



Private Bancorp
OF AMERICA, INC.



2 0 1 7 A N N U A L R E P O R T



Board of Directors

Selwyn Isakow, Chairman of the Board

Thomas V. Wornham, President / CEO

David Ellman

David S. Engelman

Marjory Kaplan

Leon Kassel

Ernest Rady



Board of Directors

Selwyn Isakow, Chairman of the Board

Thomas V. Wornham, Chief Executive Officer

Rick L. Sowers, President

David Ellman

David S. Engelman

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Leon Kassel

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Michael Stoff

Greg Strangman

Rick Vann



Dear Shareholders,

We are delighted to share our 2017 financial results with you. We continue the growth initiatives we started in late 2016, including the successful expansion into Beverly Hills. Our de-novo Branch grew to \$100,000,000 in deposits by 12-31-17, just six months after opening.

We funded our growth with a capital raise in April of 2017. We issued 22% additional shares at \$21.75, raising \$16,300,000 in net new capital. Our market cap increased 56% from \$78,863,000 at December 31, 2016 to \$122,348,000 at December 31, 2017, due to the incremental shares and a 31% increase in share price. We remain well capitalized by all measures.

2017 was also a record year in many other areas for PBAM and the Bank. Here are just a few of the highlights:

- Revenues reached a record \$22,000,000, up 18%.
- Pretax income was up 13%; to a record \$7,921,000. The change in tax law resulted in a onetime noncash charge to Deferred Tax Assets of \$1,516,000; resulting in net income of \$3,425,000 for 2017 or \$.71 per share. Without this charge, our net income would have been \$4,941,000, or \$1.03 per share, up 14% from 2016.
- Total Assets increased 23% during 2017 to a record \$671,200,000.
- Total Net loans increased 13% to \$492,631,000 at year end.
- Total deposits were a record \$533,183,000, up 30% from the prior year end.

We take great pride in these financial results and our team members who generated them. We all remain focused on our core values; **Relationships, Solutions and Trust**. These are more than just words to us, they are our corporate "DNA". You will find them as part of our new logo as we "re-brand" San Diego Private Bank and various Divisions to **CalPrivate Bank**. We are still the same relationship-oriented people, delivering the same solution-based customer service, to ensure we earn your trust every day.

In closing, we thank all our PBAM family who continue to make us successful; our Clients, Shareholders, Team Members, Directors, Advisory Board, Management Team and our Community Partners. We remain committed to our coastal Southern California market strategy, safe and sound banking practices and organic growth. We continue to look for strategic acquisition opportunities while remaining disciplined in our approach.

We look forward to maintaining your trust and support as we continue to grow and improve our services and capabilities.

Sincerely,

A handwritten signature in blue ink, appearing to read "Selwyn Isakow".

Selwyn Isakow

Chairman, Board of Directors

A handwritten signature in blue ink, appearing to read "Thomas V. Wornham".

Thomas V. Wornham

President and Chief Executive Officer

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

**FINANCIAL STATEMENTS
WITH
REPORT OF INDEPENDENT REGISTERED
ACCOUNTING FIRM**

DECEMBER 31, 2017 AND 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Private Bancorp of America and Subsidiary (the "Company") as of December 31, 2017 and 2016, the related statements of income and 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 consolidated financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits included performing procedures to assess the risks 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.

Vavrinek, Trine, Day & Co., LLP

We have served as the Company's auditor since 2006.

Laguna Hills, California
April 5, 2018

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2017 AND 2016**

	2017	2016
ASSETS		
Cash and due from banks	\$ 15,128,622	\$ 38,368,065
Interest-bearing deposit at Federal Reserve Bank	87,400,542	32,092,147
Cash and Cash Equivalents	102,529,164	70,460,212
Interest-bearing time deposits with other financial institutions	2,997,270	1,245,248
Investment securities available for sale	61,567,697	27,984,053
 Loans, net of deferred fees and costs	 497,280,468	 438,553,103
Unaccreted discount on acquired loans	(128,153)	(257,648)
Allowance for loan losses	(4,521,000)	(4,018,000)
Net Loans	492,631,315	434,277,455
 Federal Home Loan Bank stock, at cost	 2,295,000	 2,134,700
Premises and equipment, net	1,530,179	923,028
Deferred tax asset	3,879,000	5,388,000
Accrued interest receivable and other assets	3,815,451	3,261,710
Total Assets	\$ 671,245,076	\$ 545,674,406
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 160,007,685	\$ 122,022,787
Interest-bearing deposits	371,182,215	287,142,386
Total Deposits	531,189,900	409,165,173
Other borrowings	57,895,555	75,882,222
Accrued interest payable and other liabilities	2,638,532	1,830,425
Total Liabilities	591,723,987	486,877,820
 Commitments and Contingencies (Notes D and I)	 -	 -
 Shareholders' Equity		
Common stock, no par value, 20,000,000 shares authorized; 5,007,957 and 4,139,664 shares issued and outstanding for 2017 and 2016, respectively	57,818,762	40,712,497
Additional paid-in-capital	2,606,890	2,343,318
Retained earnings	19,266,290	15,813,989
Net unrealized gains (losses) on securities available for sale, net of tax	(170,853)	(73,218)
Total Shareholders' Equity	79,521,089	58,796,586
Total Liabilities and Shareholders' Equity	\$ 671,245,076	\$ 545,674,406

The accompanying notes are an integral part of these consolidated financial statements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	2017	2016
Interest Income		
Interest and fees on loans	\$ 23,401,195	\$ 20,084,286
Interest-bearing deposits at the Federal Reserve Bank	652,468	234,238
Interest on investment securities	757,427	560,525
Dividends on Federal Home Loan Bank stock	165,304	259,686
Interest on deposits with other financial institutions	13,596	12,263
Total Interest Income	24,989,990	21,150,998
Interest Expense		
Interest expense on deposits	1,522,661	1,324,487
Interest expense on borrowings	962,277	775,845
Total Interest Expense	2,484,938	2,100,332
Net Interest Income	22,505,052	19,050,666
Provision for loan losses	503,000	817,554
Net Interest Income After Provision for Loan Losses	22,002,052	18,233,112
Non-Interest Income		
Service charges on deposit accounts	249,472	229,264
Gain on sale of Small Business Administration ("SBA") loans	310,597	371,539
Gain (loss) on sale of securities	8,341	(1,099)
Other fees and miscellaneous income	355,712	518,529
Total Non-Interest Income	924,122	1,118,233
Non-Interest Expenses		
Salaries and other employee benefits	9,616,136	8,154,784
Occupancy and equipment	1,636,825	1,203,197
Data processing	1,092,584	1,080,806
Director compensation	387,634	288,295
Professional services	873,374	540,479
Regulatory assessments	179,347	192,924
Marketing	209,220	139,836
Administrative and other operating	1,010,782	756,344
Total Non-Interest Expense	15,005,902	12,356,665
Income Before Provision for Income Taxes	7,920,272	6,994,680
Provision for Income Taxes	4,495,633	2,673,298
Net Income	\$ 3,424,639	\$ 4,321,382
Basic Earnings Per Share	\$ 0.72	\$ 1.07
Diluted Earnings Per Share	\$ 0.71	\$ 1.06

The accompanying notes are an integral part of these consolidated financial statements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Net Income	\$ 3,424,639	\$ 4,321,382
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on securities available-for-sale:		
Change in unrealized gains (losses)	(248,865)	(251,773)
Reclassification of (gains) losses recognized in net income	(8,341)	1,099
	<u>(257,206)</u>	<u>(250,674)</u>
Related income tax effect:		
Change in unrealized gains (losses)	183,801	100,722
Reclassification of gains (losses) recognized in net income	3,432	(452)
	<u>187,233</u>	<u>100,270</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	<u>(69,973)</u>	<u>(150,404)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,354,666</u>	<u>\$ 4,170,978</u>

The accompanying notes are an integral part of these consolidated financial statements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares Outstanding	Amount				
Balance, January 1, 2016	3,816,936	\$ 37,409,573	\$ 2,172,699	\$11,492,607	\$ 77,186	\$ 51,152,065
Net Income				4,321,382		4,321,382
Share-based compensation expense			362,498			362,498
Exercise of stock options	310,500	3,111,045				3,111,045
Issuance of restricted shares	10,000					-
Issuance of unrestricted shares	4,800	83,280	(83,280)			-
Vesting of restricted shares		108,599	(108,599)			-
Restricted stock forfeitures	(2,572)					-
Other comprehensive loss					(150,404)	(150,404)
Balance, December 31, 2016	4,139,664	40,712,497	2,343,318	15,813,989	(73,218)	58,796,586
Net Income				3,424,639		3,424,639
Share-based compensation expense			562,333			562,333
Stock Offering, net of costs of \$782,831	781,611	16,217,208				16,217,208
Exercise of stock options	59,199	654,954				654,954
Issuance of restricted shares, net	25,583					-
Vesting of restricted shares		99,488	(153,908)			(54,420)
Forfeitures of restricted stock	(3,550)		(10,238)			(10,238)
Issuance of unrestricted shares	5,450	134,615	(134,615)			-
Reclassification of stranded tax effects				27,662	(27,662)	-
Other comprehensive loss					(69,973)	(69,973)
Balance, December 31, 2017	<u>5,007,957</u>	<u>\$ 57,818,762</u>	<u>\$ 2,606,890</u>	<u>\$ 19,266,290</u>	<u>\$ (170,853)</u>	<u>\$ 79,521,089</u>

The accompanying notes are an integral part of these consolidated financial statements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Net income	\$ 3,424,639	\$ 4,321,382
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	314,938	235,444
Provision for loan losses	503,000	817,554
Net premium amortization on securities	465,751	456,620
Net gain on sale of loans	(310,597)	(371,539)
Net (gain) loss on sale of securities	(8,341)	1,099
Share-based compensation expense	562,333	362,498
Forefeiture of restricted stock	(10,238)	-
Deferred tax expense	1,516,000	316,000
(Increase) decrease in accrued interest receivable and other assets	(373,508)	(392,195)
Increase (decrease) in accrued interest payable and other liabilities	808,107	(210,134)
Net Cash Provided by Operating Activities	<u>6,892,084</u>	<u>5,536,729</u>
Cash Flows From Investing Activities		
Increase (decrease) in time deposits with other banks	(1,752,022)	(249,248)
Purchases of securities	(38,526,063)	(506,980)
Maturities and principal paydowns of securities	3,182,953	678,415
Proceeds from sale of securities	1,044,850	521,500
Purchase of Federal Home Loan Bank stock	(160,300)	-
Net increase in loans	(64,540,133)	(87,250,794)
Proceeds from sale of loans	5,993,870	7,235,215
Purchases of property and equipment	(922,089)	(181,205)
Net Cash Used in Investing Activities	<u>(95,678,934)</u>	<u>(79,753,097)</u>
Cash Flows From Financing Activities		
Increase in deposits	122,024,727	68,973,174
Decrease (increase) in other borrowings	(17,986,667)	15,513,333
Repurchase of restricted shares	(54,420)	-
Exercise of stock options	654,954	3,111,045
Issuance of stock	16,217,208	-
Net Cash Provided by Financing Activities	<u>120,855,802</u>	<u>87,597,552</u>
Net Increase in Cash and Cash Equivalents	32,068,952	13,381,184
Cash and Cash Equivalents, Beginning of Year	70,460,212	57,079,028
Cash and Cash Equivalents, End of Year	<u>\$ 102,529,164</u>	<u>\$ 70,460,212</u>
Supplemental Cash Flow Information		
Interest paid	\$ 2,485,632	\$ 2,065,559
Taxes paid	\$ 2,445,000	\$ 2,700,000

The accompanying notes are an integral part of these financial statements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - 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 San Diego Private Bank ("Bank"), collectively referred to herein as "the Company." All significant intercompany transactions have been eliminated. Private Bancorp of America, Inc. was formed in August 2015 as a one-bank bank holding company.

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

The Company is headquartered in La Jolla, California with additional California locations in downtown San Diego, Coronado, Newport Beach, Beverly Hills and San Marcos.

The accounting and reporting policies of Private Bancorp of America, Inc. ("the Company") are in accordance with the accounting principles generally accepted in the United States of America and conform to practices within the banking industry. A summary of significant accounting policies follows:

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through April 5, 2018, which is the date the financial statements were available to be issued.

Use of Estimates

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

Cash and Cash Equivalents

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Due From Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2017 and 2016.

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

Investment Securities

Investment securities are classified as held-to-maturity when the Company has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity.

Investments not classified as trading securities nor as held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on available-for-sale securities are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific identification method.

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

Loans Held for Sale

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfers of Financial Assets

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

Servicing Rights

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

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

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

SBA loans serviced for others totaled approximately \$20.2 million and \$26.0 million as of December 31, 2017 and 2016, respectively. The carrying value of servicing assets was approximately \$357,000 and \$502,000 as of December 31, 2017 and 2016, respectively. The fair value of servicing assets approximates the carrying value.

Loans

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

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

Certain Acquired Loans

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

Allowance for Loan Losses

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Real Estate Owned

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

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank ("FHLB"), the Company is required to maintain a minimum investment in the entity's stock. The minimum FHLB investment is calculated as percentage of aggregate outstanding loans, FHLB advances and other factors. The ownership of the FHLB stock is restricted, lacks a market, and can only be sold at its par value to the issuer. FHLB stock totaled \$2,295,000 and \$2,134,700 at December 31, 2017 and December 31, 2016, respectively.

Premises and Equipment

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

Core Deposit Intangible

Core deposit intangible ("CDI") assets arising from whole bank acquisitions are amortized on an accelerated method over their estimated useful lives, which range from 7 to 10 years. Amortization expense was \$58,500 and \$68,750 in 2017 and 2016, respectively. Expected future CDI amortization expense is as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 50,000
2019	42,000
2020	31,000
2021	7,000
2022	-
Total	<u>\$ 130,000</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

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

The Company has adopted guidance issued by the Financial Accounting Standards Board ("FASB") that clarifies the accounting for uncertainty in tax positions taken or expected to be taken on a tax return and provides that the tax effects from an uncertain tax position can be recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense; however, there was no penalty or interest expense recorded for the years ended December 31, 2017 and 2016.

Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note I. 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 M for more information and disclosures relating to the Company's fair value measurements.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Advertising Costs

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

Comprehensive Income

The change in unrealized gains and losses on securities available for sale is the only component of accumulated comprehensive income for the Company. The amount reclassified out of other accumulated comprehensive income relating to realized gains and losses on securities available for sale was an \$8,341 gain in 2017 and a \$1,099 loss in 2016.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI"). ASU 2018-02 allows entities to elect to reclassify stranded tax effects on items within AOCI, resulting from the new tax bill signed into law on December 22, 2017, to retained earnings. The Company elected to early adopt this new standard in 2017 and recorded a reclassification from AOCI to retained earnings in the amount of \$27,662.

Earnings Per Share ("EPS")

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Share-Based Compensation

Share-based compensation cost is recognized for stock option and restricted stock awards issued 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. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

In March 2016, the FASB issued guidance within ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. The amendments in ASU 2016-09 to Topic 718, Compensation - Stock Compensation, require recognition of all excess tax benefits and tax deficiencies through income tax expense or benefit in the income statement. Other amendments in this ASU include guidance on the classification of share-based payment transactions in the statement of cash flows and an option to account for forfeitures of share-based awards as they occur rather than estimating the compensation cost based on the number of awards that are expected to vest. The amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted in any interim or annual period. Effective January 1, 2016, the Company elected early adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. During the years ended December 31, 2017 and 2016, the Company recognized a \$304,000 and \$213,000 tax benefit related to adoption of this new guidance, respectively. The Company has elected to continue to estimate compensation cost based on the number of awards that are expected to vest.

Reclassifications

Certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 presentation.

Recent Accounting Guidance Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This Update requires an entity to recognize revenue as performance obligations are met, in order to reflect the transfer of promised goods or services to customers in an amount that reflects the consideration the entity is entitled to receive for those goods or services. The following steps are applied in the updated guidance: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when, or as, the entity satisfies a performance obligation. These amendments are effective for public business entities for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and one year later for nonpublic business entities. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Company does not expect ASU 2014-09 to have a material impact on its consolidated financial statements and disclosures.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*. Changes made to the current measurement model primarily affect the accounting for equity securities and readily determinable fair values, where changes in fair value will impact earnings instead of other comprehensive income. The accounting for other financial instruments, such as loans, investments in debt securities, and financial liabilities is largely unchanged. The Update also changes the presentation and disclosure requirements for financial instruments including a requirement that public business entities use exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. This Update is generally effective for public business entities in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years and one year later for nonpublic business entities. The Company does not expect ASU 2016-01 to have a material impact on its consolidated financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change for lessees is the requirement under the new guidance to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, which is generally defined as a lease term of less than 12 months. This change will result in lessees recognizing right-of-use assets and lease liabilities for most leases currently accounted for as operating leases under current lease accounting guidance. The amendments in this Update are effective for interim and annual periods beginning after December 15, 2018 for public business entities and one year later for all other entities. The Company is currently evaluating the effects of ASU 2016-02 on its consolidated financial statements and disclosures.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities and annual reporting periods beginning after December 15, 2020 for nonpublic business entities and interim periods within the reporting periods beginning after December 15, 2021. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE B - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and held to maturity at December 31, 2017 and 2016, and the corresponding amounts of gross unrealized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Securities Available for Sale:				
U.S. Agency securities	\$ 18,017,125	\$ 185	\$ (93,077)	\$ 17,924,233
SBA Loan Pool securities	3,143,157	-	(9,138)	3,134,019
Mortgage-backed securities	9,837,577	-	(86,654)	9,750,923
Corporate debt securities	12,720,008	35,083	(80,667)	12,674,424
Municipal securities - tax exempt	14,154,596	57,381	(62,418)	14,149,559
Municipal securities - taxable	3,922,972	7,133	(31,066)	3,899,039
Marketable equity securities	10,914	24,586	-	35,500
Total	<u>\$ 61,806,349</u>	<u>\$ 124,368</u>	<u>\$ (363,020)</u>	<u>\$ 61,567,697</u>
December 31, 2016				
Securities Available for Sale:				
Mortgage-backed securities	\$ 1,822,720	\$ 880	\$ (13,722)	\$ 1,809,878
Corporate debt securities	13,377,113	29,739	(67,402)	13,339,450
Municipal securities - tax exempt	11,180,502	28,578	(119,509)	11,089,571
Municipal securities - taxable	1,714,832	7,792	(8,130)	1,714,494
Marketable equity securities	10,914	19,746	-	30,660
Total	<u>\$ 28,106,081</u>	<u>\$ 86,735</u>	<u>\$ (208,763)</u>	<u>\$ 27,984,053</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE B - INVESTMENT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2017 are shown by contractual maturity below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are presented separately.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	\$ 20,200,660	\$ 20,210,841
Due after one year through five years	16,612,506	16,552,816
Due after five years through ten years	15,155,606	15,053,117
Mortgage-backed securities	9,837,577	9,750,923
Total debt securities	<u>\$ 61,806,349</u>	<u>\$ 61,567,697</u>

Securities with unrealized losses of \$48,278 had been in a continuous loss position for more than 12 months. Unrealized losses on debt securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The fair value is expected to recover as the bonds approach maturity.

The Company had pledged debt securities with a fair value of \$1,304,233 and \$1,809,877 to the Federal Home Loan Bank of San Francisco to secure borrowing arrangements discussed in Note F, as of December 31, 2017 and 2016, respectively.

The Company had a gain on sale of securities of \$8,341 in 2017 and a loss from sale of securities of \$1,099 in 2016.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES

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

	2017	2016
Real Estate	\$ 376,392,140	\$ 351,526,663
Commercial	106,938,090	73,357,310
SBA	12,911,577	14,227,099
Consumer	1,735,610	83,953
Loans Receivable	<u>497,977,417</u>	<u>439,195,025</u>
Unaccreted discount on acquired loans	<u>(128,153)</u>	<u>(257,648)</u>
Loans Receivable, net of Unaccreted Discount		
on Acquired Loans	497,849,264	438,937,377
Net deferred loan origination fees and costs	(696,949)	(641,922)
Allowances for loan losses	<u>(4,521,000)</u>	<u>(4,018,000)</u>
Loans Receivable, net	<u>\$ 492,631,315</u>	<u>\$ 434,277,455</u>

A summary of the changes in the allowance for loan losses follows as of December 31:

	2017	2016
Balance, beginning of year	\$ 4,018,000	\$ 3,156,400
Provision for credit losses	503,000	817,554
Loan charge-offs	-	-
Loan recoveries	-	44,046
Balance, end of year	<u>\$ 4,521,000</u>	<u>\$ 4,018,000</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The following table summarizes the allocation of the allowance as well as the activity in the allowance attributed to various segments in the loan portfolio as of and for the years ended December 31, 2017 and 2016:

<u>December 31, 2017</u>	<u>Real Estate</u>	<u>Commercial</u>	<u>SBA</u>	<u>Consumer</u>	<u>Total</u>
Allowance for Loan Losses:					
Beginning of Year	\$ 2,363,621	\$ 1,221,334	\$ 431,477	\$ 1,568	\$ 4,018,000
Provisions	245,406	226,839	(2,560)	33,315	503,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	<u>\$ 2,609,027</u>	<u>\$ 1,448,173</u>	<u>\$ 428,917</u>	<u>\$ 34,883</u>	<u>\$ 4,521,000</u>
Reserves:					
Specific	\$ -	\$ 34,680	\$ -	\$ -	\$ 34,680
General	2,609,027	1,413,493	428,917	34,883	4,486,320
	<u>\$ 2,609,027</u>	<u>\$ 1,448,173</u>	<u>\$ 428,917</u>	<u>\$ 34,883</u>	<u>\$ 4,521,000</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ 105,219	\$ 1,480,780	\$ -	\$ 1,585,999
Collectively	376,263,987	106,832,871	11,430,797	1,735,610	496,263,265
	<u>\$ 376,263,987</u>	<u>\$ 106,938,090</u>	<u>\$ 12,911,577</u>	<u>\$ 1,735,610</u>	<u>\$ 497,849,264</u>
<u>December 31, 2016</u>					
Allowance for Loan Losses:					
Beginning of Year	\$ 1,949,012	\$ 777,075	\$ 426,515	\$ 3,798	\$ 3,156,400
Provisions	390,859	423,963	4,962	(2,230)	817,554
Charge-offs	-	-	-	-	-
Recoveries	23,750	20,296	-	-	44,046
End of Year	<u>\$ 2,363,621</u>	<u>\$ 1,221,334</u>	<u>\$ 431,477</u>	<u>\$ 1,568</u>	<u>\$ 4,018,000</u>
Reserves:					
Specific	\$ -	\$ 95,937	\$ -	\$ -	\$ 95,937
General	2,363,621	1,125,397	431,477	1,568	3,922,063
	<u>\$ 2,363,621</u>	<u>\$ 1,221,334</u>	<u>\$ 431,477</u>	<u>\$ 1,568</u>	<u>\$ 4,018,000</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ 190,760	\$ -	\$ -	\$ 190,760
Collectively	351,271,664	73,163,901	14,227,099	83,953	438,746,617
	<u>\$ 351,271,664</u>	<u>\$ 73,354,661</u>	<u>\$ 14,227,099</u>	<u>\$ 83,953</u>	<u>\$ 438,937,377</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

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

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

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

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

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

The risk category of loans by class of loans was as follows as of December 31, 2017:

December 31, 2017	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	\$ 24,847,000	\$ -	\$ -	\$ -	\$ 24,847,000
Residential real estate	48,314,381	-	249,689	-	48,564,070
Multi-family residential	56,407,700	-	-	-	56,407,700
Nonresidential	245,692,123	-	753,094	-	246,445,217
Commercial	106,162,336	-	670,535	105,219	106,938,090
SBA	10,832,363	214,364	384,070	1,480,780	12,911,577
Consumer	1,735,610	-	-	-	1,735,610
	<u>\$ 493,991,513</u>	<u>\$ 214,364</u>	<u>\$ 2,057,388</u>	<u>\$ 1,585,999</u>	<u>\$ 497,849,264</u>
Guaranteed Portion				<u>\$ 1,110,585</u>	

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The risk category of loans by class of loans was as follows as of December 31, 2016:

December 31, 2016	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	\$ 37,196,465	\$ -	\$ -	\$ -	\$ 37,196,465
Residential real estate	47,002,563	-	185,521	-	47,188,084
Multi-family residential	50,326,808	-	-	-	50,326,808
Nonresidential	213,828,495	2,520,252	211,560	-	216,560,307
Commercial	72,366,186	739,215	58,500	190,760	73,354,661
SBA	13,561,959	273,866	391,274	-	14,227,099
Consumer	83,953	-	-	-	83,953
	<u>\$ 434,366,429</u>	<u>\$ 3,533,333</u>	<u>\$ 846,855</u>	<u>\$ 190,760</u>	<u>\$ 438,937,377</u>

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2017 and 2016:

December 31, 2017	Still Accruing		Nonaccrual
	30-89 Days Past Due	Over 90 Days Past Due	
Nonresidential loans	\$ 753,094	\$ -	\$ -
Commercial loans	670,535	-	105,219
SBA loans	-	-	1,480,780
	<u>\$ 1,423,629</u>	<u>\$ -</u>	<u>\$ 1,585,999</u>
December 31, 2016			
Commercial	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 190,760</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE C - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

Information relating to individually impaired loans presented by class of loans was as follows as of December 31, 2017 and 2016:

	Unpaid Principal Balance	Recorded Investment	Impaired Loans		Related Allowance	Average Recorded Investment	Interest Income Recognized
			Without Specific Allowance	With Specific Allowance			
December 31, 2017							
Commercial loans	\$ 168,500	\$ 105,219	\$ -	\$ 105,219	\$ 34,680	\$ 182,504	\$ -
SBA loans	1,480,780	1,480,780	1,480,780	-	-	1,480,780	-
	<u>\$ 1,649,280</u>	<u>\$ 1,585,999</u>	<u>\$ 1,480,780</u>	<u>\$ 105,219</u>	<u>\$ 34,680</u>	<u>\$ 1,663,284</u>	<u>\$ -</u>
December 31, 2016							
Commercial loans	<u>\$ 205,000</u>	<u>\$ 190,760</u>	<u>\$ -</u>	<u>\$ 190,760</u>	<u>\$ 95,937</u>	<u>\$ 207,880</u>	<u>\$ 23,933</u>

The Company had two loans with a recorded investment of \$105,219 as of December 31, 2017 and one loan with a recorded investment of \$190,760 as of December 31, 2016 that were modified as troubled debt restructurings. Allowances of \$34,680 as of December 31, 2017 and \$95,937 as of December 31, 2016 were made for these loans. The Company has committed to lend no additional amounts to customers with outstanding loans that are classified as troubled debt restructurings as of December 31, 2017 and 2016.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE D - PREMISES AND EQUIPMENT

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

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$ 966,884	\$ 567,856
Furniture, fixtures and equipment	<u>1,587,752</u>	<u>1,064,691</u>
	2,554,636	1,632,547
Accumulated depreciation and amortization	<u>(1,024,457)</u>	<u>(709,519)</u>
	<u>\$ 1,530,179</u>	<u>\$ 923,028</u>

Total depreciation expense for the years ended December 31, 2017 and 2016, was \$314,938 and \$235,444, respectively.

The Company leases its main office in La Jolla, branch facilities in Coronado, San Diego, Newport Beach and Beverly Hills, a loan production office in San Marcos and an executive suite in San Diego. All leases are under noncancellable operating agreements that expire on various dates through 2026. The Company is also responsible for common area maintenance, taxes and insurance on these leases.

Future minimum payments under the above operating leases as of December 31, 2017, including periods covered by renewal options which were reasonably assured at inception of the lease and the impact of newly executed leases in 2018 are as follows:

<u>Year Ending</u>	<u>Amount</u>
2018	\$ 1,371,624
2019	1,465,099
2020	1,135,856
2021	761,826
2022	726,699
Thereafter	<u>869,894</u>
Total	<u>\$ 6,330,998</u>

Minimum payments have not been reduced by minimum sublease rentals of \$561,728 due in the future under noncancellable subleases. Rental expense was \$962,529 and \$704,758 in 2017 and 2016, respectively.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE E - DEPOSITS

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

	2017	2016
Interest-bearing checking accounts	\$ 16,867,911	\$ 13,772,475
Savings and money market	294,627,831	185,234,911
Time certificate of deposit accounts under \$250,000	34,155,428	71,953,886
Time certificate of deposit accounts \$250,000 and over	25,531,045	16,181,114
	<u>\$ 371,182,215</u>	<u>\$ 287,142,386</u>

As of December 31, 2017 and 2016, all noninterest-bearing deposits are demand deposits. The maturity of time certificates of deposit is as follows:

	2017	2016
Within one year	\$ 50,617,829	\$ 72,670,424
One year to three years	6,413,458	12,514,038
Over three years	2,655,186	2,950,538
	<u>\$ 59,686,473</u>	<u>\$ 88,135,000</u>

NOTE F - BORROWING ARRANGEMENTS

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

A summary of FHLB borrowings as of December 31, 2017, is as follows:

<u>Lender</u>	<u>Maturity</u>	<u>Rate of Interest</u>	<u>Amount</u>
Federal Home Loan Bank	January 24, 2018	1.30%	\$ 10,000,000
Federal Home Loan Bank	July 24, 2018	1.41%	10,000,000
Federal Home Loan Bank	June 7, 2019	1.18%	5,000,000
Federal Home Loan Bank	June 8, 2021	1.50%	5,000,000
Federal Home Loan Bank	Open	1.41%	20,000,000
			<u>\$ 50,000,000</u>

At December 31, 2017 and 2016, approximately \$247.8 million and \$161.1 million in loans and \$1.3 million and \$1.7 million in securities were pledged as collateral to the FHLB for the borrowings presented in the table above, respectively. At December 31, 2017 and 2016, the Company had remaining financing availability of approximately \$109.0 million and \$52.8 million based on the level of pledged loans and securities, respectively, after consideration of the amounts outstanding.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE F - BORROWING ARRANGEMENTS - Continued

As of December 31, 2017 and 2016, approximately \$1.7 million and \$3.2 million in loans were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of approximately \$1.0 million and \$2.2 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2017 and 2016.

The Company has borrowing lines with correspondent banks totaling \$13 million as of December 31, 2017. There were no balances outstanding on these borrowing lines.

Private Bancorp of America, Inc. entered into an \$8.0 million ten-year loan maturing October 28, 2025 (\$7.9 million net of origination costs) that is unsecured, with interest only payable in the first three years. Thereafter the loan will amortize over 25 years for the final seven years. The interest rate is fixed at 4.95 percent per annum for the first five years with the last five years floating at WSJ Prime +1.70 percent. There is a 2% or 1% penalty should the loan be pre-paid in years one or two respectively. Principal repayments required over the next five years include none in 2018 and \$167,000, \$175,000, \$184,000 and \$193,000 in 2019, 2020, 2021 and 2022, respectively.

NOTE G - INCOME TAXES

The provision for income tax expense for the years ended December 31, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Current Taxes:		
Federal	\$ 2,136,118	\$ 1,707,993
State	803,515	649,305
	<u>2,939,633</u>	<u>2,357,298</u>
Deferred Taxes:		
Deferred	40,000	316,000
Deferred Tax Asset Adjustment of Enacted Change in Tax Rates	1,516,000	-
Provision for Income Tax	<u>\$ 4,495,633</u>	<u>\$ 2,673,298</u>

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount \$1,516,000, recorded as a result of the enactment of H.R.1, the Tax Cuts and Jobs Act on December 22, 2017. The Act reduced corporate Federal tax rates from 34% to 21% effective January 1, 2018.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE G - INCOME TAXES - Continued

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

	2017		2016	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Statutory Federal Tax	\$ 2,693,000	34.0%	\$ 2,378,000	34.0%
State Franchise Tax, Net of Federal Benefit	530,000	6.7%	463,000	6.6%
Deferred Tax Asset Adjustment	1,516,000	19.1%	-	-
Other Items, Net	<u>(243,367)</u>	<u>(3.0%)</u>	<u>(167,702)</u>	<u>(2.4%)</u>
Actual Tax Expense	<u>\$ 4,495,633</u>	<u>56.8%</u>	<u>\$ 2,673,298</u>	<u>38.2%</u>

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

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

	<u>2017</u>	<u>2016</u>
Deferred Tax Assets:		
Start-up and organization costs	\$ 134,000	\$ 239,000
Operating loss carryforwards	2,346,000	3,570,000
Allowance for loan losses due to tax limitations	811,000	841,000
Stock-based compensation	139,000	145,000
Other	<u>733,000</u>	<u>871,000</u>
	4,163,000	5,666,000
Deferred Tax Liabilities:		
Depreciation difference	(121,000)	(116,000)
Deferred costs	(61,000)	(76,000)
Other	<u>(102,000)</u>	<u>(86,000)</u>
	<u>(284,000)</u>	<u>(278,000)</u>
Net Deferred Tax Assets	<u><u>\$ 3,879,000</u></u>	<u><u>\$ 5,388,000</u></u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE G - INCOME TAXES – Continued

The Company has total net operating loss carryforwards of approximately \$7.8 million for Federal income and approximately \$8.2 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2029 for both Federal and California franchise tax purposes.

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

The Company's Federal income tax returns for the years ended December 31, 2014 through 2016 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, 2013 through 2016 have been filed, and are open to audit by the State of California.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE H - SHARE-BASED COMPENSATION

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

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

The Company recognized share-based compensation cost of \$562,333 and \$362,498 in 2017 and 2016, respectively, related to options and restricted stock grants awarded. Tax benefits associated with share-based compensation amounted to approximately \$170,000 and \$107,000 in 2017 and 2016, respectively.

The Company granted 30,000 and 44,000 stock options in 2017 and 2016, respectively. The weighted-average fair value of the options granted in 2017 and 2016 was \$4.90 and \$3.89, respectively. The weighted-average fair value was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2017	2016
Dividend yield	0.00%	0.00%
Expected life	6.0 Years	6.0 Years
Expected volatility	20.00%	20.00%
Risk-free interest rate	2.12%	1.40%
Weighted-average fair value at grant date	\$ 4.90	\$ 3.89

Since the Company has a limited amount of historical stock activity the expected volatility is based on the historical volatility of similar banks that have a longer trading history. The expected term represents the estimated average period of time that the options remain outstanding. The risk free rate of return reflects the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE H - SHARE-BASED COMPENSATION - Continued

A summary of the status of the stock options issued as of December 31, 2017, and change during the year then ended follows:

	2017		Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
	Options	Exercise Price		
Balance, beginning of year	292,056	\$ 12.22		
Granted	30,000	19.85		
Exercised	(59,199)	11.06		
Forfeited or expired	-	-		
Balance, end of year	262,857	\$ 13.40	6.40 Years	\$ 3,167,341
Options exercisable	188,723	\$ 11.69	5.60 Years	\$ 2,596,328

The intrinsic value of option shares exercised was approximately \$642,000 and \$1,855,000 in 2017 and 2016, respectively. As of December 31, 2017, there was \$188,192 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.38 years.

Tax benefits recognized in income relating to exercised stock options in 2017 and 2016 were \$260,000 and \$213,000, respectively.

A summary of the status of the restricted stock grants issued as of December 31, 2017 and 2016, and changes during the years then ended follows:

	2017		2016	
	Unvested Shares	Weighted- Average Grant Date Fair Value	Unvested Shares	Weighted- Average Grant Date Fair Value
Balance, beginning of year	36,948	\$ 13.91	40,380	\$ 12.71
Granted	29,600	21.35	10,000	17.00
Shares Vested	(11,310)	13.61	(10,430)	12.49
Forfeited or expired	(7,567)	13.65	(3,002)	12.98
Balance, end of year	47,671	\$ 18.64	36,948	\$ 13.91

The intrinsic value of vested restricted grants was approximately \$260,000 and \$246,000 in 2017 and 2016, respectively. As of December 31, 2017, there was \$699,900 of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.87 years.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE I - COMMITMENTS

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

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

The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	\$ 94,124,183	\$ 75,982,000
Standby letters of credit	-	-
	<u>\$ 94,124,183</u>	<u>\$ 75,982,000</u>

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

NOTE J - RELATED PARTY TRANSACTIONS

Loans to related parties totaled approximately \$3,277,000 and \$719,000 as of December 31, 2017 and 2016, respectively. The following is a summary of changes in related party loans:

	<u>2017</u>
Balance, Beginning of Year	\$ 718,946
New Loans and Advances	2,580,000
Repayments	<u>(22,301)</u>
Balance, End of Year	<u>\$ 3,276,645</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE J - RELATED PARTY TRANSACTIONS - Continued

As of December 31, 2017 and 2016, the Company's balance sheet included deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately \$21,463,000 and \$18,099,000, respectively.

In 2017, the Company entered into a consulting agreement with its Chairman of the Board wherein various services are provided including client development and retention, shareholder development and communications, business model implementation and acquisition strategies. For services provided, the Chairman received annual compensation of \$108,000 and reimbursement for expenses. The term of the consulting agreement was for 12 months and is subject to annual renewal. The current contract expires on February 28, 2019.

In January 2017, the Bank entered into a Development Services Agreement with a Director wherein various services are provided including planning, monitoring, business development and certain other initiatives in connection with the Bank's entry into the Los Angeles market. For services provided, the Director will receive a retainer of \$120,000 per year plus a performance bonus opportunity based on origination of loan and deposit accounts in excess of established thresholds. In December 2017, this Development Services contract was extended for 12 months, expiring February 15, 2019.

Affiliated entities of three directors of the Company purchased participating interests totaling \$700,000 in a \$12,400,000 commercial real estate loan originated by the Company in September 2017, to assist with legal lending limit considerations.

NOTE K - REGULATORY MATTERS

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

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new "Basel III" rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE K - REGULATORY MATTERS - Continued

In addition, the Basel III rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). The conservation buffer is being phased-in on a pro rata basis over a four year period beginning in 2016. If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount (1.25% for 2017) then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. The Bank was not limited by the provisions of the conservation buffer as of and for the year ended December 31, 2017.

As of December 31, 2017, 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, 2017 and 2016, 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, 2017						
Total capital (to risk-weighted assets)	\$ 86,299	16.7%	\$ 41,319	8.0%	\$ 51,649	10.0%
Tier 1 capital (to risk-weighted assets)	81,637	15.8%	30,989	6.0%	41,319	8.0%
CET1 capital (to risk-weighted assets)	81,637	15.8%	23,242	4.5%	33,572	6.5%
Tier 1 capital (to average assets)	81,637	13.0%	25,213	4.0%	31,516	5.0%
As of December 31, 2016						
Total capital (to risk-weighted assets)	\$ 62,987	13.7%	\$ 36,882	8.0%	\$ 46,103	10.0%
Tier 1 capital (to risk-weighted assets)	58,854	12.8%	27,662	6.0%	36,882	8.0%
CET1 capital (to risk-weighted assets)	58,854	12.8%	20,746	4.5%	29,967	6.5%
Tier 1 capital (to average assets)	58,854	11.5%	20,525	4.0%	25,656	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.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE L - EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS.

	2017		2016	
	Net Income	Shares	Net Income	Shares
Net income as reported	\$ 3,424,639		\$ 4,321,382	
Less: Earnings allocated to participating securities	(29,656)		(37,399)	
Net income available to common shareholders	3,394,983		4,283,983	
Shares outstanding at year-end		5,007,957		4,139,664
Less unvested restricted shares		(41,034)		(34,891)
Impact of weighting shares issued or retired during the year		(269,397)		(108,065)
Used in Basic EPS	3,394,983	4,697,526	4,283,983	3,996,708
Dilutive effect of outstanding stock options	-	106,970	-	74,660
Used in Dilutive EPS	\$ 3,394,983	4,804,496	\$ 4,283,983	4,071,368

There were 30,000 anti-dilutive option shares as of December 31, 2017, and 49,000 at December 31, 2016.

NOTE M - FAIR VALUE MEASUREMENTS

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

Securities: 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).

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE M - FAIR VALUE MEASUREMENTS - Continued

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2017 and 2016:

	Fair Value Measurements Using:			
	Level 1	Level 2	Level 3	Total
December 31, 2017				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ -	\$ 61,567,697	\$ -	\$ 61,567,697
December 31, 2016				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ -	\$ 27,984,053	\$ -	\$ 27,984,053

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2017 and 2016.

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE N - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

Financial Assets

The carrying amounts of cash, short term investments, amount due from customers on acceptances, and bank acceptances outstanding are considered to approximate fair value. Short term investments include federal funds sold, securities purchased under agreements to resell, and interest bearing deposits with banks. The determination of the fair value of investment securities is based on upon estimates provided by a third party pricing service and which reflect various assumptions using indirect unobservable inputs. The fair value of loans is estimated using a combination of techniques, including discounting estimated future cash flows at current market rates of interest.

Financial Liabilities

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

Off-Balance Sheet Financial Instruments

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

The fair value hierarchy level and estimated fair value of significant financial instruments at December 31, 2017 and 2016 is summarized as follows (dollar amounts in thousands):

		December 31, 2017		December 31, 2016	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	\$ 15,129	\$ 15,129	\$ 38,368	\$ 38,368
Interest-bearing deposits at FRB	Level 1	87,401	87,401	32,092	32,092
Interest-bearing deposits-other	Level 1	2,997	2,997	1,245	1,245
Investment securities available for sale	Level 2	61,568	61,568	27,984	27,984
Loans, net	Level 3	492,631	506,374	434,277	452,543
Liabilities					
Deposits	Level 2	\$ 531,189	\$ 530,593	\$ 409,165	\$ 409,040
Other borrowings	Level 2	57,896	57,172	75,882	75,713

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE O - 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 4% by the Company. Matching contributions charged to expense amounted to \$159,261 and \$133,008 in 2017 and 2016, respectively.

NOTE P - PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS

December 31, 2017 and 2016

(Dollars in Thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash and cash equivalents	\$ 1,595	\$ 3,475
Due from interest-bearing	398	397
Other assets	640	303
Investment in bank subsidiary	84,812	62,512
Total Assets	<u>\$ 87,445</u>	<u>\$ 66,687</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Other borrowings	\$ 7,896	\$ 7,882
Other liabilities	28	9
Total Liabilities	<u>7,924</u>	<u>7,891</u>
Shareholders' Equity		
Common Stock	57,819	40,712
Additional paid-in capital	2,607	2,343
Retained earnings	19,266	15,814
Accumulated other comprehensive income (loss)	(171)	(73)
Total Shareholders' Equity	<u>79,521</u>	<u>58,796</u>
Total Liabilities and Shareholders' Equity	<u>\$ 87,445</u>	<u>\$ 66,687</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016**

NOTE P – PARENT ONLY CONDENSED FINANCIAL STATEMENTS – Continued

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Years Ended December 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Interest Expense on Borrowings	\$ 414	\$ 403
Noninterest Expense	347	188
Income (loss) before equity in undistributed income of subsidiary	(761)	(591)
Equity in undistributed income of:		
San Diego Private Bank	3,872	4,669
Income before income taxes	3,111	4,078
Income tax benefit	313	243
Net Income	\$ 3,424	\$ 4,321
Other comprehensive income (loss), net of tax:		
Change in unrealized gains/losses on securities, net of taxes	(70)	(150)
Comprehensive Income	\$ 3,354	\$ 4,171

CONDENSED STATEMENTS OF CASH FLOW

Years Ended December 31, 2017 and 2016

(Dollars in Thousands)

	2017	2016
Cash Flows from Operating Activities		
Parent only loss	\$ (448)	\$ (348)
Increase (decrease) in other assets	(337)	(303)
Increase (decrease) in other liabilities	19	(6)
	(766)	(657)
Cash Flows from Investment Activities		
Investment in subsidiary	(18,000)	-
Increase in interest-bearing deposits	(1)	(1)
	(18,001)	(1)
Cash Flows from Financing Activities		
Increase in other borrowings	14	13
Exercise of stock options	655	3,114
Stock offering proceeds	16,218	-
	16,887	3,127
Increase in cash and cash equivalents	(1,880)	2,469
Cash and Cash Equivalents Beginning of Year	3,475	1,006
Cash and Cash Equivalents End of Year	\$ 1,595	\$ 3,475

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We Are Traded On The Over-The-Counter Exchange
Our Stock Symbol is **PBAM**

TRANSFER AGENT

Broadridge Corporate Issuer Solutions, Inc.
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