Dilutive EPS	$ 24,506	5,652	$ 20,746	5,617

There were no anti-dilutive option shares as of December 31, 2022, and 15,000 at December 31, 2021.

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).

Servicing assets: The fair values of servicing assets are determined by considering the present value of estimated future net servicing cash flows. The significant model inputs used to measure the fair value of servicing assets include assumptions regarding projected prepayment speeds (constant prepayment rates) (Level 3) and discount rates (Level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2022 and 2021 (in thousands):

	Fair Value Measurements Using:			
December 31, 2022	Level 1	Level 2	Level 3	Total
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 104,652	$ -	$ 104,652
On a Non-Recurring Basis:				
Servicing Assets	$ -	$ -	$ 3,007	$ 3,007
December 31, 2021				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	$ -	$ 102,066	$ -	$ 102,066

The amount of nonrecurring fair value loss recorded in 2022 for impairments of servicing assets held as of December 31, 2022 was $0.3 million. To determine the fair value of the servicing assets, we use a discounted cash flow valuation technique which utilizes constant prepayment rates and discount rates as significant unobservable inputs as noted in the table below:

	Range of Inputs		
December 31, 2022	Low	High	Average
Constant prepayment rates	8.20%	35.64%	15.83%
Discount rates	13.53%	66.16%	16.14%

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

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.

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2022 and 2021 is summarized as follows (dollar amounts in thousands):

		December 31, 2022		December 31, 2021	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	$ 14,495	$ 14,495	$ 12,336	$ 12,336
Interest-bearing deposits-other	Level 1	30,409	30,409	39,663	39,663
Interest-bearing deposits at FRB	Level 1	83,738	83,738	97,086	97,086
Interest-bearing time deposit with other financial institutions	Level 1	7,923	7,923	5,760	5,760
Debt securities available for sale	Level 2	104,652	104,652	102,066	102,066
Loans held for sale	Level 3	7,061	7,061	24,658	24,740
Loans, net	Level 3	1,569,096	1,503,398	1,207,183	1,211,191
Servicing assets	Level 3	3,007	3,007	3,079	3,272
Accrued interest receivable	Level 1	5,291	5,291	3,355	3,355
Liabilities					
Time deposits	Level 2	$ 154,431	$ 153,932	$ 68,216	$ 68,356
Other deposits [1]	Level 2	1,520,691	1,520,691	1,277,447	1,277,447
Borrowings	Level 2	17,954	17,943	27,947	28,571
Accrued interest payable	Level 1	386	386	69	69

[1] Includes non-interest bearing deposits, interest bearing checking deposits, savings and money market deposits that have no stated maturities and are assumed to have a fair value equal to the carrying value.

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 $0.8 million and $0.7 million in 2022 and 2021, respectively.

NOTE 18 – SHAREHOLDERS' EQUITY

Stock Repurchase Program

During the second quarter of 2022, the Company announced that it had completed its stock repurchase program on April 28, 2022 through the repurchase of 60,000 shares.

NOTE 19 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

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

CONDENSED BALANCE SHEETS
December 31, 2022 and 2021
(Dollars in Thousands)

	2022	2021
ASSETS		
Cash and cash equivalents	$ 1,851	$ 4,575
Due from interest-bearing	436	403
Other assets	120	29
Investment in bank subsidiary	158,933	141,477
Total Assets	$ 161,340	$ 146,484
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Other borrowings	$ 17,954	$ 17,947
Other liabilities	62	173
Total Liabilities	18,016	18,120
Shareholders' Equity		
Common Stock	72,221	70,850
Additional paid-in capital	3,353	3,343
Retained earnings	77,810	54,922
Accumulated other comprehensive (loss) income	(10,060)	(751)
Total Shareholders' Equity	143,324	128,364
Total Liabilities and Shareholders' Equity	$ 161,340	$ 146,484

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

CONDENSED STATEMENTS OF OPERATIONS
Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Dividends from subsidiary	$ -	$ 2,942
Interest income	1	1
Interest expense on borrowings	(1,023)	(1,087)
Net interest and dividend income	(1,022)	1,856
Noninterest income	11	-
Noninterest expense	296	453
Income (loss) before equity in undistributed income of subsidiary	(1,307)	1,403
Equity in undistributed income of subsidiary	25,633	19,138
Income before income taxes	24,326	20,541
Income tax benefit	383	489
Net income	$ 24,709	$ 21,030

CONDENSED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

(Dollars in Thousands)

	2022	2021
Cash Flows from Operating Activities		
Net income	$ 24,709	$ 21,030
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(25,633)	(19,138)
Amortization of debt issuance costs	7	8
(Increase) Decrease in other assets	(91)	476
Increase in other liabilities	35	10
Net Cash (Used in) Provided By Operating Activities	(973)	2,386
Cash Flows from Investment Activities		
Increase in interest-bearing deposits	(33)	(1)
Net Cash Used In Investing Activities	(33)	(1)
Cash Flows from Financing Activities		
Repurchase of common stock	(1,783)	-
Repurchase of restricted shares	(146)	(141)
Proceeds from exercise of stock options	211	44
Net Cash Used In Financing Activities	(1,718)	(97)
Change in Cash and Cash Equivalents	(2,724)	2,288
Cash and Cash Equivalents Beginning of Year	4,575	2,287
Cash and Cash Equivalents End of Year	$ 1,851	$ 4,575

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