Private Bancorp
OF AMERICA, INC.

# ANNUAL REPORT 2023

RELATIONSHIPS. SOLUTIONS. TRUST.

# CORPORATE OVERVIEW

**$2.2B**
TOTAL ASSETS

**$1.8B**
TOTAL LOANS

**$1.9B**
TOTAL DEPOSITS

**$200.2M**
MARKET CAP
As of 12/31/2023

**5.7M**
OUTSTANDING SHARES
As of 12/31/2023

| EXCHANGE | TICKER |
|---|---|
| **OTCQX** | **PBAM** |

SBA U.S. Small Business Administration

**PREFERRED SBA LENDER**

**Participated in the Paycheck Protection Program**

Note: All numbers reported are as of 12/31/2023. For the 2023 audited financial statements, refer to the investor relations page of our website at **calprivate.bank/investor-relations/**

A YEAR IN REVIEW

## 2023 FULL YEAR HIGHLIGHTS

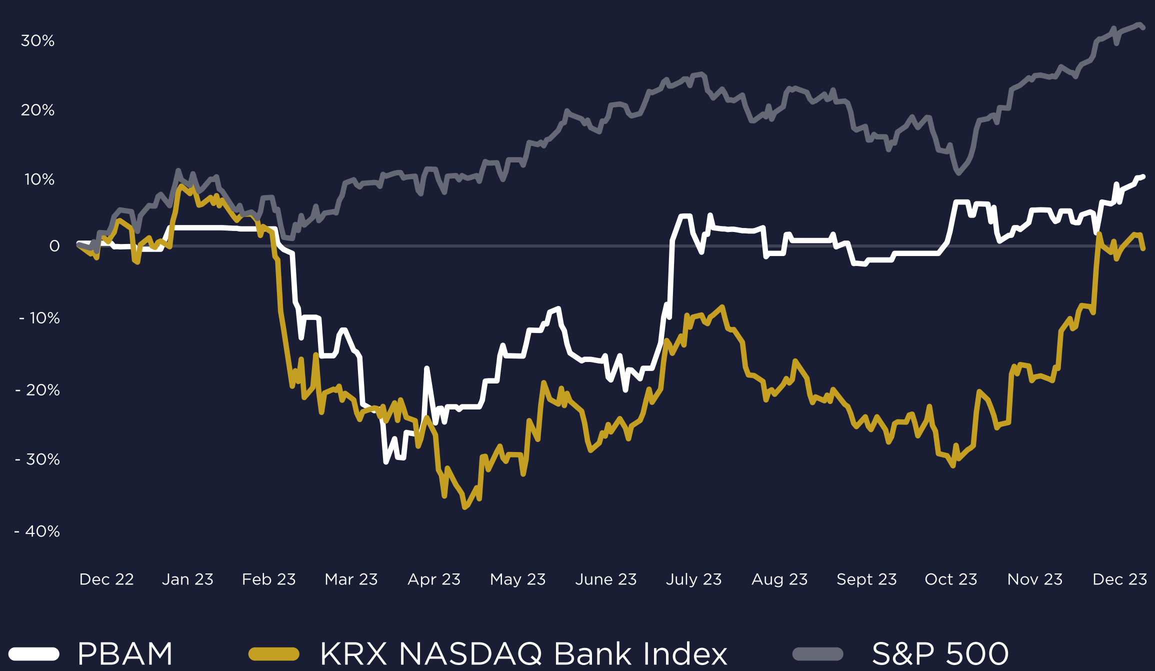
- Record full year net income of **$33.6** million or **$5.85** per share (adjusted*)
- Total assets of **$2.2** billion
- Net loans of **$1.8** billion and deposits of **$1.9** billion
- Portfolio loan yields increased to **6.85%**
- Tangible book value per share increased to **$32.08**
- Return on average assets of **1.70%** (adjusted*)
- Return on average common tangible equity of **20.60%** (adjusted*)

## STRONG CREDIT QUALITY

- Our credit risk metrics were strong throughout 2023, with no Other Real Estate Owned (OREO) at year-end
- Allowance for loan loss reserve of **$24.5 million**, or **1.33%** of loans held for investment
- Non-performing assets to total assets of **0.23%**

## STRONG MARKET PERFORMANCE

PBAM 2023 total return up 8.1% as compared to KBW Index down 0.4% and S&P 500 Index up 26.3%




- A reconciliation of net income to adjusted net income, diluted earnings per share to adjusted diluted earnings per share, ROA to adjusted ROA and ROE to adjusted ROE, is provided on page 15 of our Q42023 press release, found on the investor relations page of our website **calprivate.bank/investor-relations/**, which account for the loan loss recovery for ANI and associated professional services.

RELATIONSHIPS
SOLUTIONS
TRUST

## OUR MISSION

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

## OUR VISION FOR CALPRIVATE BANK

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

### 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

## ONE TEAM

**We are a united Team and seek to build Trust.**

- At CalPrivate Bank, the experience provided is consistent and united throughout our branch network.
- We are more than a set of individuals, we work together toward a higher purpose.
- The Team is built upon a strong baseline of enhancing communication and collaboration between our sales, operations, lending and support teams.

## ONE VISION

Coastal Southern California's premier relationship focused private and business bank is dedicated to providing personalized financial solutions that align with our Clients' unique aspirations and needs. We emphasize unity in purpose and commitment, ensuring that every interaction in every location is tailored to support the prosperity and growth of the communities we serve.

## ONE GOAL

Provide a premier banking experience that will result in sustainable growth through extraordinary Teams and a commitment to service our Clients. We do what we say we are going to do. Through that promise to excellence, we aim to be Your Banker for Life.

Private Bancorp OF AMERICA, INC.

**Dear Clients, Team Members and Shareholders,**

There is little doubt that 2023 was one of the most volatile years in financial services and the broader economy in recent memory. We all remember the events of March of last year and the resulting turmoil that followed. In the midst of all of this, CalPrivate Bank was a source of strength and resilience for our Clients and a safe haven for those searching for a new financial partner. While others retracted from the market, we focused on Client Service, onboarding new Relationships and strengthening our financial position. The year culminated in record levels in assets, loans and deposits that was in stark contrast to most other banks.

We recorded the best year in our company's history - net profit, return on equity and tangible book value reached all-time highs. We did this through a focus on our Clients and our Team, guided by our principles of **Relationships**, **Solutions** and **Trust**. At CalPrivate Bank, we believe our business model is a simple one – take great care of our Team members who take great care of our Clients. This focus on Service, finding Solutions for complex needs and creating an environment for mutual Trust, coupled with an unwavering attention to disciplined lending has led to strong, sustainable returns for our Shareholders.

We are heartened by the Trust that you have put in us, and we strive on a daily basis to ensure that we are doing the right things to continue to add value. This extends far beyond our Company and into the communities we serve. With a dedication to generosity and engagement, you will find our Board, our Executive Team and our Team members actively engaged in philanthropy, supporting local charities in each of our markets and doing our part in being a community partner that adds value by giving back.

**Our Record Year in 2023:**

- Record net income of $40.9 million (GAAP basis), or $33.6 million[(1)] (as adjusted), for FY'23, up from $24.7 million in FY'22. Net income for 2023 represents a return on average assets of 1.70%[(1)] (as adjusted) and a return on average tangible common equity of 20.60%[(1)] (as adjusted).
- Record diluted earnings per share of $7.11 (GAAP basis), or $5.85[(1)] (as adjusted), for FY'23, up from $4.33 in FY'22.
- Loans held-for-investment ("HFI") totaled $1.85 billion as of December 31, 2023, an increase of $258.9 million or 16.3% from December 31, 2022.
- Recovery of $8.6 million, which includes $7.7 million for the settlement of a lawsuit against ANI Development, LLC/Gina Champion-Cain, and Chicago Title (parent company, Fidelity National Financial).

- Total deposits were $1.88 billion as of December 31, 2023, an increase of $200.2 million or 12.0% from December 31, 2022. Core deposits were $1.58 billion as of December 31, 2023, an increase of $114.4 million or 7.8% from December 31, 2022.
- Net interest margin was 4.65% for FY'23, and in the top quartile for banks in our asset class.
- Total cost of deposits was 1.81% for FY'23, an increase from 0.34% in FY'22.
- Tangible book value per share was $32.08 as of December 31, 2023, an increase of $7.02 since December 31, 2022 as a result of strong earnings and a decrease in net unrealized losses on the available-for-sale investment securities portfolio.
- Our Team contributed 1,740 volunteer hours in 2023 to organizations supporting the communities we serve.
- Client Net Promoter Score of 82, representing world class service levels. The Net Promoter Score indicates our Client's willingness to refer others to CalPrivate Bank. Our score represents our Distinctly Different® Service model.

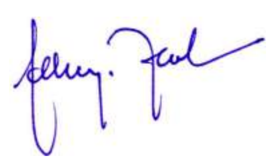
One of our top priorities is making smart investments in the future of our Company. To that end, we continue to build a technical, service and product infrastructure that not only focuses on the security and privacy of our Clients' data, but also on the tools and services that will support our Clients' future growth. Stay tuned for the launch of our Digital Account Origination platform, enhancements to our mobile and online banking systems and new features in our Treasury Management offering, Treasury One®.

We thank our loyal Team Members, our Board of Directors, our Advisory Board Members, our Clients and our Investors for your continued support and Trust.

With gratitude.

**Rick L. Sowers**
President & CEO

**Selwyn Isakow**
Chairman of the Board



[1] A reconciliation of net income to adjusted net income, diluted earnings per share to adjusted diluted earnings per share, ROA to adjusted ROA and ROE to adjusted ROE, is provided on page 15 of our Q42023 press release, found on the investor relations page of our website **calprivate.bank/investor-relations/**, which account for the loan loss recovery for ANI and associated professional services.

# Strong Core Deposit Franchise

At the center of every Client Relationship is being their primary bank. We emphasize a complete banking experience with a wide array of deposit and cash management Solutions.

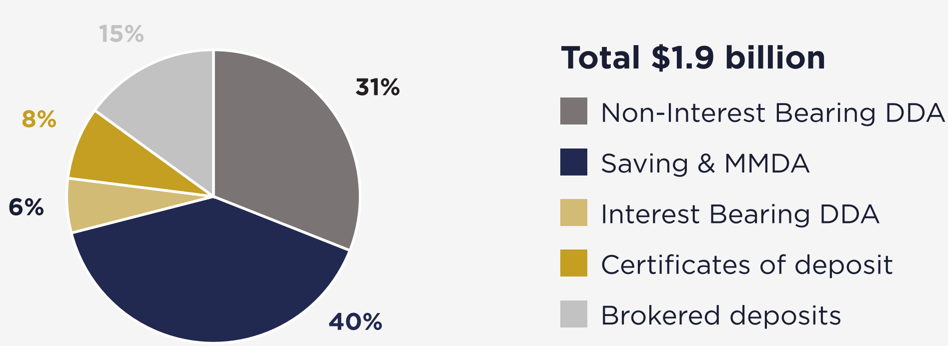
**85%** of total funding is provided by growing deposits from core Relationships.

## DEPOSIT COMPOSITION


NOTE: *Dollars in millions*

## STABLE LOW-COST FUNDING

- Focus on deposit growth, retention and opportunistic niches in Professional Services, Legal, Wealth Management and Family Office
- Weighted average spot deposit rate of **2.49%** at 12/31/2023
- Operating accounts are a focus to drive core deposits and and service based fee income
- Non-interest bearing deposits represent **30.5%** of total deposits, returning to approximately the same level as before the pandemic and significant fiscal stimulus
- Total deposits increased **$200 million**, up **11.9%** from Q4'22



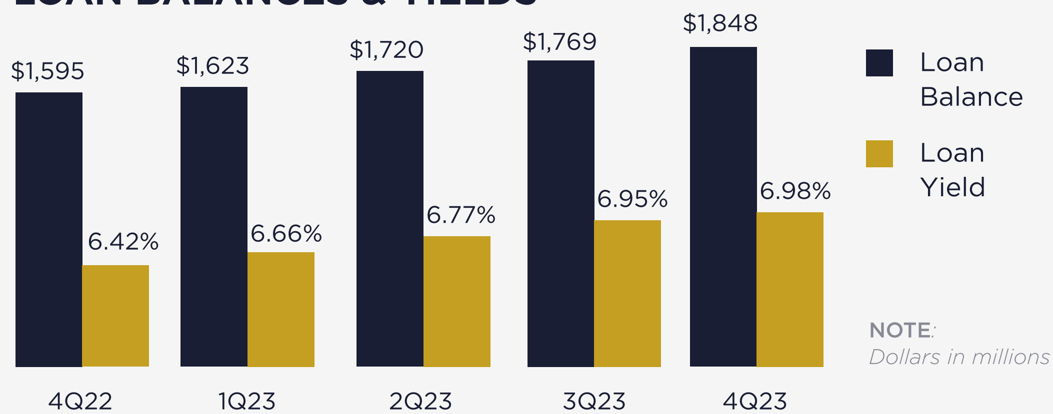

STRONG CORE DEPOSIT FRANCHISE

DIVERSIFIED LOAN PORTFOLIO

# Loan Portfolio

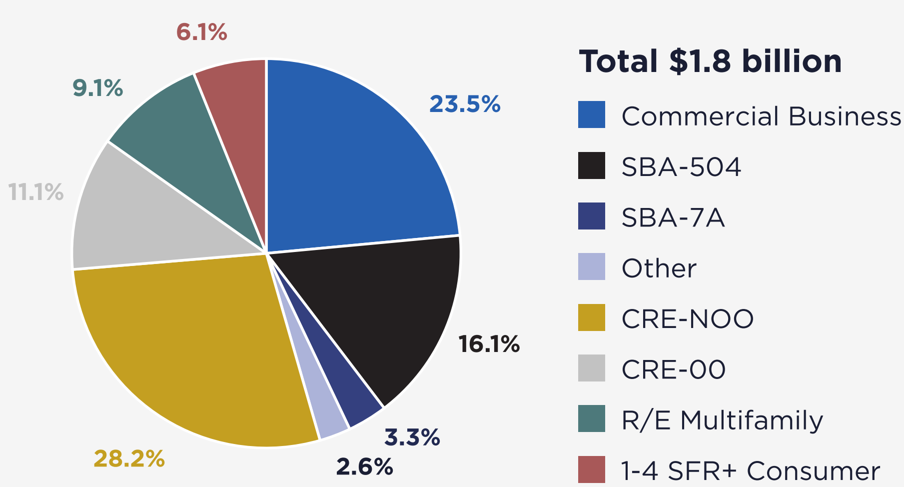
- Demonstrated organic growth in loans
- 15.9% Year-over-Year Growth
- Relationship based lending results in superior loan yields and Solutions for our Clients

## LOAN BALANCES & YIELDS




## DIVERSIFIED LOAN PROFILE

- **80%** of the total portfolio collateralized by Real Estate with **average LTV of 52%**
- Geographically, the Bank lends primarily in the major metropolitan areas of coastal Southern California
- Los Angeles represents **40%**, San Diego represents **25%** and Orange County represents **9%** of total loans



# FEATURED CLIENTS

"CalPrivate Bank has been an exceptional partner for my business and my personal banking needs. The team at CalPrivate is very hands-on in their approach to working with Clients of the Bank. They are extremely responsive, personal and strategic regarding private banking needs, and also supportive of my business growth requirements.

**TRACY HOLLAND**
InnerFifth

InnerFifth is a curated membership platform aimed at growth-oriented female entrepreneurs and their allies, offering a supportive community and resources for business, personal and financial growth.

innerfifth

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.


**ARSELON TAFAZOLI**
Consortium Holdings

Consortium Holdings is a collective that creates public gathering spaces beyond mere restaurants and bars, focusing on fostering neighborhoods through creativity, dialogue and meaningful interaction, with each concept uniquely emphasizing quality-driven products and social environments to encourage idea sharing.

FEATURED CLIENTS

# FEATURED CLIENTS

“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.

**DR. CHACE UNRUH, FOUNDER & CHIROPRACTOR**

Unruh Spine Centers

Unruh Spine Centers is a comprehensive medical office in Santa Clarita, providing a wide range of services including chiropractic care, acupuncture, massage therapy, podiatry, sports injury therapy and various forms of pain management to address chronic pain and promote patient health, happiness and well-being through holistic and natural treatments.

UNRUH SPINE CENTERS
FREEDOM TO MOVE

FEATURED CLIENTS

"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.

**PAUL EASJIAN**
FortuneBuilders

FortuneBuilders is a premier real estate investment education company, providing comprehensive training and support systems to help investors build successful real estate businesses, leveraging the expertise of founders with significant experience in investing and managing a wide range of real estate projects.

FortuneBuilders

FEATURED CLIENTS

"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

Boozehounds is a dog-friendly restaurant and social space in Palm Springs, established in 2020, offering a stylish dining and lounge experience along with an open-air atrium and cabana bar patio, serving Southern California cuisine with a menu for both humans and dogs, emphasizing inclusivity and community events.

Boozehounds
PALM SPRINGS

The Boesch Law Group has worked with CalPrivate Bank for many years, with great confidence in relationships with senior officers we have known for decades. We always know that our CalPrivate team has our best interest in mind and heart. Whether watching over our accounts day to day or assisting with planning and financial advice to meet our goals, CalPrivate's team treats us like family.

**PHILIP BOESCH, FOUNDER**

The Boesch Law Group

The Boesch Law Group, based in Los Angeles, combines the skill and expertise of a large law firm with the personal attention of a smaller one, focusing on achieving client success in areas like business law, estate litigation, entertainment law and personal injury, while also actively engaging in corporate social responsibility and community support.

FEATURED CLIENTS

SOLUTIONS

## International Banking

Our international banking services cater to businesses and professionals engaged in the global market, offering a suite of customized financial solutions that include innovative borrowing options, deposit account and cash management services, money market accounts, CDs, escrow services and comprehensive wire services both domestically and internationally. Tailored to streamline your financial transactions across borders, our services are designed with a focus on efficiency, security and personalized support. By combining expertise in Treasury Management, Foreign Exchange, Trade Services, Credit and Escrow Services, we ensure your banking needs are met with precision, safeguarding your assets and facilitating smooth international operations. With our dedicated Relationship Managers and Private Bankers, experience a concierge banking service that understands the nuances of global finance, ensuring your business thrives in the international arena.

### INTERNATIONAL COMMUNITY ADVISORY BOARD:

Arturo Alemany
Ricardo Del Rio
Jorge Garza
Adolfo Gonzalez-Rubio
Claudia Ignacio
Daniel Mauser
Josh Maxwell
Javier Mazoy
Iosef Oberwager
Simon Sacal
Sue Allen Villalva

Private Business Capital
A Division of CalPrivate Bank

# Private Business Capital

**Preferred SBA Lender**

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

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

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

The Private Business Capital Team is focused on delivering Customized solutions with speed.

## 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
  - Escrow and Title Industry

SBA U.S. Small Business Administration

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

SOLUTIONS

# Comprehensive Cash Management Services - Treasury One®

CalPrivate Bank's Treasury One® approach to business financial management combines state-of-the-art treasury management with comprehensive online business banking solutions. Designed to meet the needs of businesses of all sizes, Treasury One® streamlines operations through advanced security, efficiency and customizable control options. It offers unparalleled flexibility in managing Team members' online access, enforces separation of duties and accommodates dual control for transaction approvals. Additionally, the platform simplifies account reconciliation and enhances cash management with detailed reporting, while providing efficient solutions for processing electronic transactions, including ACH Origination and Wire Transfers.

Our suite of treasury management services includes Deposit One® Remote Deposit Capture which grants you the freedom to scan, process and deposit checks from your office, or on the go with your mobile device. Online business banking is further enriched with real-time account transfers, dual-approval bill pay, e-statements and a comprehensive array of tools for operational control. Our business solutions, featuring Zero Balance Accounts, Business Credit Cards and Merchant Services, are engineered to maximize liquidity, streamline administrative processes and boost operational efficiency and enhance security. Through innovative banking solutions like Electronic Check Acceptance and Cash Vault Services, CalPrivate Bank is committed to supporting the growth and financial health of your business, making Treasury One® the cornerstone of your financial management strategy.

STRATEGIC DIFFERENTIATORS

# Distinctly Different® Service
# 2023 Net Promoter Score

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

## CPB CLIENT SATISFACTION 2.5X HIGHER THAN U.S. BANKING INDUSTRY

- Exceptional service is our key organic 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

| 2023 Top Banks and Service Businesses [1] | |
|---|---|
| **82** | **CalPrivate Bank (2)** |
| 69 | USAA (top ranked bank) |
| 65 | Ritz Carlton (top ranked hotel) |
| 53 | Alaska Airlines (top ranked airline) |
| 38 | Chase |
| 36 | Bank of America |
| 21 | Wells Fargo |
| **33** | **U.S. Banking Average** |

(1) Source: Satmetrix Systems Inc. 3/11/21 - 11/24/23.

(2) Source: CPB NPS survey responses during the period of January through December 2023

TRUST

# EXECUTIVE LEADERSHIP

“ Our focus is on creating value - combine that with unparalleled Service and Teamwork, and it's a powerful combination for our Clients and Shareholders.

**Rick L. Sowers, President & CEO**

“ Finance strives to be a trusted advisor to all areas of CalPrivate Bank and ensures that we operate from a position of financial strength.  This is of critical importance so we can be a source of strength to our Clients when they need us most.

**Cory Stewart, EVP | Chief Financial Officer**

“ I am passionate about fostering Relationships with our Team and Clients to make all experiences as smooth as possible.

**Bob Llorens, EVP | Chief Credit Officer**

“ Our digitization strategy is delivering a safe Client Experience to save time in everyone’s daily routine.

**Curtis Birkmann, EVP | Chief Technology Officer**

“ CalPrivate Bank’s approach to Banking and serving Clients is the best I’ve seen in my 30 years of Banking.  Service is in our DNA, Clients are our top priority, and we operate as ONE Team to make sure every Client in every branch has the best experience in the business.

**Karen Lister, EVP | Chief Administrative Officer**

# EXECUTIVE LEADERSHIP

Our Bank's focus is on adding value by creating time savings and customized banking solutions through Bankers that have the heart for what's best for our Clients. That's what makes us uniquely special: creating Relationships by providing Solutions that earn Trust.

**Paul Azzi, EVP | Chief Banking Officer**

The support and investment of management and the board on cybersecurity allows me to sleep at night.

**Scott Hurtik, EVP | Chief Information Officer**

It's very easy to effectively build Relationships, provide creative Solutions and build Trust with our Clients when we live these values daily within our Team.

**Zina Robinson, EVP | Chief People Officer**

I am often asked what the difference is between PB Capital and other Banks. We are small enough to understand what we can do for our Clients, and big enough to get it done. Our Team has the knowledge, proper tools and have been empowered to make decisions.

**Steve Pollett, EVP | Chief SBA Officer**

# BOARD OF DIRECTORS

Selwyn Isakow, Chairman of the Board

Leda Csanka, Director

Keith B. Jones, Director

Leon Kassel, Director

Brett Lawrence, Director

James R. Parks, Director

# BOARD OF DIRECTORS

SiSi Pouraghabagher, Director

Ernest Rady, Director

Richard Smith, Director

Rick L. Sowers, President & CEO

Thomas Wornham, Director

## COMMUNITY ADVISORY BOARD - SAN DIEGO

Mark Abelkop
Alan Binder
Debby Cushman-Parrish
Scott Darnell
John Engle
Bernie Feldman
Gordon T. Frost Jr
Harold Frysh
Graeme Gabriel
Maxine Gellens
Ronald L. Graham
Howard Greenberg
Bradley R. Hall
Margo Lewis Hoy
Star Hughes
Sarah Kruer Jager
Robert Kolodny
Sami Ladeki
Isaac Levy
Mark Mandell
Herb Meistrich
Todd Mikles
Lloyd Russell, Sr
Jonathan Segal
Javier Serhan
Lawrence Sherman
Michael Stoff
Greg Strangman
Jerry Suppa
Rick Vann

## COMMUNITY ADVISORY BOARD – LOS ANGELES

Paula Winner Barnett
Drew Boyles
Cheryl Calhoun
Gerald Chamales
Ryan Choura
Kevin Cody
Meredith DeRenzis
Darin DeRenzis
Dr. Rick Fruhling
Joe Hiller
Bobby Khorshidi
Mark Limpert
Ed Lynch
Kelly Lynch
Ryan Martinez
Dan Norville
Jim Schlager
Pete Schmit
Jonathan Schurgin
Mark Schurgin
Mike Sekits
Suzanne Sharer
Mike Simms
Kelly Stroman
Todd Taugner
Marc Venegas
John Ward
Elka Worner

# COMMUNITY ADVISORY BOARD

# Diversity, Equity & Inclusion

*Our commitments create a culture of inclusion*

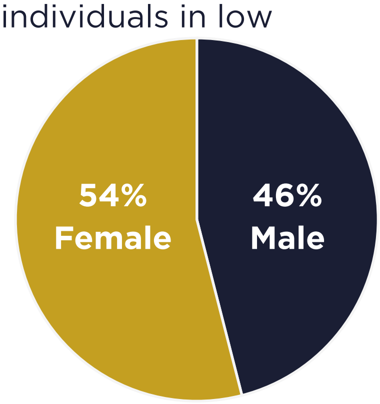
At CalPrivate Bank, our uncompromising commitment is for equal and fair treatment and respect for all people, regardless of race, gender identity, sexual orientation, economic status, disability or religion. This commitment is a core tenet of our mission with respect to our Team as well as the communities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


TRUST

Our active DEI Committee pursues opportunities to impact our community through actionable activities. Our 2023 achievements included:

- Providing training and practical tools for both employees and managers on how to effectively cultivate a diverse and inclusive environment.
- Establishing an internship program for individuals in underserved and low-income communities.
- Awarding scholarships to organizations that support individuals in low income, underserved, or MBE/WBE communities.
- Conducting internal compensation analysis to evaluate internal pay equity and competitive compensation programs, ensuring CalPrivate Bank remains the Employer of Choice.
- Continuously reviewing and updating all internal policies and programs to ensure 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.

# COMMUNITY OUTREACH

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

- Active participation in community engagement is a fundamental aspect of our company culture.
- Team members dedicate volunteer hours in a meaningful capacity to support the community.
- A Community Advisory Board is present in each market, made up of civil and business leaders to provide input to the Board and Management.

# COMMUNITY OUTREACH

## MYCHAL'S LEARNING PLACE

provides support, training and opportunities to youth and young adults with developmental disabilities to build their independence and pursue their goals and dreams. CalPrivate Bank supports Mychal's through annual financial support of their programs, and service on the Board of Directors. To further support the social enterprises, CalPrivate Bank uses Mychal's Print and Embroidery as the primary source of branded merchandise.

MYCHAL'S Learning Place

## LISC

LISC connects local groups across America with the capital and technical know-how to help build inclusive, resilient communities of opportunity. CalPrivate Bank supports this organization through donations and participation within the Local Advisory Committee (LAC).

> *"Participating on the Local Advisory Committee for LISC has allowed me to give back in a meaningful way and for CPB to foster opportunity within the local community*

LISC

**- Maria Vizcarra**

## WESTSIDE FOOD BANK

Our mission is to end hunger in our communities by providing access to free nutritious food through food acquisition and distribution, and by engaging the community and advocating for a strong food assistance network.

WESTSIDE FOOD BANK

"The wealth of the Westside community masks the deep need for food assistance. I'm grateful to be able to be of service to those in need" - Richard Smith, Director

**PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2023 AND 2022**

**CONTENTS**

**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, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, 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.

**Basis for Opinion**

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

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

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

**Change in Accounting Principle**

As discussed in Note 1 to the financial statements, the Company adopted the provisions of FASB Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023, using the modified retrospective approach with an adjustment at the beginning of the adoption period. Our opinion is not modified with respect to this matter.

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

*Allowance for Credit Losses*
The Company has a gross loan portfolio of $1.8 billion and related allowance for credit losses (ACL) of $24.5 million as of December 31, 2023. As discussed in Notes 1 and 3 to the Company's financial statements, the ACL represents management's estimate of expected credit losses over the contractual life of the loan portfolio. The ACL is estimated using relevant available information relating to past events, current economic conditions, and reasonable and supportable forecasts, as well as qualitative adjustments applied on a portfolio segment basis. The qualitative adjustments are used to bring the ACL to the level management believes is appropriate based on factors that are otherwise unaccounted for in the quantitative process.

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:

- Obtaining an understanding of the Company's process for establishing the ACL, including the models selected by management to estimate quantitative components of the ACL and qualitative adjustments made to the ACL. This includes the process utilized by management to challenge the model results and determine the best estimate of the ACL as of the balance sheet date.
- Evaluating the design and testing the operating effectiveness of controls relating to the development and approval of the ACL methodology, management's identification and determination of the significant assumptions used in the loss rate model, controls related to the reliability and accuracy of the data used in the models, analysis of the ACL results and management's review and approval of the ACL.
- Evaluating the appropriateness of the model methodology used to incorporate a reasonable and supportable forecast period and reversion to historical loss rates by inspecting the model documentation and by comparing it to relevant industry practices.
- Determining whether the loan portfolio is segmented by similar risk characteristics by comparing to the Company's business environment and relevant industry practices.
- Testing the completeness and accuracy of internal loan level data used as the basis for the calculation.
- Evaluating the reasonableness of forecasted economic scenarios.
- Evaluating the identification and measurement of the qualitative adjustments, 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 evaluated information that corroborates or contradicts management's reasonable and supportable forecast as well as identification and measurement of qualitative factors.

We have served as the Company's auditor since 2006 (such date incorporates the acquisition of certain assets of Vavrinek, Trine, Day & Co., LLP by Eide Bailly LLP in 2019).

Eide Bailly LLP

San Ramon, California
March 15, 2024

**PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY**
**CONSOLIDATED BALANCE SHEETS**
**DECEMBER 31, 2023 AND 2022**
**(in thousands, except share data)**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 19,811 | $ 14,495 |
| Interest-bearing deposits in other financial institutions | 39,667 | 30,409 |
| Interest-bearing deposits at Federal Reserve Bank | 118,622 | 83,738 |
| Cash and Cash Equivalents | 178,100 | 128,642 |
| Interest-bearing time deposits with other financial institutions | 4,000 | 7,923 |
| Debt securities available for sale (amortized cost of $114,646 and $119,022, net of allowance for credit losses of $0 and $0) | 102,499 | 104,652 |
| Loans held for sale | 1,233 | 7,061 |
| Loans, net of deferred loan origination fees and costs and unamortized discounts and premiums | 1,847,161 | 1,588,248 |
| Allowance for loan losses | (24,476) | (19,152) |
| Net Loans | 1,822,685 | 1,569,096 |
| Federal Home Loan Bank stock, at cost | 8,915 | 7,020 |
| Premises and equipment, net | 1,700 | 1,742 |
| Deferred tax asset, net | 12,789 | 12,403 |
| Servicing assets, net | 2,318 | 3,007 |
| Accrued interest receivable | 7,499 | 5,291 |
| Other assets | 10,730 | 8,043 |
| **Total Assets** | $ 2,152,468 | $ 1,854,880 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest-bearing deposits | $ 572,755 | $ 691,392 |
| Interest-bearing deposits | 1,302,615 | 983,730 |
| Total Deposits | 1,875,370 | 1,675,122 |
| Borrowings | 74,961 | 17,954 |
| Accrued interest payable and other liabilities | 16,354 | 18,480 |
| **Total Liabilities** | 1,966,685 | 1,711,556 |
| Commitments and Contingencies (Note 11) | | |
| **Shareholders' Equity** | | |
| Common stock, no par value, 20,000,000 shares authorized; 5,719,115 and 5,599,025 shares issued and outstanding for 2023 and 2022, respectively (Note 18) | 74,003 | 72,221 |
| Additional paid-in-capital | 3,679 | 3,353 |
| Retained earnings | 116,604 | 77,810 |
| Accumulated other comprehensive income (loss) | (8,503) | (10,060) |
| **Total Shareholders' Equity** | 185,783 | 143,324 |
| **Total Liabilities and Shareholders' Equity** | $ 2,152,468 | $ 1,854,880 |

See the accompanying Notes to the Consolidated Financial Statements.

**PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**
**(in thousands, except per share data)**

| | 2023 | 2022 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Interest and fees on loans | $ 116,548 | $ 80,922 |
| Interest-bearing deposits at the Federal Reserve Bank | 4,941 | 833 |
| Interest on investment securities | 1,762 | 1,773 |
| Dividends on Federal Home Loan Bank stock | 595 | 370 |
| Interest on deposits with other financial institutions | 1,816 | 634 |
| **Total Interest and Dividend Income** | 125,662 | 84,532 |
| **Interest Expense** | | |
| Interest expense on deposits | 30,589 | 4,897 |
| Interest expense on borrowings | 4,754 | 1,311 |
| **Total Interest Expense** | 35,343 | 6,208 |
| **Net Interest Income** | 90,319 | 78,324 |
| Provision for (reversal of) credit losses | (6,146) | 2,178 |
| **Net Interest Income After Provision for (Reversal of) Credit Losses** | 96,465 | 76,146 |
| **Noninterest Income** | | |
| Service charges on deposit accounts | 1,344 | 1,160 |
| Gain on sale of Small Business Administration ("SBA") loans | 1,547 | 4,678 |
| Servicing income, net | 545 | 202 |
| Other fees and miscellaneous income | 1,486 | 1,000 |
| **Total Noninterest Income** | 4,922 | 7,040 |
| **Noninterest Expense** | | |
| Compensation and employee benefits | 30,673 | 30,430 |
| Occupancy and equipment | 3,172 | 3,107 |
| Data processing | 3,887 | 3,411 |
| Professional services | 576 | 5,261 |
| Director compensation | 1,090 | 930 |
| Regulatory assessments | 1,191 | 858 |
| Marketing | 355 | 316 |
| Administrative and other expense | 3,026 | 3,931 |
| **Total Noninterest Expense** | 43,970 | 48,244 |
| **Income Before Provision for Income Taxes** | 57,417 | 34,942 |
| **Provision for Income Taxes** | 16,561 | 10,233 |
| **Net Income** | $ 40,856 | $ 24,709 |
| **Basic Earnings Per Share** | $ 7.18 | $ 4.41 |
| **Diluted Earnings Per Share** | $ 7.11 | $ 4.33 |

See the accompanying Notes to the Consolidated Financial Statements.

**PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**
**(in thousands)**

| | 2023 | 2022 |
|---|---|---|
| Net income | $ 40,856 | $ 24,709 |
| **OTHER COMPREHENSIVE INCOME (LOSS):** | | |
| Unrealized gains (losses) on securities available-for-sale: | | |
| Change in unrealized gains (losses) | 2,223 | (13,297) |
| | 2,223 | (13,297) |
| Related income tax effect: | | |
| Change in unrealized (gains) losses | (666) | 3,988 |
| | (666) | 3,988 |
| **TOTAL OTHER COMPREHENSIVE INCOME (LOSS)** | 1,557 | (9,309) |
| **TOTAL COMPREHENSIVE INCOME** | $ 42,413 | $ 15,400 |

See the accompanying Notes to the Consolidated Financial Statements.

# PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY
## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
## FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
## (in thousands, except share data)

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | Shares Outstanding | Amount | | | | |
| **Balance, January 1, 2022** | 5,627,735 | $ 70,850 | $ 3,343 | $ 54,922 | $ (751) | $ 128,364 |
| Net income | — | — | — | 24,709 | — | 24,709 |
| Share-based compensation | — | — | 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 |
| Cumulative effect of change in accounting principles | — | — | — | (2,033) | — | (2,033) |
| **Balance, January 1, 2023** | 5,599,025 | 72,221 | 3,353 | 75,777 | (10,060) | 141,291 |
| Net income | — | — | — | 40,856 | — | 40,856 |
| Share-based compensation | — | — | 1,485 | — | — | 1,485 |
| Transfer of liability share-based compensation awards to equity | — | — | 253 | — | — | 253 |
| Exercise of stock options, net settled | 83,926 | 995 | (558) | — | — | 437 |
| Issuance of restricted shares, net | 31,350 | — | — | — | — | — |
| Vesting of restricted shares | — | 258 | (258) | — | — | — |
| Forfeitures of restricted stock | (7,600) | — | — | — | — | — |
| Repurchase of restricted stock for taxes | (3,386) | — | (67) | (29) | — | (96) |
| Issuance of unrestricted shares | 15,800 | 529 | (529) | — | — | — |
| Other comprehensive income (loss) | — | — | — | — | 1,557 | 1,557 |
| **Balance, December 31, 2023** | 5,719,115 | $ 74,003 | $ 3,679 | $ 116,604 | $ (8,503) | $ 185,783 |

See the accompanying Notes to the Consolidated Financial Statements.

**PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**
**(in thousands)**

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Net income | $ 40,856 | $ 24,709 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 877 | 915 |
| Provision for (reversal of) credit losses | (6,146) | 2,178 |
| Net premium amortization on investment securities | 194 | 348 |
| Gain on sale of Small Business Administration ("SBA") loans | (1,547) | (4,678) |
| Proceeds from sale of SBA loans | 23,839 | 64,362 |
| Loans originated for sale | (16,830) | (43,575) |
| Amortization of servicing assets | 1,359 | 1,256 |
| (Recovery) impairment of servicing assets | (304) | 304 |
| Amortization of deferred loan fees, costs, premiums and discounts | (4,073) | (6,231) |
| Amortization of debt issuance costs | 7 | 7 |
| Share-based compensation expense | 1,485 | 1,278 |
| Deferred tax expense (benefit) | (202) | (1,059) |
| Change in accrued interest receivable and other assets | (2,394) | (1,019) |
| Change in accrued interest payable and other liabilities | (3,598) | 2,372 |
| **Net Cash Provided by Operating Activities** | 33,523 | 41,167 |
| **Cash Flows From Investing Activities** | | |
| Change in time deposits with other banks | 3,923 | (2,163) |
| Purchases of securities | (15,227) | (30,123) |
| Maturities and principal paydowns of securities | 18,612 | 12,768 |
| Purchase of Federal Home Loan Bank stock | (1,895) | (2,111) |
| Net increase in loans | (246,231) | (357,359) |
| Purchases of property and equipment | (835) | (364) |
| **Net Cash Used in Investing Activities** | (241,653) | (379,352) |
| **Cash Flows From Financing Activities** | | |
| Net increase in deposits | 200,247 | 329,460 |
| Net increase in (repayment of) borrowings | 57,000 | (10,000) |
| Share repurchases | — | (1,783) |
| Repurchase of restricted shares | (96) | (146) |
| Proceeds from exercise of stock options | 437 | 211 |
| **Net Cash Provided by Financing Activities** | 257,588 | 317,742 |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | 49,458 | (20,443) |
| **Cash and Cash Equivalents, Beginning of Year** | 128,642 | 149,085 |
| **Cash and Cash Equivalents, End of Year** | $ 178,100 | $ 128,642 |
| **Supplemental Cash Flow Information** | | |
| Interest paid | $ 33,507 | $ 5,953 |
| Taxes paid | $ 18,474 | $ 10,209 |
| Lease liabilities arising from obtaining right-of-use assets | $ 1,293 | $ 997 |

See the accompanying Notes to the Consolidated Financial Statements.

## 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 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 and 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. Below is a summary of significant accounting policies.

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 15, 2024 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 credit 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 ("HTM") or trading securities are deemed as available-for-sale ("AFS") and are measured at fair value, with unrealized gains and losses, net of applicable taxes, reported in accumulated other comprehensive income 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.

For HTM debt securities, the allowance for credit losses represents expected credit losses over the remaining expected life of the securities.

For AFS debt securities, the securities are considered impaired if the fair value is less than the amortized cost. The Company recognizes impairment losses in earnings if it has the intent to sell the debt security, or if it is more likely than not that the Company will be required to sell the debt security before recovery of its amortized cost. In these circumstances the impairment loss is recognized and is equal to the full difference between the amortized cost (net of allowance if applicable) and the fair value of the security. For impaired debt securities that the Company has the intent and ability to hold, the securities are evaluated to determine if a credit loss exists. The credit loss represents the difference between the present value of the cash flows expected to be collected and the amortized cost basis. If it is determined that a credit loss exists, that loss is recognized as an allowance for credit losses through the provision for credit losses, limited by the amount of impairment. Any impairment on debt securities that the Company has the intent and ability to hold not due to credit losses is recorded in other comprehensive income.

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 in earnings through a valuation allowance. 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 arise 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 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 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 regions. 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, and the straight-line method for interest-only loans and lines of credit.

The Company has elected to present accrued interest receivable balances separately from their underlying financial instruments on the Consolidated Balance Sheets. Therefore, accrued interest receivable balances are excluded from disclosures of loans held for investment.

Loans on which the accrual of interest has been discontinued 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 management's judgment, 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. The Company has elected to not measure an allowance for credit losses for accrued interest receivable due to the Company's policy of writing off uncollectible accrued interest receivable balances in a timely manner.

Allowance for Credit Losses ("ACL")

*Loans HFI*

The Company accounts for credit losses on loans HFI in accordance with ASC 326 under the current expected credit loss ("CECL") methodology, which requires the Company to record an estimate of expected lifetime credit losses for loans at the time of origination or acquisition. The ACL is maintained at a level deemed appropriate by management to provide for expected credit losses in the portfolio as of the date of the consolidated statements of financial condition. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. The Company has established a methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses expected on the loan portfolio. Additions to the allowance for credit losses are made by charges to the provision for credit losses. Losses on loans and leases are charged off against the allowance when all or a portion of a loan or lease is considered uncollectible. Subsequent recoveries on loans previously charged off, if any, are credited to the allowance when realized.

To calculate the allowance for loans collectively evaluated, management uses models developed by a third party. The Commercial real estate ("CRE"), Commercial and industrial ("C&I"), and Consumer lifetime loss rate models are used to estimate the expected losses over the life of the loan based on exposure at default, loan attributes and reasonable, supportable economic forecasts. The exposure at default considers the current unpaid balance, prepayment assumptions and expected utilization assumptions.

Key assumptions used in the models include portfolio segmentation, prepayments, risk ratings and certain calibration scalars, among others. The portfolios are segmented by loan level attributes such as loan type, loan size, date of origination, and delinquency status to create homogenous loan pools. Pool level metrics are calculated and loss rates are subsequently applied to the pools as the loans have like characteristics. Prepayment assumptions are embedded within the calculated loss rates and are based on the same data used for model development and incorporate adjustments for reasonable and supportable forecasts.

The Company elected to use multiple economic scenarios in determining the reserve to account for the reasonable and supportable forecasts. The scenarios include various projections of Gross Domestic Product ("GDP"), interest rates, property price indices, and employment measures. The scenarios are probability-weighted based on available information at the time of the forecasts. Scenario weighting and model parameters are reviewed for each calculation and are subject to change. The models recognize that the life of a loan may exceed the economic forecast, as such, the models include an assumption that each macro-economic variable will revert to a long-term expectation starting in years 2-4 of the forecast and largely completing within the first five years of the forecast. Because each of the criteria used is subject to change, the analysis of the ACL is not necessarily indicative of the trend of future loan losses in any particular loan category. The total ACL is available to absorb losses from any segment of the loan portfolio.

The CRE lifetime loss rate, C&I lifetime loss rate, and Consumer lifetime loss rate models were developed using the historical loss experience of all banks in the model’s developmental dataset. Banks in the model’s developmental dataset may have different loss experiences due to geography and portfolio as well as variances in operational and underwriting procedures, and therefore, the Company calibrates expected losses using a scalar for each model. Each scalar was calculated by examining the loss rates of peer banks that have similar operations, asset bases and geographical footprint to the Company and comparing these peer group loss rates to the model results. Peer group loss rates were used in the scalar calculation because management believes the peer group’s historical losses provide a better reflection of the Company’s current portfolio and operating procedures than the Company’s historical losses.

In addition to the quantitative assessment of the allowance, the Company’s ACL methodology also includes adjustments for qualitative factors, where appropriate, since historical information (such as historical net losses and economic cycles) may not always provide a sufficient basis for determining future expected credit losses. Qualitative adjustments may be related to and include, but not limited to factors such as: (i) management’s assessment of economic forecasts used in the model and how those forecasts align with management’s overall evaluation of current and expected economic conditions, (ii) organization specific risks such as credit concentrations, collateral specific risks, regulatory risks, and external factors that may ultimately impact credit quality, (iii) potential model limitations such as limitations identified through backtesting, and other limitations associated with factors such as underwriting changes, acquisition of new portfolios and changes in portfolio segmentation, and (iv) management’s overall assessment of the adequacy of the ACL, including an assessment of model data inputs used to determine the ACL.

The majority of the Company's loans share risk characteristics with other similar loans, and as a result are collectively evaluated. If a loan does not share risk characteristics with other loans, the Company generally estimates expected credit losses on an individual basis, considering expected repayment and conditions impacting that individual loan. Individually evaluated loans generally includes risk-rated loans that have been placed on nonaccrual status and collateral-dependent loans. If foreclosure is probable or the loan is collateral dependent, losses are measured using the fair value of the loan’s collateral, less estimated costs to sell.

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

*Unfunded Commitments*

The Company estimates expected losses for unfunded commitments over the contractual period in which it is exposed to credit risk through a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. An allowance for off-balance-sheet financial instruments is established using the Credit Conversion Factors (CCF) to estimate Exposure at Default (EAD), and then using the method consistent with the ACL methodology for each loan type. Effective with the adoption of ASC 326 on January 1, 2023, changes to the allowance for unfunded commitments are presented as a component of the provision for credit losses on the Consolidated Statements of Operations. For periods prior to the adoption of ASC 326, changes to the allowance for unfunded commitments are as presented as a component of administrative and other expenses on the Consolidated Statements of Operations. The allowance for unfunded commitments was $1.7 million as of both December 31, 2023 and 2022, and is presented as a component of accrued interest payable and other liabilities on the Consolidated Balance Sheets.

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 a reduction to provision for income taxes in the Consolidated Statements of Operations. At December 31, 2023 and 2022, the net LIHTC investment totaled $2.0 million and $2.1 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 $0.1 million and nominal amount at December 31, 2023 and 2022, respectively, that were included in other assets on the Consolidated Balance Sheets.

In addition, at December 31, 2023 and 2022, the Company had $2.5 million and $1.9 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, plus or minus changes resulting from observable transactions involving the same or similar investments from the same issuer, minus impairment, if any, 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 shorter of 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).

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 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 on 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 tax effects from an uncertain tax position are 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, 2023 and 2022.

Commitments and Contingencies

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 and Marketing Costs

The Company expenses the cost of advertising and marketing 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.

Comprehensive Income

The change in unrealized gains and losses on securities available for sale is the only component of other 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 2023 and 2022.

Earnings Per Share ("EPS")

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS is computed using the weighted-average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation arrangements. 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 Consolidated Statements 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.

Recently Adopted Accounting Standards

On January 1, 2023, the Company adopted ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. ASC 326 is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The CECL methodology applies 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 ASC 326, credit losses for available-for-sale ("AFS") debt securities with unrealized losses are measured in a manner similar previously applicable U.S. GAAP except that the losses are recognized an allowance rather than as a reduction in the amortized cost of the securities. ASC 326 also simplifies the accounting model for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for credit losses. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. For the accounting policy on the allowance for loan losses that was in effect prior to the adoption of ASC 326, See Note 1 to our Financial Statements for the year ended December 31, 2022. The Company recorded on the Consolidated Balance Sheets a decrease to net loans of $1.9 million, an increase to deferred tax asset, net of $0.9 million, an increase to accrued interest payable and other liabilities of $1.0 million and a decrease to retained earnings of $2.0 million as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of adopting ASC 326 on the allowance for credit losses.

| | December 31, 2022 | January 1, 2023 | |
|---|---|---|---|
| | **Pre-ASC 326 Adoption** | **As Reported Under ASC 326** | **Impact of ASC 326 Adoption** |
| Allowance for loan losses: | | | |
| Commercial Real Estate | 13,510 | 16,900 | 3,390 |
| Commercial Business | 5,619 | 4,092 | (1,527) |
| Consumer | 23 | 70 | 47 |
| Total allowance for loan losses | 19,152 | 21,062 | 1,910 |
| Allowance for Unfunded Commitments | 1,718 | 2,692 | 974 |
| Total allowance for credit losses | $ 20,870 | $ 23,754 | $ 2,884 |

In addition, on January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance on troubled debt restructurings ("TDRs") and requires enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. This guidance was applied on a prospective basis.

Recent Accounting Guidance Not Yet Effective

In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures* (Topic 323). The amendments in this ASU expand the population of tax credit investments for which an investor may elect to apply the proportional amortization method and require certain disclosures for tax credit investments. For public companies amendments in this ASU are effective for fiscal years beginning after December 15, 2023, with early adoption permitted. The Company currently uses the proportional amortization method for low income housing tax credit investments. We do not expect this ASU to have a material effect on our consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting - Improvements to Reportable Segment Disclosures* (Topic 280) to improve reportable segment disclosure requirements through enhanced disclosures about significant segment expenses. For public companies amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024 with early adoption permitted. The Company does not expect this ASU to have a material effect on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Tax - Improvements to Income Tax Disclosures* (Topic 740) which requires reporting companies to break out their income tax expense and tax rate reconciliation in more detail. For public companies, the requirements will become effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not expect this ASU to have a material effect on our consolidated financial statements.

## NOTE 2 – DEBT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale at December 31, 2023 and 2022, and the corresponding amounts of gross unrealized gains and losses (in thousands):

| December 31, 2023 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| Securities Available for Sale: | | | | |
| US Treasury securities | $ 11,490 | $ — | $ (213) | 11,277 |
| SBA Loan Pool securities | 3,532 | — | (296) | 3,236 |
| Mortgage-backed securities | 97,874 | 90 | (11,356) | 86,608 |
| Corporate debt securities | 1,750 | — | (372) | 1,378 |
| Total | $ 114,646 | $ 90 | $ (12,237) | $ 102,499 |
| **December 31, 2022** | | | | |
| 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 |

At December 31, 2023 and December 31, 2022, 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, 2023 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.

| (in thousands) | Available for Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due within one year | $ 6,496 | $ 6,445 |
| Due after one year through five years | 4,993 | 4,831 |
| Due after five years through ten years | 5,283 | 4,615 |
| Mortgage-backed securities | 97,874 | 86,608 |
| Total debt securities | $ 114,646 | $ 102,499 |

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, 2023** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** | **Fair Value** | **Gross Unrealized Losses** |
| US Treasury securities | $ — | $ — | $ 11,277 | $ (213) | $ 11,277 | $ (213) |
| SBA Loan Pool securities | — | — | 3,236 | (296) | 3,236 | (296) |
| Mortgage-backed securities | 5,909 | (11) | 72,170 | (11,345) | 78,079 | (11,356) |
| Corporate debt securities | — | — | 1,378 | (372) | 1,378 | (372) |
| Total | $ 5,909 | $ (11) | $ 88,061 | $ (12,226) | $ 93,970 | $ (12,237) |
| **December 31, 2022** | | | | | | |
| 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) |

As of December 31, 2023, there were 2 mortgage-backed securities with unrealized losses of $11 thousand that had been in a continuous loss position for less than 12 months and 32 securities (3 US Treasury securities, 2 SBA Loan Pool securities, 25 mortgage-backed securities and 2 corporate securities) with unrealized losses of $12.2 million that had been in a continuous loss position for more than 12 months. Unrealized losses on debt securities have not been recognized in earnings because the issuers are of high credit quality, management does not intend to sell and it is not likely that management will be required to sell the securities prior to their anticipated recovery, and the decline in fair value is due to changes in interest rates and other market conditions. The Company had no realized gains or losses on sales of securities in 2023 and 2022. The Company had no realized gains or losses on sales of securities in 2023 and 2022.

The Company had pledged debt securities with a fair value of $72.2 million and $6.5 million to secure borrowing arrangements discussed in Note 8, as of December 31, 2023 and 2022, respectively.

## NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

As discussed in Note 1, on January 1, 2023, the Company adopted ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP.

*Disclosures for periods subsequent to the adoption of ASC 326*

The Company's loan portfolio is divided into three portfolio segments based on which model is used in the estimate of the allowance for loan losses: Commercial Real Estate, which uses the CRE lifetime loss rate model; Commercial Business, which uses the C&I lifetime loss rate model; and Consumer, which uses the Consumer lifetime loss rate model. Within each portfolio segment the Company monitors and assesses the credit risk in the following classes of loans, based on the risk characteristics of each loan class, and the Company may apply qualitative adjustments to an individual loan class where appropriate.

| Commercial Real Estate | Commercial Business | Consumer |
|---|---|---|
| • Investor owned<br>• Owner occupied<br>• Multifamily<br>• Secured by single family<br>• Land and construction<br>• SBA secured by real estate | • Commercial and Industrial<br>• SBA non-real estate secured | • Consumer |

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

| | 2023 |
|---|---|
| Commercial Real Estate (CRE): | |
| Investor owned | $ 584,765 |
| Owner occupied | 202,485 |
| Multifamily | 168,776 |
| Secured by single family | 146,380 |
| Land and construction | 33,727 |
| SBA secured by real estate | 348,480 |
| Total CRE | 1,484,613 |
| Commercial business: | |
| Commercial and industrial | 351,069 |
| SBA non-real estate secured | 10,055 |
| Total commercial business | 361,124 |
| Consumer | 3,273 |
| Loans receivable, gross | 1,849,010 |
| Net deferred loan origination fees and costs and unamortized discounts and premiums | (1,849) |
| Allowance for loan losses | (24,476) |
| Loans receivable, net | $ 1,822,685 |

The following table summarizes the allocation of the allowance as well as the activity in the allowance attributed to the loan portfolio segments and unfunded commitments as of and for the year ended December 31, 2023 (in thousands):

| December 31, 2023 | Commercial Real Estate | Commercial Business | Consumer | Total |
|---|---|---|---|---|
| Allowance for Loan Losses: | | | | |
| Beginning of Year | $ 13,510 | $ 5,619 | $ 23 | $ 19,152 |
| Cumulative effect of a change in accounting principle | 3,390 | (1,527) | 47 | 1,910 |
| Provision for (reversal of) credit losses | 1,755 | (6,935) | (15) | (5,195) |
| Gross charge-offs | — | (7) | — | (7) |
| Gross recoveries | — | 8,616 | — | 8,616 |
| End of Year | 18,655 | 5,766 | 55 | 24,476 |
| Allowance for Unfunded Commitments: | | | | |
| Beginning of Year | 1,054 | 663 | 1 | 1,718 |
| Cumulative effect of a change in accounting principle | 742 | 232 | — | 974 |
| Reversal of credit losses | (626) | (324) | (1) | (951) |
| End of Year | 1,170 | 571 | — | 1,741 |
| Allowance for Credit Losses | $ 19,825 | $ 6,337 | $ 55 | $ 26,217 |
| Allowance for Loan Losses by Impairment Methodology: | | | | |
| Individually evaluated | $ — | $ 1,250 | $ — | $ 1,250 |
| Collectively evaluated | 18,655 | 4,516 | 55 | 23,226 |
| | $ 18,655 | $ 5,766 | $ 55 | $ 24,476 |

During the year ended December 31, 2023, the Company reached a settlement with the Receiver for ANI Investments and Gina Champion-Cain in which the Company recovered $7.7 million plus certain rights to future recoveries from a guarantor of a loan that the Company previously charged off in 2019. This recovery amount represents 80% of the original principal charge-off and is net of the participant bank's share. In addition, the Company also recovered $0.9 million related to a loan that was originated and written off by San Diego Private Bank ("SDPB") prior to SDPB merging with the Company on April 2, 2013.

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 according to credit risk characteristics. 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.

**Nonaccrual**– 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 management's judgment, there is reasonable doubt as to collectability.

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, 2023 (in thousands):

| | Term Loans Amortized Cost Basis by Origination Year | | | | Revolving Loans Amortized Cost Basis | | |
|---|---|---|---|---|---|---|---|
| **December 31, 2023** | **2023** | **2022** | **2021** | **Prior** | **Within the Revolving Period** | **Converted to Term Loans** | **Total** |
| Commercial Real Estate (CRE): | | | | | | | |
| Investor owned | | | | | | | |
| Pass | $ 111,776 | $ 175,960 | $ 121,694 | $ 148,251 | $ 18,716 | $ 6,672 | $ 583,069 |
| Total | 111,776 | 175,960 | 121,694 | 148,251 | 18,716 | 6,672 | 583,069 |
| Owner occupied | | | | | | | |
| Pass | 28,579 | 41,779 | 43,406 | 64,597 | 12,972 | 2,368 | 193,701 |
| Special Mention | 2,335 | 1,605 | — | — | — | — | 3,940 |
| Substandard – Still accruing | — | — | — | 3,733 | — | — | 3,733 |
| Substandard – Nonaccrual | — | — | — | 1,178 | — | — | 1,178 |
| Total | 30,914 | 43,384 | 43,406 | 69,508 | 12,972 | 2,368 | 202,552 |
| Multifamily | | | | | | | |
| Pass | 25,955 | 65,382 | 42,412 | 31,517 | 2,334 | 724 | 168,324 |
| Total | 25,955 | 65,382 | 42,412 | 31,517 | 2,334 | 724 | 168,324 |
| Secured by single family | | | | | | | |
| Pass | 35,791 | 34,382 | 26,783 | 23,401 | 21,098 | 1,999 | 143,454 |
| Special Mention | — | — | — | 2,916 | — | — | 2,916 |
| Total | 35,791 | 34,382 | 26,783 | 26,317 | 21,098 | 1,999 | 146,370 |
| Land and construction | | | | | | | |
| Pass | 1,902 | 17,818 | 13,935 | — | — | — | 33,655 |
| Total | 1,902 | 17,818 | 13,935 | — | — | — | 33,655 |
| SBA secured by real estate | | | | | | | |
| Pass | 115,369 | 84,028 | 57,336 | 83,084 | — | — | 339,817 |
| Special Mention | — | 1,470 | 3,512 | 2,314 | — | — | 7,296 |
| Substandard – Still accruing | — | — | — | 2,117 | — | — | 2,117 |
| Total | 115,369 | 85,498 | 60,848 | 87,515 | — | — | 349,230 |
| Total commercial real estate | | | | | | | |
| Pass | 319,372 | 419,349 | 305,566 | 350,850 | 55,120 | 11,763 | 1,462,020 |
| Special Mention | 2,335 | 3,075 | 3,512 | 5,230 | — | — | 14,152 |
| Substandard – Still accruing | — | — | — | 5,850 | — | — | 5,850 |
| Substandard – Nonaccrual | — | — | — | 1,178 | — | — | 1,178 |
| Total | 321,707 | 422,424 | 309,078 | 363,108 | 55,120 | 11,763 | 1,483,200 |

| December 31, 2023 | Term Loans Amortized Cost Basis by Origination Year | | | | Revolving Loans Amortized Cost Basis | | Total |
|---|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2021 | Prior | Within the Revolving Period | Converted to Term Loans | |
| Commercial business: | | | | | | | |
| Commercial and industrial | | | | | | | |
| Pass | 18,587 | 49,091 | 25,672 | 19,848 | 230,199 | 6,308 | 349,705 |
| Substandard – Nonaccrual | — | — | — | — | 2,500 | — | 2,500 |
| Total | 18,587 | 49,091 | 25,672 | 19,848 | 232,699 | 6,308 | 352,205 |
| SBA non-real estate secured | | | | | | | |
| Pass | 3,020 | 206 | 833 | 3,072 | — | — | 7,131 |
| Substandard – Nonaccrual | — | — | 1,027 | 323 | — | — | 1,350 |
| Total | 3,020 | 206 | 1,860 | 3,395 | — | — | 8,481 |
| Total commercial business | | | | | | | |
| Pass | 21,607 | 49,297 | 26,505 | 22,920 | 230,199 | 6,308 | 356,836 |
| Substandard – Nonaccrual | — | — | 1,027 | 323 | 2,500 | — | 3,850 |
| Total | 21,607 | 49,297 | 27,532 | 23,243 | 232,699 | 6,308 | 360,686 |
| Consumer: | | | | | | | |
| Total consumer | | | | | | | |
| Pass | 1,044 | — | — | — | 2,231 | — | 3,275 |
| Total | 1,044 | — | — | — | 2,231 | — | 3,275 |
| Total loans: | | | | | | | |
| Pass | 342,023 | 468,646 | 332,071 | 373,770 | 287,550 | 18,071 | 1,822,131 |
| Special Mention | 2,335 | 3,075 | 3,512 | 5,230 | — | — | 14,152 |
| Substandard – Still accruing | — | — | — | 5,850 | — | — | 5,850 |
| Substandard – Nonaccrual | — | — | 1,027 | 1,501 | 2,500 | — | 5,028 |
| Total | $ 344,358 | $ 471,721 | $ 336,610 | $ 386,351 | $ 290,050 | $ 18,071 | $1,847,161 |
| Gross charge offs: | | | | | | | |
| SBA non-real estate secured | — | — | — | 7 | — | — | 7 |
| Total commercial business | — | — | — | 7 | — | — | 7 |
| Total gross charge offs | — | — | — | 7 | — | — | 7 |

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2023 (in thousands):

| December 31, 2023 | Total Nonaccrual | Nonaccrual With No Allowance for Credit Loss | Loans Past Due 90 or more Days and Still Accruing |
|---|---|---|---|
| Commercial Real Estate (CRE): | | | |
| Investor owned | $ — | $ — | $ — |
| Owner occupied | 1,178 | 1,178 | — |
| Multifamily | — | — | — |
| Secured by single family | — | — | — |
| Land and construction | — | — | — |
| SBA secured by real estate | — | — | — |
| Total CRE | 1,178 | 1,178 | — |
| Commercial business: | | | |
| Commercial and industrial | 2,500 | — | — |
| SBA non-real estate secured | 1,350 | 1,350 | — |
| Total commercial business | 3,850 | 1,350 | — |
| Consumer | — | — | — |
| Total | $ 5,028 | $ 2,528 | $ — |

The following table presents the amortized cost basis of collateral-dependent loans by class of loans and type of collateral as of December 31, 2023 (in thousands).

| December 31, 2023 | Real Estate | Equipment | Business Blanket Lien | Total |
|---|---|---|---|---|
| Commercial Real Estate (CRE): | | | | |
| Investor owned | $ — | $ — | $ — | $ — |
| Owner occupied | 1,178 | — | — | 1,178 |
| Multifamily | — | — | — | — |
| Secured by single family | — | — | — | — |
| Land and construction | — | — | — | — |
| SBA secured by real estate | — | — | — | — |
| Total CRE | 1,178 | — | — | 1,178 |
| Commercial business: | | | | |
| Commercial and industrial | — | — | — | — |
| SBA non-real estate secured | — | 323 | 1,027 | 1,350 |
| Total commercial business | — | 323 | 1,027 | 1,350 |
| Consumer | — | — | — | — |
| Total | $ 1,178 | $ 323 | $ 1,027 | $ 2,528 |

The following table presents the aging of the amortized cost basis in past-due loans as of as of December 31, 2023 (in thousands).

| December 31, 2023 | Current | 30 - 59 Days Past due | 60 - 89 Days Past Due | 90+ Days Past Due | Total Past Due | Total |
|---|---|---|---|---|---|---|
| Commercial Real Estate (CRE): | | | | | | |
| Investor owned | $ 583,069 | $ — | $ — | $ — | $ — | $ 583,069 |
| Owner occupied | 202,552 | — | — | — | — | 202,552 |
| Multifamily | 168,324 | — | — | — | — | 168,324 |
| Secured by single family | 146,370 | — | — | — | — | 146,370 |
| Land and construction | 33,655 | — | — | — | — | 33,655 |
| SBA secured by real estate | 349,230 | — | — | — | — | 349,230 |
| Total CRE | 1,483,200 | — | — | — | — | 1,483,200 |
| Commercial business: | | | | | | |
| Commercial and industrial | 349,705 | — | — | 2,500 | 2,500 | 352,205 |
| SBA non-real estate secured | 5,661 | 1,470 | — | 1,350 | 2,820 | 8,481 |
| Total commercial business | 355,366 | 1,470 | — | 3,850 | 5,320 | 360,686 |
| Consumer | 3,275 | — | — | — | — | 3,275 |
| Total | $1,841,841 | $ 1,470 | $ — | $ 3,850 | $ 5,320 | $1,847,161 |

As of December 31, 2023, the Company had no loans that were both experiencing financial difficulty and were modified during the year.

The following table presents loans purchased and sold during the year by portfolio segment (in thousands):

| | Commercial Real Estate | Commercial Business | Consumer | Total |
|---|---|---|---|---|
| **Year ended December 31, 2023:** | | | | |
| Purchases | $ 11,452 | $ — | $ — | $ 11,452 |
| Sales | $ 12,228 | $ 10,430 | $ — | $ 22,658 |

*Disclosures for periods prior to the adoption of ASC 326*

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

| | 2022 |
|---|---|
| Real estate | $ 1,015,773 |
| Commercial | 306,986 |
| SBA | 265,506 |
| Consumer | 1,798 |
| Loans receivable, gross | 1,590,063 |
| Net deferred loan origination fees and costs | (1,815) |
| Allowance for loan losses | (19,152) |
| Loans receivable, net | $ 1,569,096 |

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 of PPP loans as of December 31, 2022.

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 year ended December 31, 2022 (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 |

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 (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 |

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

| December 31, 2022 | Still Accruing 30-89 Days Past Due | Still Accruing 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 |

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.

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

**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 $22.7 million and $61.2 million during 2023 and 2022, respectively. Loans serviced for others totaled $147.3 million and $177.3 million at December 31, 2023 and 2022, 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):

| | 2023 | 2022 |
|---|---|---|
| Balance, beginning of period | $ 3,007 | $ 3,079 |
| Additions | 366 | 1,488 |
| Amortization | (1,359) | (1,256) |
| Reversal (Impairment) | 304 | (304) |
| Balance, end of period | $ 2,318 | $ 3,007 |

**NOTE 5 – PREMISES AND EQUIPMENT**

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

| | 2023 | 2022 |
|---|---|---|
| Leasehold improvements | $ 1,894 | $ 1,888 |
| Furniture, fixtures, equipment and software | 5,205 | 4,376 |
| | 7,099 | 6,264 |
| Accumulated depreciation and amortization | (5,399) | (4,522) |
| | $ 1,700 | $ 1,742 |

Total depreciation and amortization expense for the years ended December 31, 2023 and 2022, 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.

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. 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 2023, the Company entered into amendments of its leases of office space in Mission Valley, Temecula and Newport Beach which extended the terms of the leases by a range of 12 to 36 months. As a result of these lease amendments, the Company obtained operating lease right-of-use assets in exchange for lease obligations of $1.3 million in 2023.

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

| | 2023 | 2022 |
|---|---|---|
| Operating lease cost | $ 1,830 | $ 1,754 |
| Less sublease income | (35) | (44) |
| Total lease cost, net | $ 1,795 | $ 1,710 |

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

| | Balance Sheet Classification | December 31, 2023 | December 31, 2022 |
|---|---|---|---|
| Right-of-use assets: | | | |
| Operating leases | Other assets | $ 3,096 | $ 3,265 |
| Total right-of-use assets | | $ 3,096 | $ 3,265 |
| Lease liabilities: | | | |
| Operating leases | Accrued interest payable and other liabilities | $ 3,423 | $ 3,985 |
| Total lease liabilities | | $ 3,423 | $ 3,985 |

The amount of the lease liability and right-of-use asset is impacted by the lease term and the discount rate applied to determine the present value of the future lease payments. The average remaining term of our operating leases is 2.5 years and 2.4 years as of December 31, 2023 and 2022, respectively. The Company used a weighted average discount rate of 4.84% and 4.83% for measuring its operating lease liability as of December 31, 2023 and 2022, respectively.

At December 31, 2023, future lease payments under these operating leases were as follows (in thousands):

| | Amount |
|---|---|
| 2024 | $ 1,623 |
| 2025 | 1,260 |
| 2026 | 594 |
| 2027 | 182 |
| Total undiscounted lease payments | 3,659 |
| Less: Imputed interest | (236) |
| Present value of lease liability | $ 3,423 |

In October 2023, the Company entered into a new lease agreement to replace its current San Diego branch and office space location. The lease term will be 89 months from commencement, which is expected to begin in mid-2024. The agreement includes fixed lease payments totaling approximately $2.8 million. Additionally, the lease provides the company with a five-year extension option.

## NOTE 7 – DEPOSITS

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

| | 2023 | 2022 |
|---|---|---|
| Noninterest-bearing deposits | $ 572,755 | $ 691,392 |
| Interest-bearing checking accounts | 121,872 | 174,248 |
| Savings and money market | 757,937 | 655,051 |
| Time deposit accounts under $250,000 | 92,280 | 59,057 |
| Time deposit accounts $250,000 and over | 330,526 | 95,374 |
| | $ 1,875,370 | $ 1,675,122 |

As of December 31, 2023 and 2022, all noninterest-bearing deposits are demand deposits.

Total deposits above include brokered non-maturity deposits of $15.4 million and $105.2 million as of December 31, 2023 and 2022, respectively. Time deposits accounts over $250,000 includes fully insured brokered deposits of $275.2 million and $61.6 million at December 31, 2023 and 2022, respectively.

In addition, time deposits accounts under $250,000 includes deposits obtained through reciprocal deposit programs of $81.4 million and $52.5 million at December 31, 2023 and 2022, respectively.

The maturity of time deposits as of December 31, 2023 is as follows (in thousands):

| | 2023 |
|---|---|
| Within one year | $ 291,924 |
| One year to three years | 86,081 |
| Over three years | 44,801 |
| | $ 422,806 |

## NOTE 8 – BORROWING ARRANGEMENTS

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

A summary of FHLB borrowings as of December 31, 2023, is as follows (in thousands):

| Lender | Maturity | Rate of Interest | Amount |
|---|---|---|---|
| Federal Home Loan Bank | January 8, 2024 | 5.65% | $ 5,000 |
| Federal Home Loan Bank | January 8, 2024 | 5.63% | 5,000 |
| Federal Home Loan Bank | January 9, 2024 | 5.63% | 5,000 |
| Federal Home Loan Bank | January 16, 2024 | 5.60% | 5,000 |
| Federal Home Loan Bank | January 29, 2024 | 5.61% | 5,000 |
| Federal Home Loan Bank | January 30, 2024 | 5.61% | 5,000 |
| Federal Home Loan Bank | March 25, 2024 | 4.80% | 12,000 |
| Federal Home Loan Bank | May 3, 2024 | 4.91% | 5,000 |
| Federal Home Loan Bank | May 5, 2025 | 4.25% | 5,000 |
| Federal Home Loan Bank | March 17, 2028 | 3.96% | 5,000 |
| Total | | | $ 57,000 |

The Company had no FHLB borrowings as of December 31, 2022.

At December 31, 2023 and 2022, loans with a principal balance of approximately $703.6 million and $569.3 million and securities with a principal balance of approximately $6.1 million and $6.5 million were pledged as collateral to the FHLB for the borrowings, respectively. At December 31, 2023 and 2022, the Company had remaining financing availability of approximately $428.7 million and $214.0 million based on the level of pledged loans and securities, respectively, after consideration of FHLB borrowings outstanding and a $8.0 million and $45.0 million letter of credit to secure deposits, respectively.

As of December 31, 2023 and 2022, loans with a principal balance of approximately $686.1 million and $206.1 million and securities with a principal balance of $75.5 million and none were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of approximately $559.8 million and $157.8 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2023 and 2022.

The Company has borrowing lines with correspondent banks totaling $100.0 million as of December 31, 2023. There were no balances outstanding on these borrowing lines as of or for the year ended December 31, 2023.

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 as of December 31, 2023 and 2022.

## NOTE 9 – INCOME TAXES

The provision for income tax for the years ended December 31, 2023 and 2022 consisted of the following (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Current Taxes: | | |
| Federal | $ 10,727 | $ 7,142 |
| State | 5,946 | 4,122 |
| | 16,673 | 11,264 |
| Deferred Taxes | (202) | (1,059) |
| Tax Credit Investment Amortization | 90 | 28 |
| Provision for Income Tax | $ 16,561 | $ 10,233 |

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

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Statutory Federal Tax | $ 12,058 | 21.0% | $ 7,338 | 21.0% |
| State Franchise Tax, Net of Federal Benefit | 4,761 | 8.3% | 2,959 | 8.5% |
| Other Items, Net | (258) | (0.5%) | (64) | (0.2%) |
| Actual Tax Expense | $ 16,561 | 28.8% | $ 10,233 | 29.3% |

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 assets recognized in the accompanying Consolidated Balance Sheets at December 31 (in thousands):

| | 2023 | 2022 |
|---|---|---|
| Deferred Tax Assets: | | |
| Operating loss carryforwards | $ 1,098 | $ 1,328 |
| California State Income Tax | 1,251 | 818 |
| Allowance for loan losses | 7,236 | 5,662 |
| Lease liability | 1,012 | 1,178 |
| Securities available for sale | 3,644 | 4,311 |
| Bonus accrual | 770 | 676 |
| Other | 1,670 | 1,424 |
| | 16,681 | 15,397 |
| Deferred Tax Liabilities: | | |
| Deferred loan costs | (2,589) | (1,580) |
| Deferred lease costs | (915) | (965) |
| Other | (388) | (449) |
| | (3,892) | (2,994) |
| Net Deferred Tax Assets | $ 12,789 | $ 12,403 |

At December 31, 2023, the Company had total net operating loss carryforwards of approximately $3.2 million for Federal income and approximately $5.1 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 relate to 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 $333 thousand for the 2011 acquisition, and $446 thousand 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, 2020 through 2022 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, 2019 through 2022 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 awards 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 16,627 were available as of December 31, 2023. 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, at the discretion of the Board, if there is a change of control, as defined in the PBAM Plan, and in certain other circumstances.

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 $1.5 million and $1.3 million in 2023 and 2022, 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 2023 and 2022, 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 following were the weighted-average assumptions as of the grant date used to determine the fair value of options granted in 2023:

| | 2023 |
|---|---|
| Dividend yield | 0.00% |
| Expected life | 6.23 years |
| Expected volatility | 32.60% |
| Risk-free interest rate | 4.09% |
| Weighted-average fair value at grant date | $ 16.97 |

The Company did not grant stock options in 2022.

A summary of the status of the stock options issued and outstanding as of December 31, 2023, 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 | 176,197 | $ 15.02 | | |
| Granted | 30,000 | 25.15 | | |
| Exercised | (113,197) | 12.18 | | |
| Forfeited or expired | - | - | | |
| Balance, end of year | 93,000 | $ 21.74 | 5.32 | $ 1,223 |
| Options exercisable | 63,000 | $ 20.12 | 3.40 | $ 938 |

The intrinsic value of option shares exercised during 2023 and 2022 was $2.3 million and $0.5 million, respectively. As of December 31, 2023, total unrecognized compensation cost related to outstanding stock options was $0.4 million.

Tax benefits recognized in income relating to exercised stock options in 2023 was $0.6 million and $0.1 million in 2022.

A summary of the status of the restricted stock grants issued as of December 31, 2023 and changes during the year then ended follows:

| | 2023 | |
|---|---|---|
| | Unvested Shares | Weighted-Average Grant Date Fair Value |
| Balance, beginning of year | 34,037 | $ 20.83 |
| Granted | 31,350 | 26.00 |
| Shares Vested | (15,937) | 20.33 |
| Forfeited or expired | (7,600) | 24.20 |
| Balance, end of year | 41,850 | $ 24.28 |

The total fair value of restricted stock grants that vested during 2023 and 2022 was $0.3 million and $1.2 million, respectively. As of December 31, 2023, there was $0.8 million of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.9 years.

A summary of the status of the LTIP restricted stock unit grants issued as of December 31, 2023 under our LTIP Plan, and changes during the year then ended follows:

| | 2023 | |
|---|---|---|
| | Unvested Restricted Stock Units | Weighted-Average Grant Date Fair Value |
| Balance, beginning of year | 67,325 | $ 28.53 |
| Granted | 22,800 | 32.89 |
| Shares Vested | — | — |
| Forfeited or expired | (2,250) | 29.39 |
| Balance, end of year | 87,875 | $ 29.64 |

As of December 31, 2023, there was $0.8 million of total unrecognized compensation cost related to restricted stock unit grants that will be recognized over a weighted-average period of 1.5 years subject to the achievement of specified performance criteria.

In addition to the share-based compensation awards described above, the Company also issued 15,800 and 12,240 unrestricted shares to directors during 2023 and 2022, 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 Consolidated Balance Sheets.

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, 2023 and 2022 (in thousands).

| | 2023 | 2022 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risks: | | |
| Commitments to extend credit | $ 308,991 | $ 373,273 |
| Standby letters of credit | 11,587 | 8,366 |
| | $ 320,578 | $ 381,639 |

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 that involved in extending loan facilities to customers. The Company holds collateral supporting those commitments if deemed necessary.

The Company has committed to invest in partnerships that sponsor affordable housing projects utilizing the Low- Income Housing Tax Credit ("LIHTC") pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments 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 agreements. In addition, the Company invests in other CRA investments including Small Business Investment Companies. At December 31, 2023 and 2022, the Company had unfunded commitments to contribute capital to these LIHTC and other CRA investments totaling $3.3 million and $4.0 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 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, 2023 and 2022, 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):

| | 2023 | 2022 |
|---|---|---|
| Balance, Beginning of Year | $ 8,244 | $ 7,520 |
| New Loans and Advances | 100 | 1,650 |
| Repayments | (6,294) | (926) |
| Balance, End of Year | $ 2,050 | $ 8,244 |

As of December 31, 2023 and 2022, the Company held deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately $49.6 million and $22.4 million, respectively.

The Bank has 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 is for 12 months and is subject to annual renewal. The contract was renewed in March 2023 for an additional one-year term.

The Bank has 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 is 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. Based upon the Bank's election, the net unrealized gain (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, 2023 and 2022.

As of December 31, 2023 and 2022, 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, 2023 and 2022, 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, 2023** | | | | | | |
| Total capital (to risk-weighted assets) | $ 231,121 | 12.3% | $ 150,852 | 8.0% | $ 188,565 | 10.0% |
| Tier 1 capital (to risk-weighted assets) | 207,551 | 11.0% | 113,139 | 6.0% | 150,852 | 8.0% |
| CET1 capital (to risk-weighted assets) | 207,551 | 11.0% | 84,854 | 4.5% | 122,567 | 6.5% |
| Tier 1 capital (to average assets) | 207,551 | 10.1% | 82,419 | 4.0% | 103,024 | 5.0% |
| **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% |

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):

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Net Income | Shares | Net Income | Shares |
| Net income as reported | $ 40,856 | | $ 24,709 | |
| Less: Earnings allocated to participating securities | (293) | | (203) | |
| Net income available to common shareholders | 40,563 | | 24,506 | |
| Shares outstanding at year-end | | 5,719 | | 5,599 |
| Less unvested restricted shares | | (42) | | (46) |
| Impact of weighting shares issued or retired during the year | | (30) | | 2 |
| Used in Basic EPS | 40,563 | 5,647 | 24,506 | 5,555 |
| Dilutive effect of outstanding stock options | | 58 | | 97 |
| Used in Dilutive EPS | $ 40,563 | 5,705 | $ 24,506 | 5,652 |

There were 26,000 anti-dilutive options and unvested RSUs as of December 31, 2023, and none at December 31, 2022.

## 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, 2023 and 2022 (in thousands):

| | Fair Value Measurements Using: | | | |
|---|---|---|---|---|
| **December 31, 2023** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Assets Measured at Fair Value: | | | | |
| On a Recurring Basis: | | | | |
| Securities available for sale | $ — | $ 102,499 | $ — | $ 102,499 |
| **December 31, 2022** | | | | |
| 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 |

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2023. 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% |

## 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 financial instruments is summarized as follows (dollar amounts in thousands):

| | | December 31, 2023 | | December 31, 2022 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Assets** | | | | | |
| Cash and due from banks | Level 1 | $ 19,811 | $ 19,811 | $ 14,495 | $ 14,495 |
| Interest-bearing deposits-other | Level 1 | 39,667 | 39,667 | 30,409 | 30,409 |
| Interest-bearing deposits at FRB | Level 1 | 118,622 | 118,622 | 83,738 | 83,738 |
| Interest-bearing time deposits with other financial institutions | Level 1 | 4,000 | 4,000 | 7,923 | 7,923 |
| Debt securities available for sale | Level 2 | 102,499 | 102,499 | 104,652 | 104,652 |
| Loans held for sale | Level 3 | 1,233 | 1,233 | 7,061 | 7,061 |
| Loans, net | Level 3 | 1,822,685 | 1,799,590 | 1,569,096 | 1,503,398 |
| Servicing assets | Level 3 | 2,318 | 2,384 | 3,007 | 3,007 |
| Accrued interest receivable | Level 1 | 7,499 | 7,499 | 5,291 | 5,291 |
| **Liabilities** | | | | | |
| Time deposits | Level 2 | $ 422,806 | $ 422,414 | $ 154,431 | $ 153,932 |
| Other deposits (1) | Level 2 | 1,452,564 | 1,452,564 | 1,520,691 | 1,520,691 |
| Borrowings | Level 2 | 74,961 | 74,718 | 17,954 | 17,943 |
| Accrued interest payable | Level 1 | 2,167 | 2,167 | 386 | 386 |

(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 $1.1 million and $0.8 million in 2023 and 2022, 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, 2023 and 2022**
**(Dollars in Thousands)**

| | 2023 | 2022 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 2,409 | $ 1,851 |
| Due from interest-bearing | 439 | 436 |
| Other assets | 385 | 120 |
| Investment in bank subsidiary | 200,580 | 158,933 |
| **Total Assets** | $ 203,813 | $ 161,340 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Other borrowings | $ 17,961 | $ 17,954 |
| Other liabilities | 69 | 62 |
| **Total Liabilities** | 18,030 | 18,016 |
| **Shareholders' Equity** | | |
| Common Stock | 74,003 | 72,221 |
| Additional paid-in capital | 3,679 | 3,353 |
| Retained earnings | 116,604 | 77,810 |
| Accumulated other comprehensive (loss) income | (8,503) | (10,060) |
| **Total Shareholders' Equity** | 185,783 | 143,324 |
| **Total Liabilities and Shareholders' Equity** | $ 203,813 | $ 161,340 |

**CONDENSED STATEMENTS OF OPERATIONS**
**Years Ended December 31, 2023 and 2022**
**(Dollars in Thousands)**

| | 2023 | 2022 |
|---|---|---|
| Dividends from subsidiary | $ 1,551 | $ — |
| Interest income | 3 | 1 |
| Interest expense on borrowings | (1,087) | (1,023) |
| Net interest and dividend income | 467 | (1,022) |
| Noninterest income | 11 | 11 |
| Noninterest expense | 590 | 296 |
| (Loss) income before equity in undistributed income of subsidiary | (112) | (1,307) |
| Equity in undistributed income of subsidiary | 40,481 | 25,633 |
| Income before income taxes | 40,369 | 24,326 |
| Income tax benefit | 487 | 383 |
| Net income | $ 40,856 | $ 24,709 |

**CONDENSED STATEMENTS OF CASH FLOWS**
**Years Ended December 31, 2023 and 2022**
**(Dollars in Thousands)**

| | 2023 | 2022 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 40,856 | $ 24,709 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Equity in undistributed earnings of subsidiary | (40,481) | (25,633) |
| Amortization of debt issuance costs | 7 | 7 |
| Increase in other assets | (265) | (91) |
| Increase in other liabilities | 103 | 35 |
| **Net Cash Provided By (Used in) Operating Activities** | 220 | (973) |
| **Cash Flows from Investment Activities** | | |
| Increase in interest-bearing deposits | (3) | (33) |
| **Net Cash Used In Investing Activities** | (3) | (33) |
| **Cash Flows from Financing Activities** | | |
| Repurchase of common stock | — | (1,783) |
| Repurchase of restricted shares | (96) | (146) |
| Proceeds from exercise of stock options | 437 | 211 |
| **Net Cash Provided By (Used In) Financing Activities** | 341 | (1,718) |
| **Change in Cash and Cash Equivalents** | 558 | (2,724) |
| **Cash and Cash Equivalents Beginning of Year** | 1,851 | 4,575 |
| **Cash and Cash Equivalents End of Year** | $ 2,409 | $ 1,851 |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This annual report contains expressions of expectations, both implied and explicit, that are "forward-looking statements" within the meaning of such term in the Private Securities Litigation Reform Act of 1995. We caution you that a number of important factors could cause actual results to differ materially from those in the forward-looking statements, especially given the current turmoil in the banking and financial markets. These factors include the effects of depositors withdrawing funds unexpectedly, counterparties being unable to provide liquidity sources that we believe should be available, loan losses, economic conditions and competition in the geographic and business areas in which Private Bancorp of America, Inc. operates, including competition in lending and deposit acquisition, the unpredictability of fee income from participation in SBA loan programs, the effects of bank failures, liquidations and mergers in our markets and nationally, our ability to successfully integrate and develop business through the addition of new personnel, whether our efforts to expand loan, product and service offerings will prove profitable, system failures and data security, whether we can effectively secure and implement new technology solutions, inflation, fluctuations in interest rates, legislation and governmental regulation. You should not place undue reliance on forward-looking statements, and we undertake no obligation to update those statements whether as a result of changes in underlying factors, new information, future events or otherwise. These factors could cause actual results to differ materially from what we anticipate or project. You should not place undue reliance on any such forward-looking statement, which speaks only as of the date on which it was made. Although we in good faith believe the assumptions and bases supporting our forward-looking statements to be reasonable there can be no assurance that those assumptions and bases will prove accurate.