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Board of Directors

Selwyn Isakow, Chairman of the Board

Thomas V. Wornham, Chief Executive Officer

Rick L. Sowers, President

David Ellman

David S. Engelman

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 Engelman

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Brett Lawrence

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Thomas V. Wornham, Chief Executive Officer

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Paul P. Azzi, Market President

Scott Hurtik, Chief Information Officer

Richard Pimentel, Chief Financial Officer

Karen L. Lister, Chief Administrative Officer

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Community Advisory Board

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Lloyd Russell, Sr.

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Greg Strangman

Jerry Suppa

Rick Vann



Dear Fellow Shareholders,

PBAM and CalPrivate Bank enjoyed another year of significant growth in 2019, with Total Assets now surpassing \$1 Billion. The investments made in people, processes, systems, and additional offices as part of our organic growth strategy, have resulted in Net Interest Revenue, Net Loans, Deposits, and Total Assets reaching record levels. We are beginning to see anticipated operating efficiencies, in spite of some industry, structural and market challenges.

Our growth continues to come from across all our business lines and in all the geographic markets we serve. The over fifty Team Members we brought on board during 2018, continue to produce outstanding results in 2019. We expect to continue investing in products and operating systems to improve our *Distinctly Different*™ Client experience and support our Team Members' efficiency and effectiveness.

To enhance CalPrivate Bank's strong capital base and fund future growth, PBAM issued \$18,000,000 of subordinated debt in April 2019 and completed a \$10,000,000 private equity placement in June 2019.

A few of the financial highlights for 2019 are:

- Revenues reached a record \$41,765,000 up 43%.
- Total Assets increased 26% during 2019 to a record \$1,066,000,000.
- Total Net Loans increased 27% to \$876,955,000 at year-end.
- Total Deposits were a record \$850,255,000, up 22% from the prior year-end.
- Non-interest Income was up 19% to a record \$2,812,000.

We are pleased with the progress that PBAM made during 2019 and excited about the investments we have made. We remain committed to maintaining our safe and sound banking practices and continuing our organic growth strategy.

While operating profits were at record levels throughout the year, in September 2019, PBAM announced a \$7.2 million after-tax charge for a loan loss related to a fraud. The loan loss was the first in PBAM's history and we are making every effort to recover these funds. As a result, PBAM's net profit was impacted. This write-down combined with cost of issuing additional capital and subordinated debt, resulted in a loss of \$428,000 for the year. Both the Bank and PBAM remain well capitalized and exceed all regulatory requirements.

We thank all of our PBAM family who make CalPrivate Bank the premier relationship focused private and business bank in coastal Southern California; our Clients, Shareholders, Team Members, Directors, Advisory Board, Management Team and Community Partners.

We appreciate your continued trust and support.


Selwyn Isakow
Chair, Board of Directors


Thomas V. Wornham
Chief Executive Officer


Rick L. Sowers
President

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

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

DECEMBER 31, 2019 AND 2018

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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 sheet of Private Bancorp of America and Subsidiary (the "Company") as of December 31, 2019, the related statements of operations and comprehensive income, changes in shareholders' equity, and cash flows for the year 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, 2019, and the results of its operations and its cash flows for the year 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 audit. 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 audit 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 audit 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 audit 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 audit 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 audit provides a reasonable basis for our opinion.

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

San Ramon, California
March 18, 2020



VALUE THE *difference*

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, 2018 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, 2018 and the results of its operations and its cash flows for the year 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.

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

Laguna Hills, California
March 31, 2019

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

	2019	2018
ASSETS		
Cash and due from banks	\$ 31,050,949	\$ 18,358,401
Interest-bearing deposits in other financial institutions	1,242,495	5,781,521
Interest-bearing deposit at Federal Reserve Bank	73,318,486	18,963,695
Cash and Cash Equivalents	105,611,930	43,103,617
Interest-bearing time deposits with other financial institutions	5,755,843	2,750,521
Debt securities available for sale	51,178,996	98,169,662
Loans, net of deferred fees and costs	885,681,498	694,663,411
Unaccreted discount on acquired loans	(125,342)	(132,384)
Allowance for loan losses	(8,600,925)	(6,252,000)
Net Loans	876,955,231	688,279,027
Federal Home Loan Bank stock, at cost	4,059,900	3,310,200
Premises and equipment, net	3,164,766	2,222,934
Deferred tax asset	4,141,000	4,409,000
Accrued interest receivable and other assets	15,118,977	4,919,041
Total Assets	\$ 1,065,986,643	\$ 847,164,002
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest bearing deposits	\$ 268,115,810	\$ 226,118,912
Interest-bearing deposits	582,139,374	470,344,224
Total Deposits	850,255,184	696,463,136
Other borrowings	107,932,197	62,908,889
Accrued interest payable and other liabilities	12,119,513	4,240,523
Total Liabilities	970,306,894	763,612,548
Commitments and Contingencies (Notes 5 and 10)	-	-
Shareholders' Equity		
Common stock, no par value, 20,000,000 shares authorized; 5,577,968 and 5,092,993 shares issued and outstanding for 2019 and 2018, respectively	69,159,292	58,373,164
Additional paid-in-capital	3,048,271	3,082,711
Retained earnings	22,904,355	23,363,920
Net unrealized gains (losses) on securities available for sale, net of tax	567,831	(1,268,341)
Total Shareholders' Equity	95,679,749	83,551,454
Total Liabilities and Shareholders' Equity	\$ 1,065,986,643	\$ 847,164,002

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Interest Income		
Interest and fees on loans	\$ 47,182,164	\$ 30,218,857
Interest-bearing deposits at the Federal Reserve Bank	603,086	611,987
Interest on investment securities	2,095,999	2,472,705
Dividends on Federal Home Loan Bank stock	206,635	225,712
Interest on deposits with other financial institutions	91,618	91,973
Total Interest Income	50,179,502	33,621,234
Interest Expense		
Interest expense on deposits	5,977,063	2,405,372
Interest expense on borrowings	2,437,838	1,967,079
Total Interest Expense	8,414,901	4,372,451
Net Interest Income	41,764,601	29,248,783
Provision for loan losses	11,829,818	1,731,000
Net Interest Income After Provision for Loan Losses	29,934,783	27,517,783
Non-Interest Income		
Service charges on deposit accounts	485,387	258,260
Gain on sale of Small Business Administration ("SBA") loans	1,248,939	1,670,299
Gain (loss) on sale of securities	340,929	(4,680)
Other fees and miscellaneous income	736,334	440,890
Total Non-Interest Income	2,811,589	2,364,769
Non-Interest Expenses		
Salaries and other employee benefits	22,889,333	15,942,992
Occupancy and equipment	2,941,378	2,310,012
Data processing	2,232,765	1,902,304
Director compensation	487,430	515,685
Professional services	2,121,126	1,247,976
Regulatory assessments	221,369	203,170
Marketing	353,747	395,636
Administrative and other operating	2,084,743	1,516,956
Total Non-Interest Expense	33,331,891	24,034,731
(Loss) Income Before Provision for Income Taxes	(585,519)	5,847,821
Provision for Income Taxes	(157,081)	1,712,210
Net (Loss) Income	\$ (428,438)	\$ 4,135,611
Basic (Loss) Earnings Per Share	\$ (0.08)	\$ 0.82
Diluted (Loss) Earnings Per Share	\$ (0.08)	\$ 0.80

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Net (loss) income	\$ (428,438)	\$ 4,135,611
OTHER COMPREHENSIVE INCOME (LOSS):		
Unrealized gains (losses) on securities available-for-sale:		
Change in unrealized gains (losses)	2,952,697	(1,635,139)
Reclassification of (gains) losses recognized in net income	(340,929)	4,680
	<u>2,611,768</u>	<u>(1,630,459)</u>
Related income tax effect:		
Change in unrealized (losses) gains	(869,351)	534,337
Reclassification of gains (losses) recognized in net income	93,755	(1,366)
	<u>(775,596)</u>	<u>532,971</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)	<u>1,836,172</u>	<u>(1,097,488)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 1,407,734</u>	<u>\$ 3,038,123</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Common Stock		Additional	Retained	Other	Total
	Shares	Amount	Paid-In	Earnings	Comprehensive	Shareholders'
	Outstanding		Capital		Income (Loss)	Equity
Balance, January 1, 2018	5,007,957	57,818,762	2,606,890	19,266,290	(170,853)	79,521,089
Net Income				4,135,611		4,135,611
Share-based compensation expense			1,000,151			1,000,151
Exercise of stock options	11,600	129,890				129,890
Issuance of restricted shares, net	71,100					-
Vesting of restricted shares		191,012	(191,012)			-
Forfeitures of restricted stock	(1,470)		-			-
Repurchase of restricted stock for taxes	(5,894)		(99,818)	(52,733)		(152,551)
Issuance of unrestricted shares	9,700	233,500	(233,500)			-
Reclassification of unrealized gain/loss on equity securities				14,752		14,752
Other comprehensive loss					(1,097,488)	(1,097,488)
Balance, December 31, 2018	5,092,993	\$ 58,373,164	\$ 3,082,711	\$ 23,363,920	\$ (1,268,341)	\$ 83,551,454
Net Loss				(428,438)		(428,438)
Share-based compensation expense			1,146,846			1,146,846
Stock Offering, net of costs of \$254,000	444,444	9,745,990				9,745,990
Exercise of stock options	11,333	130,661				130,661
Issuance of restricted shares, net	41,500					-
Vesting of restricted shares		695,350	(695,350)			-
Forfeitures of restricted stock	(9,075)					-
Repurchase of restricted stock for taxes	(13,012)		(271,809)	(31,127)		(302,936)
Issuance of unrestricted shares	9,785	214,127	(214,127)			-
Other comprehensive gain					1,836,172	1,836,172
Balance, December 31, 2019	<u>5,577,968</u>	<u>\$ 69,159,292</u>	<u>\$ 3,048,271</u>	<u>\$ 22,904,355</u>	<u>\$ 567,831</u>	<u>\$ 95,679,749</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities		
Net (loss) income	\$ (428,438)	\$ 4,135,611
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	671,584	487,514
Provision for loan losses	11,829,818	1,731,000
Net premium amortization on securities	182,735	459,656
Net gain on sale of loans	(1,248,939)	(1,670,299)
Net (gain) loss on sale of securities	(340,929)	4,680
Net loss on sale of property and equipment	-	66,948
Share-based compensation expense	1,146,846	1,000,151
Deferred tax expense (benefit)	(602,000)	4,000
Increase in accrued interest receivable and other assets	(10,200,392)	(921,033)
Increase (decrease) in accrued interest payable and other liabilities	7,902,298	1,601,991
Net Cash Provided by Operating Activities	8,912,583	6,900,219
Cash Flows From Investing Activities		
Increase (decrease) in time deposits with other banks	(3,005,321)	246,749
Purchases of securities	-	(51,472,861)
Maturities and principal paydowns of securities	27,870,496	12,607,267
Proceeds from sale of securities	21,984,990	-
Purchase of Federal Home Loan Bank stock	(749,700)	(1,015,200)
Net increase in loans	(220,399,046)	(222,409,023)
Proceeds from sale of loans	21,141,963	26,700,610
Proceeds from the sale of property and equipment	-	75,000
Purchases of property and equipment	(1,613,415)	(1,322,217)
Net Cash Used in Investing Activities	(154,770,033)	(236,589,675)
Cash Flows From Financing Activities		
Increase in deposits	153,792,048	165,273,236
Increase in other borrowings	45,000,000	5,013,334
Repurchase of restricted shares	(302,936)	(152,551)
Exercise of stock options	130,661	129,890
Issuance of stock	9,745,990	-
Net Cash Provided by Financing Activities	208,365,763	170,263,909
Net Increase in Cash and Cash Equivalents	62,508,313	(59,425,547)
Cash and Cash Equivalents, Beginning of Year	43,103,617	102,529,164
Cash and Cash Equivalents, End of Year	\$ 105,611,930	\$ 43,103,617
Supplemental Cash Flow Information		
Interest paid	\$ 8,263,502	\$ 4,255,629
Taxes paid	\$ 2,760,000	\$ 1,700,000

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

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

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

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

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

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 18, 2020 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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Due From Banks

Banking regulations require that all banks maintain a percentage of their deposits as reserves in cash or on deposit with the Federal Reserve Bank. The Company complied with the reserve requirements as of December 31, 2019 and 2018.

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

Debt Securities

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

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

Loans Held for Sale

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Transfers of Financial Assets

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

Servicing Rights

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

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

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

SBA loans serviced for others totaled approximately \$56.0 million and \$44.8 million as of December 31, 2019 and 2018, respectively. The carrying value of servicing assets was approximately \$1.1 million and \$804 thousand as of December 31, 2019 and 2018, 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, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Loans - Continued

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

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

Certain Acquired Loans

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

Allowance for Loan Losses

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowance for Loan Losses - Continued

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other Real Estate Owned

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

FHLB Stock and Other Investments

The Bank is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income. The Bank's investment in FHLB stock was approximately \$4,059,900 and \$3,310,200 at December 31, 2019 and 2018, respectively.

Effective with the adoption of ASU 2016-01 on January 1, 2018, the Company is accounting for equity securities with readily determinable fair values at fair value, with changes recognized through earnings, instead of other comprehensive income. As of the adoption date, the Company reclassified marketable equity securities from investments available for sale into other investments and unrealized gains of \$14,752 were reclassified from accumulated other comprehensive income to retained earnings. The carrying value of equity securities with readily determinable fair values as of December 31, 2019 and December 31, 2018 was \$35,821 and \$27,445, respectively. The unrealized gains recognized in 2019 were \$8,376 and unrealized losses recognized in 2018 were \$8,055.

Premises and Equipment

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

Leases

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 \$48,000 and \$50,000 in 2019 and 2018, respectively. Expected future CDI amortization expense is as follows:

Year Ending	Amount
2020	25,000
2021	7,000
Total	\$ 32,000

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, 2019 and 2018.

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 9. 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fair Value Measurements- Continued

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

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

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

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

Advertising Costs

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

Revenue Recognition – Noninterest Income

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Noninterest Income - Continued

The following is a discussion of key revenues within the scope of the new revenue guidance.

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.

Gains/Losses on OREO Sales

Gains/losses on the sale of OREO are included in non-interest expense and are generally recognized when the performance obligation is complete. This is typically at delivery of control over the property to the buyer at the time of each real estate closing.

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 (losses) on securities available for sale was \$340,929 and (\$4,680) in 2019 and 2018, respectively.

Earnings Per Share ("EPS")

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Stock-Based Compensation

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

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

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity. Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued 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. Upon adoption, the Company recognized the original opening amount of the right-of-use asset was \$6.7 million, which had no impact to equity from the adoption of the standard.

Recent Accounting Guidance Not Yet Effective

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*. This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that 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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

loan and lease losses. In addition, public business entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019 for SEC filers, one year later for non SEC filing public business entities. Early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). In October 2019, the FASB adopted the August 2019 proposal to delay implementation until January 2023 for small reporting companies, non-SEC companies and public companies with public float less than \$250 million or less than \$100 million in annual revenues and no public float or public float less than \$700 million. The Company/Bank is currently evaluating the provisions of ASU No. 2016-13 for potential impact on its consolidated financial statements and disclosures.

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - DEBT SECURITIES

The following table summarizes the amortized cost and fair value of securities available for sale and held to maturity at December 31, 2019 and 2018, and the corresponding amounts of gross unrealized gains and losses:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Securities Available for Sale:				
U.S. Agency securities	\$ 1,000,758	\$ -	\$ (206)	\$ 1,000,552
SBA Loan Pool securities	2,738,000	30,843	-	2,768,843
Mortgage-backed securities	46,605,193	812,106	(7,698)	47,409,601
Total	<u>\$ 50,343,951</u>	<u>\$ 842,949</u>	<u>\$ (7,904)</u>	<u>\$ 51,178,996</u>
December 31, 2018				
Securities Available for Sale:				
U.S. Agency securities	\$ 18,025,980	\$ -	\$ (190,847)	\$ 17,835,133
SBA Loan Pool securities	3,021,435	-	(83,169)	2,938,266
Mortgage-backed securities	54,233,360	-	(1,235,193)	52,998,167
Corporate debt securities	11,535,051	105	(235,212)	11,299,944
Municipal securities - tax exempt	10,305,702	30,205	(74,769)	10,261,138
Municipal securities - taxable	2,918,611	-	(81,597)	2,837,014
Total	<u>\$ 100,040,139</u>	<u>\$ 30,310</u>	<u>\$ (1,900,787)</u>	<u>\$ 98,169,662</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 2 - DEBT SECURITIES - Continued

The amortized cost and fair value of the investment securities portfolio as of December 31, 2019 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	\$ 1,000,758	\$ 1,000,552
Due after one year through five years	-	-
Due after five years through ten years	2,738,000	2,768,843
Mortgage-backed securities	46,605,193	47,409,601
Total debt securities	<u>\$ 50,343,951</u>	<u>\$ 51,178,996</u>

As of December 31, 2019 there were five securities with unrealized losses of \$7,904 that had been in a continuous loss position for more than 12 months. Unrealized losses on debt securities have not been recognized into income because the issuer bonds are of high credit quality, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2019						
U.S. Agency securities	\$ -	\$ -	\$ 1,000,553	\$ (206)	\$ 1,000,553	\$ (206)
Mortgage-backed securities	-	-	526,099	(7,698)	526,099	(7,698)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,526,652</u>	<u>\$ (7,904)</u>	<u>\$ 1,526,652</u>	<u>\$ (7,904)</u>
December 31, 2018						
U.S. Agency securities	\$ -		\$ 17,835,133	\$ (190,847)	\$ 17,835,133	\$ (190,847)
SBA Loan Pool securities	-		2,938,267	(83,169)	2,938,267	(83,169)
Mortgage-backed securities	46,210,885	(972,478)	6,787,282	(262,715)	52,998,167	(1,235,193)
Corporate debt securities	984,049	(38,309)	9,315,790	(196,903)	10,299,839	(235,212)
Municipal securities - tax exempt	1,833,936	(7,227)	3,969,590	(67,542)	5,803,526	(74,769)
Municipal securities - taxable	-	-	2,837,014	(81,597)	2,837,014	(81,597)
Total	<u>\$ 49,028,870</u>	<u>\$ (1,018,014)</u>	<u>\$ 43,683,076</u>	<u>\$ (882,773)</u>	<u>\$ 92,711,946</u>	<u>\$ (1,900,787)</u>

The Company had pledged debt securities with a fair value of \$40,103,146 and \$44,639,802 to the Federal Home Loan Bank of San Francisco to secure borrowing arrangements discussed in Note 7, as of December 31, 2019 and 2018, respectively.

The Company had a gain on sale of securities of \$340,929 in 2019 and a loss on the sale of securities of \$4,680 in 2018.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - 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:

	2019	2018
Real Estate	\$ 573,085,619	\$ 473,928,526
Commercial	202,504,260	166,530,141
SBA	107,736,624	50,832,239
Consumer	5,711,049	5,178,365
Loans Receivable	889,037,552	696,469,271
Unaccreted discount on acquired loans	(125,342)	(132,384)
Loans Receivable, net of Unaccreted Discount		
on Acquired Loans	888,912,210	696,336,887
Net deferred loan origination fees and costs	(3,356,054)	(1,805,860)
Allowances for loan losses	(8,600,925)	(6,252,000)
Loans Receivable, net	<u>\$ 876,955,231</u>	<u>\$ 688,279,027</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The following table summarizes the allocation of the allowance as well as the activity in the allowance attributed to various segments in the loan portfolio as of and for the years ended December 31, 2019 and 2018:

December 31, 2019	Real Estate	Commercial	SBA	Consumer	Total
Allowance for Loan Losses:					
Beginning of Year	\$ 2,296,328	\$ 2,070,624	\$ 1,815,857	\$ 69,191	\$ 6,252,000
Provisions	2,084,836	10,784,218	(1,051,429)	12,193	11,829,818
Charge-offs	-	(9,481,000)	-	-	(9,481,000)
Recoveries	-	107	-	-	107
End of Year	<u>\$ 4,381,164</u>	<u>\$ 3,373,949</u>	<u>\$ 764,428</u>	<u>\$ 81,384</u>	<u>\$ 8,600,925</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	4,381,164	3,373,949	764,428	81,384	8,600,925
	<u>\$ 4,381,164</u>	<u>\$ 3,373,949</u>	<u>\$ 764,428</u>	<u>\$ 81,384</u>	<u>\$ 8,600,925</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively	572,961,270	202,503,267	107,736,624	5,711,049	888,912,210
	<u>\$ 572,961,270</u>	<u>\$ 202,503,267</u>	<u>\$ 107,736,624</u>	<u>\$ 5,711,049</u>	<u>\$ 888,912,210</u>
December 31, 2018					
Allowance for Loan Losses:					
Beginning of Year	\$ 2,609,027	\$ 1,448,173	\$ 428,917	\$ 34,883	\$ 4,521,000
Provisions	(312,699)	622,451	1,386,940	34,308	1,731,000
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
End of Year	<u>\$ 2,296,328</u>	<u>\$ 2,070,624</u>	<u>\$ 1,815,857</u>	<u>\$ 69,191</u>	<u>\$ 6,252,000</u>
Reserves:					
Specific	\$ -	\$ -	\$ -	\$ -	\$ -
General	2,296,328	2,070,624	1,815,857	69,191	6,252,000
	<u>\$ 2,296,328</u>	<u>\$ 2,070,624</u>	<u>\$ 1,815,857</u>	<u>\$ 69,191</u>	<u>\$ 6,252,000</u>
Loans Evaluated for Impairment:					
Individually	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively	473,796,142	166,530,141	50,832,239	5,178,365	696,336,887
	<u>\$ 473,796,142</u>	<u>\$ 166,530,141</u>	<u>\$ 50,832,239</u>	<u>\$ 5,178,365</u>	<u>\$ 696,336,887</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

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

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

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

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

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

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

December 31, 2019	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	\$ 21,418,308	\$ -	\$ -	\$ -	\$ 21,418,308
Residential real estate	74,864,461	-	3,535,808	-	78,400,269
Multi-family residential	59,095,108	-	-	-	59,095,108
Nonresidential	414,047,585	-	-	-	414,047,585
Commercial	202,005,951	-	497,316	-	202,503,267
SBA	107,650,731	-	85,893	-	107,736,624
Consumer	5,711,049	-	-	-	5,711,049
	<u>\$ 884,793,193</u>	<u>\$ -</u>	<u>\$ 4,119,017</u>	<u>\$ -</u>	<u>\$ 888,912,210</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES - Continued

The risk category of loans by class of loans was as follows as of December 31, 2018:

December 31, 2018	Pass	Special Mention	Substandard	Impaired	Total
Real Estate:					
Construction	\$ 23,817,925	\$ -	\$ -	\$ -	\$ 23,817,925
Residential real estate	55,970,683	3,923,542	-	-	59,894,225
Multi-family residential	62,340,016	-	-	-	62,340,016
Nonresidential	327,745,522	-	-	-	327,745,522
Commercial	165,896,895	-	631,700	-	166,528,595
SBA	49,922,954	897,695	11,590	-	50,832,239
Consumer	5,175,731	2,634	-	-	5,178,365
	<u>\$ 690,869,726</u>	<u>\$ 4,823,871</u>	<u>\$ 643,290</u>	<u>\$ -</u>	<u>\$ 696,336,887</u>

No loans were past due or on nonaccrual as of December 31, 2019 and December 31, 2018.

The Company had no loans considered impaired as of December 31, 2019 and December 31, 2018.

The Company had no TDR's as of December 31, 2019 and December 31, 2018.

NOTE 4 - PREMISES AND EQUIPMENT

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

	2019	2018
Leasehold improvements	\$ 1,814,584	\$ 1,685,470
Furniture, fixtures and equipment	3,505,579	2,021,276
	<u>5,320,163</u>	<u>3,706,746</u>
Accumulated depreciation and amortization	(2,155,397)	(1,483,812)
	<u>\$ 3,164,766</u>	<u>\$ 2,222,934</u>

Total depreciation expense for the years ended December 31, 2019 and 2018, was \$671,585 and \$487,514, respectively.

NOTE 5 - LEASES

As described in Note 1, the Company adopted ASU 2016-02, *Leases (Topic 842)*, effective January 1, 2019. All of our leases are operating leases for corporate offices, branch locations or loan production offices. The amount of the lease liability and right-of-use asset is impacted by the lease term and the discount rate applied to determine the present value of the future lease payments. The remaining term of our operating leases is 3.3 years as of December 31, 2019. The weighted average discount rate rates used were 5.0%.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 - LEASES - Continued

Upon adoption of this standard in 2019, the Company recognized right-of-use assets of \$6.7 million and lease liabilities of \$7.1 million and the outstanding balances at December 31, 2019 were \$6.5 million and \$7.0 million, respectively. The right-of use assets and lease liabilities are reported in other assets and other liabilities.

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

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The Company does not have any leases with an original lease term of 12 months or less (short-term leases) on the Company's balance sheet.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The incremental borrowing rate is estimated using the Company's applicable borrowing rates and lease term.

At December 31, 2019, future minimum annual rental commitments under these operating leases were as follow:

	Amount
2020	\$ 1,984,372
2021	1,755,355
2022	1,745,183
2023	1,505,675
2034	602,851
Thereafter	132,574
Remaining lease commitments	7,726,011
Interest	(772,755)
Present value of lease liability	<u>\$ 6,953,256</u>

NOTE 6 - DEPOSITS

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

	2019	2018
Interest-bearing checking accounts	\$ 112,397,227	\$ 21,079,433
Savings and money market	350,562,891	344,776,754
Time certificate of deposit accounts under \$250,000	78,631,657	72,523,694
Time certificate of deposit accounts \$250,000 and over	40,547,599	31,964,343
	<u>\$ 582,139,374</u>	<u>\$ 470,344,224</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 6 – DEPOSITS - Continued

As of December 31, 2019 and 2018, all noninterest-bearing deposits are demand deposits. The maturity of time certificates of deposit is as follows:

	2019	2018
Within one year	\$ 55,240,387	\$ 75,671,405
One year to three years	27,825,307	10,804,267
Over three years	36,113,562	18,012,365
	<u>\$ 119,179,256</u>	<u>\$ 104,488,037</u>

NOTE 7 - 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, 2019, is as follows:

Lender	Maturity	Rate of Interest	Amount
Federal Home Loan Bank	January 2, 2020	1.66%	\$ 35,000,000
Federal Home Loan Bank	May 17, 2021	2.98%	10,000,000
Federal Home Loan Bank	June 8, 2021	1.50%	5,000,000
Federal Home Loan Bank	August 9, 2021	1.61%	10,000,000
Federal Home Loan Bank	August 8, 2022	1.67%	10,000,000
Federal Home Loan Bank	May 17, 2023	3.16%	10,000,000
Federal Home Loan Bank	August 21, 2023	1.67%	10,000,000
			<u>\$ 90,000,000</u>

At December 31, 2019 and 2018, approximately \$389.2 million and \$336.2 million in loans and \$40.1 million and \$44.6 million in securities were pledged as collateral to the FHLB for the borrowings presented in the table above, respectively. At December 31, 2019 and 2018, the Company had remaining financing availability of approximately \$128 million and \$179 million based on the level of pledged loans and securities, respectively, after consideration of amounts outstanding and a \$35 million letter of credit to secure deposits.

As of December 31, 2019 and 2018, approximately \$0.9 million and \$0.9 million in loans were pledged as collateral to the Federal Reserve Bank on a securitized borrowing arrangement with related borrowing capacity of approximately \$0.5 million and \$0.5 million, respectively. There was no balance outstanding on this borrowing arrangement at December 31, 2019 and 2018.

The Company has borrowing lines with correspondent banks totaling \$23 million as of December 31, 2019. There were no balances outstanding on these borrowing lines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 7 - BORROWING ARRANGEMENTS - Continued

The Company issued Fixed-to-Floating Subordinated Notes (“Notes”) of \$18 million on April 24, 2019 with final maturity on April 25, 2029. The Notes accrued interest at a 6.00% fixed rate for the first five years until April 25, 2024 with quarterly interest payments. After April 25, 2024, interest on the Notes accrues at a variable rate at three-

month LIBOR plus 3.42%. Debt issuance cost was \$72,646 and is being amortized through the maturity date. The balance net of issuance cost is \$17.9 million as of December 31, 2019.

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 twenty-five years for the final seven years. The interest rate is fixed at 4.95% for the first five years with the last five years floating at WSJ Prime plus 1.70 percent. There is a 2% or 1% penalty should the loan be pre-paid in years one or two respectively. Principal repayments required over the next five years include \$167,000, \$175,000, \$184,000, \$193,000 and \$203,000 in 2019, 2020, 2021, 2022 and 2023, respectively. The Company used a portion of the proceeds from the Notes issued in April to pay off the loan and no balance was outstanding at December 31, 2019.

NOTE 8 - INCOME TAXES

The provision for income tax expense for the years ended December 31, 2019 and 2018 consisted of the following:

	2019	2018
Current Taxes:		
Federal	\$ 196,315	\$ 995,049
State	248,604	713,161
	<u>444,919</u>	<u>1,708,210</u>
Deferred	(602,000)	4,000
Provision for Income Tax	<u>\$ (157,081)</u>	<u>\$ 1,712,210</u>

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

	2019		2018	
	Amount	Rate	Amount	Rate
Statutory Federal Tax	\$ (123,000)	21.0%	\$ 1,228,000	21.0%
State Franchise Tax, Net of Federal Benefit	(38,000)	6.5%	495,000	8.5%
Other Items, Net	<u>3,919</u>	<u>(0.7%)</u>	<u>(10,790)</u>	<u>(0.2%)</u>
Actual Tax Expense	<u>\$ (157,081)</u>	<u>26.8%</u>	<u>\$ 1,712,210</u>	<u>29.3%</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 8 – INCOME TAXES - Continued

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

	2019	2018
Deferred Tax Assets:		
Start-up and organization costs	\$ 57,000	\$ 95,000
Operating loss carryforwards	1,885,000	2,115,000
Allowance for loan losses due to tax limitations	2,309,000	1,440,000
Lease Liability	2,056,000	-
Stock-based compensation	259,000	240,000
Other	<u>435,000</u>	<u>949,000</u>
	<u>7,001,000</u>	<u>4,839,000</u>
Deferred Tax Liabilities:		
Depreciation difference	(200,000)	(142,000)
Deferred costs	(150,000)	(97,000)
Deferred Capital Lease Costs	(1,907,000)	-
Other	<u>(603,000)</u>	<u>(191,000)</u>
	<u>(2,860,000)</u>	<u>(430,000)</u>
Net Deferred Tax Assets	<u>\$ 4,141,000</u>	<u>\$ 4,409,000</u>

The Company has total net operating loss carryforwards of approximately \$6.3 million for Federal income and approximately \$6.6 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2029 for both Federal and California franchise tax purposes.

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

The Company's Federal income tax returns for the years ended December 31, 2015 through 2018 have been filed, and are open to audit by the Internal Revenue Service. The Company's California franchise tax returns for the years ended December 31, 2014 through 2018 have been filed, and are open to audit by the State of California.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - SHARE-BASED COMPENSATION

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

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

The Company recognized share-based compensation cost of \$1,146,846 and \$1,001,151 in 2019 and 2018, respectively, related to options and restricted stock grants awarded. Tax benefits associated with share-based compensation amounted to approximately \$294,000 and \$235,000 in 2019 and 2018, respectively.

The Company granted no stock options in 2019 and 15,000 stock options in 2018. The weighted-average fair value of the options granted in 2018 was \$6.74. The weighted-average fair value was estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2018
Dividend yield	0.00%
Expected life	6.0 Years
Expected volatility	20.00%
Risk-free interest rate	2.74%
Weighted-average fair value at grant date	\$ 6.74

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 9 - SHARE-BASED COMPENSATION - Continued

A summary of the status of the stock options issued as of December 31, 2019, and change during the year then ended follows:

	2019		Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
	Options	Exercise Price		
Balance, beginning of year	263,457	\$ 14.15		
Granted	-	-		
Exercised	(11,333)	11.53		
Forfeited or expired	(12,867)	12.18		
Balance, end of year	239,257	\$ 14.39	4.72 Years	\$ 3,444,729
Options exercisable	219,457	\$ 13.63	4.45 Years	\$ 2,990,329

The intrinsic value of option shares exercised was approximately \$104,000 and \$169,000 in 2019 and 2018, respectively. As of December 31, 2019, there was \$43,400 of total unrecognized compensation cost related to outstanding stock options that will be recognized over a weighted-average period of 1.13 years.

Tax benefits recognized in income relating to exercised stock options in 2019 and 2018 were \$0 and \$36,000, respectively.

A summary of the status of the restricted stock grants issued as of December 31, 2019 and 2018, and changes during the years then ended follows:

	2019		2018	
	Unvested Shares	Weighted-Average Grant Date Fair Value	Unvested Shares	Weighted-Average Grant Date Fair Value
Balance, beginning of year	105,425	\$ 23.49	52,240	\$ 18.47
Granted	41,500	23.96	71,100	25.62
Shares Vested	(37,465)	25.82	(17,115)	16.99
Forfeited or expired	(9,075)	23.26	(800)	24.29
Balance, end of year	100,385	\$ 22.84	105,425	\$ 23.49

The intrinsic value of vested restricted grants was approximately \$1,087,068 and \$676,000 in 2019 and 2018, respectively. As of December 31, 2019, there was \$1,846,000 of total unrecognized compensation cost related to restricted stock grants that will be recognized over a weighted-average period of 1.80 years.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 10 - COMMITMENTS

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

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

The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2019 and 2018.

	2019	2018
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	\$ 174,630,012	\$ 131,890,429
Standby letters of credit	7,423,098	5,208,768
	<u>\$ 182,053,110</u>	<u>\$ 137,099,197</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.

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

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 11 – RELATED PARTY TRANSACTIONS

Loans to related parties totaled approximately \$9,313,000 and \$7,766,000 as of December 31, 2019 and 2018, respectively. The following is a summary of changes in related party loans:

	2019	2018
Balance, Beginning of Year	\$ 7,765,642	\$ 3,276,645
New Loans and Advances	2,397,454	6,752,546
Repayments	(850,533)	(2,263,549)
Balance, End of Year	<u>\$ 9,312,563</u>	<u>\$ 7,765,642</u>

As of December 31, 2019 and 2018, the Company's balance sheet included deposits from executive officers and directors and the companies and organizations with which they are associated totaling approximately \$27,602,000 and \$25,655,000, 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 contract was renewed in January 2019 for an additional one-year term and the annual compensation was increased to \$120,000.

In January 2017, the Bank entered into a Development Services Agreement with a Director wherein various services are provided including planning, monitoring, business development and certain other initiatives in connection with the Bank's entry into the Los Angeles market. For services provided, the Director will receive a retainer of \$120,000 per year plus a performance bonus opportunity based on origination of loan and deposit accounts in excess of established thresholds. In February 2020, this Development Services contract was extended for 12 months, expiring February 15, 2021.

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. These participations were repaid during 2018.

NOTE 12 - REGULATORY MATTERS

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

In July 2013, the federal bank regulatory agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks. The new "Basel III" rules became effective on January 1, 2015, with certain of the requirements phased-in over a multi-year schedule, and fully phased in by January 1, 2019. The rules include a new common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 12 - REGULATORY MATTERS – Continued

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

In addition, the Basel III rules introduced the concept of a "conservation buffer" of 2.5% applicable to the three capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). The conservation buffer is being phased-in on a pro rata basis over a four year period beginning in 2016. If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount (1.875% for 2018) then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. The Bank was not limited by the provisions of the conservation buffer as of and for the year ended December 31, 2019.

As of December 31, 2019, 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, 2019 and 2018, 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, 2019						
Total capital (to risk-weighted assets)	\$ 117,243	12.6%	\$ 74,554	8.0%	\$ 93,192	10.0%
Tier 1 capital (to risk-weighted assets)	108,189	11.6%	55,915	6.0%	74,554	8.0%
CET1 capital (to risk-weighted assets)	108,189	11.6%	41,937	4.5%	60,575	6.5%
Tier 1 capital (to average assets)	108,189	10.6%	40,804	4.0%	51,005	5.0%
As of December 31, 2018						
Total capital (to risk-weighted assets)	\$ 94,589	13.0%	\$ 58,189	8.0%	\$ 72,737	10.0%
Tier 1 capital (to risk-weighted assets)	88,131	12.1%	43,642	6.0%	58,189	8.0%
CET1 capital (to risk-weighted assets)	88,131	12.1%	32,732	4.5%	47,279	6.5%
Tier 1 capital (to average assets)	88,131	11.1%	31,799	4.0%	39,749	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.

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 13 - 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:

	2019		2018	
	Net Loss	Shares	Net Income	Shares
Net (loss) income as reported	\$ (428,438)		\$ 4,135,611	
Less: Earnings allocated to participating securities	8,223		(81,829)	
Net (loss) income available to common shareholders	(420,215)		4,053,782	
Shares outstanding at year-end		5,577,968		5,092,993
Less unvested restricted shares		(95,621)		(100,361)
Impact of weighting shares issued or retired during the year		(234,080)		(20,782)
Used in Basic EPS	(420,215)	5,248,267	4,053,782	4,971,850
Dilutive effect of outstanding stock options	-	-	-	117,285
Used in Dilutive EPS	<u>\$ (420,215)</u>	<u>5,248,267</u>	<u>4,053,782</u>	<u>5,089,135</u>

There were 45,000 anti-dilutive option shares as of December 31, 2019, and 15,000 at December 31, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 14 - FAIR VALUE MEASUREMENTS - Continued

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).

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2019 and 2018:

December 31, 2019	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ -	\$ 51,178,996	\$ -	\$ 51,178,996
December 31, 2018	Fair Value Measurements Using:			Total
	Level 1	Level 2	Level 3	
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ -	\$ 98,169,662	\$ -	\$ 98,169,662

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2019 and 2018.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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

Financial Assets

The carrying amounts of cash, short term investments, due from customers on acceptances, and Bank acceptances outstanding are considered to approximate fair value. Short-term investments include federal funds sold, securities purchased under agreements to resell, and interest-bearing deposits with banks. The determination of the fair value of investment securities is discussed in Note 14. The carrying amount of loans, net of the allowance for loan losses is estimated to approximate fair value for purposes of this disclosure. The fair value of loans as estimated in this manner represents an exit price notion as of December 31, 2019 and an entry price notion as of December 31, 2018.

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, 2019 and 2018 is summarized as follows (dollar amounts in thousands):

		December 31, 2019		December 31, 2018	
	Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and due from banks	Level 1	\$ 34,551	\$ 34,551	\$ 24,140	\$ 24,140
Interest-bearing deposits at FRB	Level 1	74,561	74,561	18,964	18,964
Interest-bearing deposits-other	Level 1	2,256	2,256	2,751	2,751
Debt securities available for sale	Level 2	51,179	51,179	98,170	98,170
Loans, net	Level 3	876,955	999,614	688,279	750,494
Liabilities					
Deposits	Level 2	\$ 850,255	\$ 850,592	\$ 696,463	\$ 662,478
Other borrowings	Level 2	107,932	108,892	62,909	64,257

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 16 - 401K BENEFIT PLAN

The Company maintains a 401K benefit plan that provides for employee contributions up to maximums allowed by law, which are matched up to 5% by the Company. Matching contributions charged to expense amounted to \$546,242 and \$191,687 in 2019 and 2018, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 17 - PARENT ONLY CONDENSED FINANCIAL STATEMENTS

CONDENSED BALANCE SHEETS
December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 2,287	\$ 1,830
Due from interest-bearing	401	400
Other assets	474	86
Investment in bank subsidiary	110,548	89,283
Total Assets	<u>\$ 113,710</u>	<u>\$ 91,599</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Other borrowings	\$ 17,932	\$ 7,909
Other liabilities	98	138
Total Liabilities	<u>18,030</u>	<u>8,047</u>
Shareholders' Equity		
Common Stock	69,159	58,373
Additional paid-in capital	3,048	3,083
Retained earnings	22,905	23,364
Accumulated other comprehensive income (loss)	568	(1,268)
Total Shareholders' Equity	<u>95,680</u>	<u>83,552</u>
Total Liabilities and Shareholders' Equity	<u>\$ 113,710</u>	<u>\$ 91,599</u>

PRIVATE BANCORP OF AMERICA, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 17 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS – Continued

CONDENSED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31, 2019 and 2018

(Dollars in Thousands)

	2019	2018
Interest Income	\$ 2	\$ 1
Interest Expense on Borrowings	956	415
Net Interest Expense	(954)	(414)
Noninterest Expense	456	380
Income (loss) before equity in undistributed income of subsidiary	(1,410)	(794)
Equity in undistributed income of:		
CalPrivate Bank	585	4,706
Income before income taxes	(825)	3,912
Income tax benefit	397	223
Net (Loss) Income	<u>\$ (428)</u>	<u>\$ 4,135</u>
Other comprehensive income (loss), net of tax:		
Change in unrealized gains/losses on securities, net of taxes	1,836	(1,097)
Comprehensive Income	<u>\$ 1,408</u>	<u>\$ 3,038</u>

CONDENSED STATEMENTS OF CASH FLOW

Years Ended December 31, 2019 and 2018

(Dollars in Thousands)

	2019	2018
Cash Flows from Operating Activities		
Parent only loss	(1,013)	\$ (570)
(Increase) Decrease in other assets	(388)	554
(Increase) Decrease in other liabilities	(41)	110
	(1,442)	94
Cash Flows from Investment Activities		
Investment in subsidiary	(18,000)	-
Increase in interest-bearing deposits	(1)	(2)
	(18,001)	(2)
Cash Flows from Financing Activities		
Increase in other borrowings	10,023	13
Exercise of stock options	131	130
Stock offering proceeds	9,746	-
	19,900	143
Increase in cash and cash equivalents	457	235
Cash and Cash Equivalents Beginning of Year	1,830	1,595
Cash and Cash Equivalents End of Year	<u>2,287</u>	<u>\$ 1,830</u>

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LOCATIONS

LA JOLLA 9404 Genesee Avenue, Suite 100, La Jolla, CA 92037 858.875.6900

CORONADO 801 Orange Avenue, Suite 101, Coronado, CA 92118 619.437.1000

SAN DIEGO 550 West C Street, Suite 110, San Diego, CA 92101 619.230.2800

NEWPORT BEACH 4675 MacArthur Court, Suite 1450, Newport Beach, CA 92660 949.345.7600

BEVERLY HILLS 9606 S. Santa Monica Blvd., 3rd Floor, Beverly Hills, CA 90210 424.303.4880

SAN MARCOS 950 Boardwalk, Suite 105, San Marcos, CA 92078 760.759.1700

SOUTH BAY 2321 Rosecrans Avenue, Suite 3285, El Segundo, CA 90245 424.348.2150



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