

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

CONTENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS	1
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FINANCIAL STATEMENTS	
Consolidated Balance Sheets	4
Consolidated Statements of Operations	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to Consolidated Financial Statements	9



Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Private Bancorp of America, Inc. and Subsidiary (the Company) as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows, for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Change in Accounting Principle

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

Critical Audit Matter

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

Allowance for Credit Losses

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

Auditing these complex judgments and assumptions involves especially challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

The primary procedures we performed to address this critical audit matter included:

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

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

Eide Bailly LLP

San Ramon, California
March 15, 2024

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

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

See the accompanying Notes to the Consolidated Financial Statements.

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

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

See the accompanying Notes to the Consolidated Financial Statements.

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

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

See the accompanying Notes to the Consolidated Financial Statements.

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

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares Outstanding	Amount				
Balance, January 1, 2022	5,627,735	\$ 70,850	\$ 3,343	\$ 54,922	\$ (751)	\$ 128,364
Net income	—	—	—	24,709	—	24,709
Share-based compensation	—	—	1,278	—	—	1,278
Common stock repurchased	(60,000)	—	—	(1,783)	—	(1,783)
Exercise of stock options, net settled	23,032	260	(49)	—	—	211
Issuance of restricted shares, net	1,000	—	—	—	—	—
Vesting of restricted shares	—	714	(714)	—	—	—
Forfeitures of restricted stock	(200)	—	—	—	—	—
Repurchase of restricted stock for taxes	(4,782)	—	(108)	(38)	—	(146)
Issuance of unrestricted shares	12,240	397	(397)	—	—	—
Other comprehensive income (loss)	—	—	—	—	(9,309)	(9,309)
Balance, December 31, 2022	5,599,025	\$ 72,221	\$ 3,353	\$ 77,810	\$ (10,060)	\$ 143,324
Cumulative effect of change in accounting principles	—	—	—	(2,033)	—	(2,033)
Balance, January 1, 2023	5,599,025	72,221	3,353	75,777	(10,060)	141,291
Net income	—	—	—	40,856	—	40,856
Share-based compensation	—	—	1,485	—	—	1,485
Transfer of liability share-based compensation awards to equity	—	—	253	—	—	253
Exercise of stock options, net settled	83,926	995	(558)	—	—	437
Issuance of restricted shares, net	31,350	—	—	—	—	—
Vesting of restricted shares	—	258	(258)	—	—	—
Forfeitures of restricted stock	(7,600)	—	—	—	—	—
Repurchase of restricted stock for taxes	(3,386)	—	(67)	(29)	—	(96)
Issuance of unrestricted shares	15,800	529	(529)	—	—	—
Other comprehensive income (loss)	—	—	—	—	1,557	1,557
Balance, December 31, 2023	5,719,115	\$ 74,003	\$ 3,679	\$ 116,604	\$ (8,503)	\$ 185,783

See the accompanying Notes to the Consolidated Financial Statements.

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

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

See the accompanying Notes to the Consolidated Financial Statements.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation and Nature of Operations

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

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

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

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

Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through March 15, 2024 which is the date the financial statements were available to be issued.

Use of Estimates

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

Cash and Cash Equivalents

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

Cash and Due From Banks

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

Interest-Bearing Time Deposits with Other Financial Institutions

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Debt Securities

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

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

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

Loans Held for Sale

Small Business Administration ("SBA") loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in earnings through a valuation allowance. Interest income on these loans is accrued daily. Loan origination fees and costs are deferred and included in the cost basis of the loan held for sale. Gains and losses on the sale of loans are recognized pursuant to ASC 860, Transfers and Servicing. Gains or losses realized on the sales of loans are recognized at the time of sale and are determined by the difference between the net sales proceeds and the carrying value of the loans sold, adjusted for any servicing asset or liability. Gains and losses on sales of loans are included in noninterest income.

Transfers of Financial Assets

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

Servicing Rights

Servicing rights are recognized separately when they arise through the sale of loans. Servicing rights are initially recorded at fair value with the statement of operations effect recorded in gain on sale of loans. Fair value is based on a valuation model that calculates the present value of estimated future cash flows from the servicing assets. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. In addition, servicing assets are assessed for impairment based on fair value at each reporting date.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of servicing rights and any impairment is netted against loan servicing fee income.

Loans Held for Investment

The Company originates real estate, commercial, SBA and consumer loans to borrowing customers. A substantial portion of the loan portfolio is represented by real estate loans in the Los Angeles, Orange and San Diego counties. The ability of the Company's borrowers to honor their contracts is dependent upon many factors, including the real estate market and general economic conditions in the Company's lending regions. Loans that management has the intent and ability to hold for the foreseeable future, until maturity or until paid off are classified as held-for-investment (HFI) on the balance sheet. These loans are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of deferred loan origination fees and costs, or unamortized premiums or discounts on purchased loans.

Interest income is accrued on the unpaid principal balance of the loans. Loan origination fees and costs are deferred and amortized as an adjustment of the loan's yield over the life of the loan using the interest method for amortizing loans, and the straight-line method for interest-only loans and lines of credit.

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

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

Allowance for Credit Losses ("ACL")

Loans HFI

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

reasonable, supportable economic forecasts. The exposure at default considers the current unpaid balance, prepayment assumptions and expected utilization assumptions.

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

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Unfunded Commitments

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

Other Real Estate Owned

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Loan balances in excess of the fair value of the real estate acquired at the date of acquisition are charged-off against the allowance for loan losses. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Qualified Affordable Housing Project Investments

The Company invests in partnerships that sponsor affordable housing projects utilizing the Low-Income Housing Tax Credit (“LIHTC”) pursuant to Section 42 of the Internal Revenue Code. These investments are recorded on the Consolidated Balance Sheets net of accumulated amortization, using the proportional amortization method. Under the proportional amortization method, the initial cost of the investments is amortized in proportion to the tax credits and other tax benefits received, and the amortization is recognized as a reduction to provision for income taxes in the Consolidated Statements of Operations. At December 31, 2023 and 2022, the net LIHTC investment totaled \$2.0 million and \$2.1 million, respectively, and was included in other assets on the Consolidated Balance Sheets.

FHLB Stock

The Bank is a member of the Federal Home Loan Bank (“FHLB”) system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Other Equity Investments

The Company carries equity securities at fair value when readily determinable market values are available. Any adjustments to the fair value of these investments are recorded in other fees and miscellaneous income on the Consolidated Statements of Operations. The Company had equity investments carried at fair value of \$0.1 million and nominal amount at December 31, 2023 and 2022, respectively, that were included in other assets on the Consolidated Balance Sheets.

In addition, at December 31, 2023 and 2022, the Company had \$2.5 million and \$1.9 million, respectively, of other equity investments that were included in other assets on the Consolidated Balance Sheets that do not have readily determinable fair values (non-marketable) and are accounted for at cost, plus or minus changes resulting from observable transactions involving the same or similar investments from the same issuer, minus impairment, if any, also referred to as the measurement alternative.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Premises and Equipment

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

Leases

The Company determines if an arrangement contains a lease at contract inception and recognizes right-of-use (“ROU”) assets and operating lease liabilities based on their present value of lease payments over the lease term. While operating leases may include options to extend the term, the Company does not take into account the options in calculating the ROU asset and lease liability unless it is reasonably certain such provisions will be exercised. The present value of lease payments is determined based on the Company’s incremental borrowing rate and other information available at lease commencement. Leases with an initial term of 12-months or less are not recorded on the Consolidated Balance Sheets. Lease expense is recognized on a straight-line basis over the lease term. The Company has elected to account for lease agreements with lease and non-lease components as a single lease component. Refer to Note 6 – Leases for further discussion on the Company’s leasing arrangements and related accounting.

Income Taxes

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

The tax effects from an uncertain tax position are recognized in the financial statements only if, based on its merits, the position is more likely than not to be sustained on audit by the taxing authorities. Interest and penalties related to uncertain tax positions are recorded as part of income tax expense; however, there was no penalty or interest expense recorded for the years ended December 31, 2023 and 2022.

Commitments and Contingencies

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit as described in Note 11. Such financial instruments are recorded in the financial statements when they are funded, or related fees are incurred or received.

Fair Value Measurements

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Current accounting guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. That guidance describes three levels of inputs that may be used to measure fair value:

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

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

See Note 15 and 16 for more information and disclosures relating to the Company's fair value measurements.

Advertising and Marketing Costs

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

Revenue Recognition – Noninterest Income

In accordance with Accounting Standards Codification ("ASC") Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligation in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligation in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation. The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer.

At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligation and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

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

Service Charges and Fees on Deposit Accounts

The Company earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts on a monthly basis. The performance obligation is satisfied, and the fees are recognized on a monthly basis as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Interchange Fees

Interchange fees represents fees earned when a debit card issued by the Company is used. The Company earns interchange fees from debit cardholder transactions through a payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied, and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Comprehensive Income

The change in unrealized gains and losses on securities available for sale is the only component of other comprehensive income for the Company. There were no amounts reclassified out of accumulated other comprehensive income relating to realized gains on securities available for sale in 2023 and 2022.

Earnings Per Share (“EPS”)

Basic EPS excludes dilution and is computed by dividing income available to common shareholders by the weighted-average number of common shares outstanding for the period, excluding outstanding participating securities. Diluted EPS is computed using the weighted-average number of shares determined for the basic computation plus the dilutive effect of potential common shares issuable under certain stock compensation arrangements. Unvested share-based payment awards (Restricted Stock Awards) that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company has determined that its outstanding unvested stock awards are participating securities. See Note 14 for additional details of EPS calculations.

Stock-Based Compensation

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

Compensation cost is recognized over the required service period, generally defined as the vesting period, on a straight-line basis. The Company has elected to account for forfeitures of stock-based awards as they occur. For awards subject to both the service and performance conditions, the unrecognized compensation expense is recognized as expense when it is probable that the performance conditions will be achieved. If the performance conditions become probable of being achieved before the end of the requisite service period, the unrecognized compensation expense for which requisite service has not been provided will be recognized as expense prospectively on an accelerated attribution basis over the remaining requisite service period. Excess tax benefits and tax deficiencies relating to stock-based compensation are recorded as income tax expense or benefit in the Consolidated Statements of Operations when incurred.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders’ equity.

Recently Adopted Accounting Standards

On January 1, 2023, the Company adopted ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments (ASC 326)*, as amended, which replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. ASC 326 is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The CECL methodology applies to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. Under ASC 326, credit losses for available-for-sale (“AFS”) debt securities with unrealized losses are measured in a manner similar previously applicable U.S. GAAP except that the losses are recognized an allowance rather than as a reduction in the amortized cost of the securities. ASC 326 also simplifies the accounting model for purchased credit-impaired debt securities and loans and expands the disclosure requirements regarding an entity’s assumptions, models,

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

and methods for estimating the allowance for credit losses. The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable U.S. GAAP. For the accounting policy on the allowance for loan losses that was in effect prior to the adoption of ASC 326, See Note 1 to our Financial Statements for the year ended December 31, 2022. The Company recorded on the Consolidated Balance Sheets a decrease to net loans of \$1.9 million, an increase to deferred tax asset, net of \$0.9 million, an increase to accrued interest payable and other liabilities of \$1.0 million and a decrease to retained earnings of \$2.0 million as of January 1, 2023 for the cumulative effect of adopting ASC 326.

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

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

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

Recent Accounting Guidance Not Yet Effective

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 2 – DEBT SECURITIES

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

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale:				
US Treasury securities	\$ 11,490	\$ —	\$ (213)	11,277
SBA Loan Pool securities	3,532	—	(296)	3,236
Mortgage-backed securities	97,874	90	(11,356)	86,608
Corporate debt securities	1,750	—	(372)	1,378
Total	\$ 114,646	\$ 90	\$ (12,237)	\$ 102,499
December 31, 2022				
Securities Available for Sale:				
US Treasury securities	\$ 20,447	\$ —	\$ (563)	\$ 19,884
SBA Loan Pool securities	3,894	—	(341)	3,553
Mortgage-backed securities	92,931	—	(13,267)	79,664
Corporate debt securities	1,750	—	(199)	1,551
Total	\$ 119,022	\$ —	\$ (14,370)	\$ 104,652

At December 31, 2023 and December 31, 2022, there were no holdings of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of our shareholders' equity.

The amortized cost and fair value of the investment securities portfolio as of December 31, 2023 are shown by contractual maturity below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are presented separately.

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2023						
US Treasury securities	\$ —	\$ —	\$ 11,277	\$ (213)	\$ 11,277	\$ (213)
SBA Loan Pool securities	—	—	3,236	(296)	3,236	(296)
Mortgage-backed securities	5,909	(11)	72,170	(11,345)	78,079	(11,356)
Corporate debt securities	—	—	1,378	(372)	1,378	(372)
Total	<u>\$ 5,909</u>	<u>\$ (11)</u>	<u>\$ 88,061</u>	<u>\$ (12,226)</u>	<u>\$ 93,970</u>	<u>\$ (12,237)</u>
December 31, 2022						
US Treasury securities	\$ 19,884	\$ (563)	\$ —	\$ —	\$ 19,884	\$ (563)
SBA Loan Pool securities	3,553	(341)	—	—	3,553	(341)
Mortgage-backed securities	17,909	(2,308)	61,755	(10,959)	79,664	(13,267)
Corporate debt securities	1,551	(199)	—	—	1,551	(199)
Total	<u>\$ 42,897</u>	<u>\$ (3,411)</u>	<u>\$ 61,755</u>	<u>\$ (10,959)</u>	<u>\$ 104,652</u>	<u>\$ (14,370)</u>

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

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

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

Disclosures for periods subsequent to the adoption of ASC 326

The Company's loan portfolio is divided into three portfolio segments based on which model is used in the estimate of the allowance for loan losses: Commercial Real Estate, which uses the CRE lifetime loss rate model; Commercial Business, which uses the C&I lifetime loss rate model; and Consumer, which uses the Consumer lifetime loss rate model. Within each portfolio segment the Company monitors and assesses the credit risk in the following

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

classes of loans, based on the risk characteristics of each loan class, and the Company may apply qualitative adjustments to an individual loan class where appropriate.

Commercial Real Estate	Commercial Business	Consumer
<ul style="list-style-type: none"> • Investor owned • Owner occupied • Multifamily • Secured by single family • Land and construction • SBA secured by real estate 	<ul style="list-style-type: none"> • Commercial and Industrial • SBA non-real estate secured 	<ul style="list-style-type: none"> • Consumer

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

Nonaccrual– Loans on which the accrual of interest has been discounted are designated as nonaccrual loans. The accrual of interest on loans is discontinued when principal or interest is past due 90 days based on the contractual terms of the loan or when, in management's judgment, there is reasonable doubt as to collectability.

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

The risk category of loans by class of loans was as follows as of December 31, 2023 (in thousands):

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

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

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

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

	<u>Commercial Real Estate</u>	<u>Commercial Business</u>	<u>Consumer</u>	<u>Total</u>
Year ended December 31, 2023:				
Purchases	\$ 11,452	\$ —	\$ —	\$ 11,452
Sales	\$ 12,228	\$ 10,430	\$ —	\$ 22,658

Disclosures for periods prior to the adoption of ASC 326

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

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

In April 2020, the Company began participating in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Company an origination fee of 1%-5% depending on the loan amount, which was deferred (and included in net deferred loan origination fees and costs) and accreted into interest income using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the SBA forgives the loan and/or the loan is paid off prior to maturity. PPP loans are fully guaranteed by the SBA and have virtually no risk of loss. Included in the SBA loan category above are \$1.3 million of PPP loans as of December 31, 2022.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

The following table summarizes the allocation of the allowance as well as the activity in the allowance attributed to various segments in the loan portfolio as of and for the year ended December 31, 2022 (in thousands):

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

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.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

The risk category of loans by class of loans was as follows as of December 31, 2022 (in thousands):

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 4 – TRANSFERS AND SERVICING

The Company sells the guaranteed portion of certain SBA loans in the secondary market and retains the servicing responsibility for those loans subsequent to the sale. The loans serviced for others are accounted for as sales and are therefore not included in the accompanying Consolidated Balance Sheets. The carrying value of loans sold was \$22.7 million and \$61.2 million during 2023 and 2022, respectively. Loans serviced for others totaled \$147.3 million and \$177.3 million at December 31, 2023 and 2022, respectively.

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

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

	<u>2023</u>	<u>2022</u>
Balance, beginning of period	\$ 3,007	\$ 3,079
Additions	366	1,488
Amortization	(1,359)	(1,256)
Reversal (Impairment)	304	(304)
Balance, end of period	<u>\$ 2,318</u>	<u>\$ 3,007</u>

NOTE 5 – PREMISES AND EQUIPMENT

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

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

Total depreciation and amortization expense for the years ended December 31, 2023 and 2022, was \$0.9 million and \$0.9 million, respectively.

NOTE 6 – LEASES

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

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

	<u>2023</u>	<u>2022</u>
Operating lease cost	\$ 1,830	\$ 1,754
Less sublease income	<u>(35)</u>	<u>(44)</u>
Total lease cost, net	<u>\$ 1,795</u>	<u>\$ 1,710</u>

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

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 7 – DEPOSITS

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

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

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

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

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

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

	<u>2023</u>
Within one year	\$ 291,924
One year to three years	86,081
Over three years	44,801
	<u>\$ 422,806</u>

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 8 – BORROWING ARRANGEMENTS

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

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

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

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

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

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

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

The Company issued Fixed-to-Floating Subordinated Notes (“Notes”) of \$18 million on April 24, 2019 with final maturity on April 25, 2029. The Notes accrue interest at a 6.00% fixed rate for the first five years until April 25, 2024 with quarterly interest payments. After April 25, 2024, interest on the Notes accrues at a variable rate at three-month LIBOR plus 3.42%. Debt issuance costs were \$0.1 million and is being amortized through the maturity date. The balance net of issuance cost is \$18.0 million as of December 31, 2023 and 2022.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 9 – INCOME TAXES

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

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

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

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

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

The following is a summary of the components of the net deferred tax assets recognized in the accompanying Consolidated Balance Sheets at December 31 (in thousands):

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

At December 31, 2023, the Company had total net operating loss carryforwards of approximately \$3.2 million for Federal income and approximately \$5.1 million for California franchise tax purposes. Net operating loss carryforwards, to the extent not used, will begin to expire in 2030 for Federal tax purposes and 2032 for California franchise tax purposes.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

These NOL carryforwards relate to the 2011 acquisition of Coronado First Bank and the 2013 acquisition of San Diego Private Bank. They are subject to an annual limitation by Section 382 of the Internal Revenue Code. The amount of the annual limitation for Federal and California Franchise Tax purposes is \$333 thousand for the 2011 acquisition, and \$446 thousand for the 2013 acquisition. The Company anticipates that these carryforwards will be utilized prior to their expiration and therefore no valuation allowance has been provided.

The Company's Federal income tax returns for the years ended December 31, 2020 through 2022 have been filed, and are open to audit by the Internal Revenue Service. The Company's California franchise tax returns for the years ended December 31, 2019 through 2022 have been filed, and are open to audit by the State of California.

NOTE 10 – SHARE-BASED COMPENSATION

In 2016, the Company adopted the Private Bancorp of America, Inc. Equity Incentive Plan (the PBAM Plan). The awards under the PBAM Plan are granted to directors, officers, key employees of the Company, and certain consultants. Under the PBAM Plan, incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards and restricted stock units (collectively "Equity Grants") may be granted. The PBAM Plan provides for the issuance of up to 400,000 Equity Grants, of which 16,627 were available as of December 31, 2023. Equity Grant prices may not be less than 100 percent of the fair market value of the stock at the date of grant. Equity Grants expire no later than ten years from the date of grant and vest based on a schedule determined by the Company's Board of Directors. The PBAM Plan provides for accelerated vesting, at the discretion of the Board, if there is a change of control, as defined in the PBAM Plan, and in certain other circumstances.

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

The Company recognized share-based compensation cost of \$1.5 million and \$1.3 million in 2023 and 2022, respectively, related to options, restricted stock and restricted stock unit grants awarded. Tax benefits associated with share-based compensation amounted to \$0.4 million and \$0.4 million in 2023 and 2022, respectively.

The weighted-average fair value of options was estimated using the Black-Scholes option-pricing model with the following inputs: (1) expected volatility based on historical volatility of the Company's common stock; (2) the expected term of the option representing the estimated average period of time that the options remain outstanding; (3) the risk-free rate of return reflecting the grant date interest rate offered for zero coupon U.S. Treasury bonds over the expected term of the options; and (4) the expected dividend yield of the Company's common stock.

The following were the weighted-average assumptions as of the grant date used to determine the fair value of options granted in 2023:

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

The Company did not grant stock options in 2022.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

A summary of the status of the stock options issued and outstanding as of December 31, 2023, and change during the year then ended, is as follows:

	Options	Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Balance, beginning of year	176,197	\$ 15.02		
Granted	30,000	25.15		
Exercised	(113,197)	12.18		
Forfeited or expired	-	-		
Balance, end of year	<u>93,000</u>	<u>\$ 21.74</u>	<u>5.32</u>	<u>\$ 1,223</u>
Options exercisable	<u>63,000</u>	<u>\$ 20.12</u>	<u>3.40</u>	<u>\$ 938</u>

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

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

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

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

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

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

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Commitments

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

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

The following is a summary of contractual or notional amounts of off-balance sheet financial instruments that represent credit risk at December 31, 2023 and 2022 (in thousands).

	<u>2023</u>	<u>2022</u>
Financial instruments whose contract amounts represent credit risks:		
Commitments to extend credit	\$ 308,991	\$ 373,273
Standby letters of credit	11,587	8,366
	<u>\$ 320,578</u>	<u>\$ 381,639</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, real properties and deposits.

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

The Company has committed to invest in partnerships that sponsor affordable housing projects utilizing the Low- Income Housing Tax Credit ("LIHTC") pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to achieve a satisfactory return on capital, to facilitate the sale of additional affordable housing projects, and to assist in achieving goals associated with the Community Reinvestment Act ("CRA"). Capital contributions are called for up to an amount specified in the partnership agreements. In addition, the Company invests in other CRA investments including Small Business Investment Companies. At December 31, 2023 and 2022, the Company had unfunded commitments to contribute capital to these LIHTC and other CRA investments totaling \$3.3 million and \$4.0 million, respectively.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

Contingencies

The Company is subject to legal proceedings arising in the ordinary course of business. The Company accrues losses for a legal proceeding when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. However, the uncertainties inherent in legal proceedings make it difficult to reasonably estimate the costs and effects of resolving these matters. Accordingly, actual costs incurred may differ materially from amounts accrued and could adversely affect the Company's business, cash flows, results of operations, financial condition and prospects. Unless otherwise indicated, the Company is unable to estimate reasonably possible losses in excess of any amounts accrued. As of December 31, 2023 and 2022, there were no material loss contingency accruals.

NOTE 12 – RELATED PARTY TRANSACTIONS

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

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

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

The Bank has entered into a Strategic Services Agreement with its Chairman of the Board wherein various services are provided including client development and retention, shareholder development and communications, business model implementation and acquisition strategies. For services provided, the Chairman receives annual compensation of \$120,000 and reimbursement for expenses, plus a performance bonus opportunity. The term of the Strategic Services Agreement is for 12 months and is subject to annual renewal. The contract was renewed in March 2023 for an additional one-year term.

The Bank has entered into a Development Services Agreement with a Director wherein various services are provided including planning, monitoring and business development. For services provided, the Director receives annual compensation of \$120,000 per year and reimbursement for expenses, plus \$1,400 monthly for country club dues, and a performance bonus opportunity based on origination of loan and deposit accounts. The term of the Development Services Agreement is for 12 months and is subject to annual renewal. The contract was renewed in February 2023 for an additional one-year term.

NOTE 13 – REGULATORY MATTERS

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

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

The rules include a common equity Tier 1 ("CET1") capital to risk-weighted assets ratio with minimums for capital adequacy and prompt corrective action purposes of 4.5% and 6.5%, respectively. The minimum Tier 1 capital

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

to risk-weighted assets ratio was raised from 4.0% to 6.0% under the capital adequacy framework and from 6.0% to 8.0% to be well-capitalized under the prompt corrective action framework. Based upon the Bank's election, the net unrealized gain (loss) on available for sale securities is not included in computing regulatory capital.

In addition, the Basel III rules include the concept of a “conservation buffer” of 2.5% applicable to the three-capital adequacy risk-weighted asset ratios (CET1, Tier 1, and Total). If the actual risk-weighted capital ratios fall below the capital adequacy minimum ratios plus the phased-in conservation buffer amount then dividends, share buybacks and discretionary bonuses to executives could be limited in amount. The Bank was not limited by the provisions of the conservation buffer as of and for the years ended December 31, 2023 and 2022.

As of December 31, 2023 and 2022, the most recent notification from the FDIC categorized the Bank as “well-capitalized” under the regulatory framework for prompt corrective action. To be categorized as well-capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios as of December 31, 2023 and 2022, are presented below (dollar amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023						
Total capital (to risk-weighted assets)	\$ 231,121	12.3%	\$ 150,852	8.0%	\$ 188,565	10.0%
Tier 1 capital (to risk-weighted assets)	207,551	11.0%	113,139	6.0%	150,852	8.0%
CET1 capital (to risk-weighted assets)	207,551	11.0%	84,854	4.5%	122,567	6.5%
Tier 1 capital (to average assets)	207,551	10.1%	82,419	4.0%	103,024	5.0%
As of December 31, 2022						
Total capital (to risk-weighted assets)	\$ 188,018	11.3%	\$ 132,624	8.0%	\$ 165,780	10.0%
Tier 1 capital (to risk-weighted assets)	167,294	10.1%	99,468	6.0%	132,624	8.0%
CET1 capital (to risk-weighted assets)	167,294	10.1%	74,601	4.5%	107,757	6.5%
Tier 1 capital (to average assets)	167,294	9.5%	70,295	4.0%	87,869	5.0%

The California Financial Code generally acts to prohibit banks from making a cash distribution to its shareholders in excess of the lesser of the bank's undivided profits or the bank's net income for its last three fiscal years less the amount of any distribution made by the bank's shareholders during the same period. With certain exceptions, a California corporation such as the Company, may not pay a dividend to its shareholders unless its retained earnings are at least equal to the amount of the proposed dividends.

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 14 – EARNINGS PER SHARE (“EPS”)

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to participation rights in undistributed earnings. The following is a reconciliation (in thousands):

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

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

NOTE 15 – FAIR VALUE MEASUREMENTS

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

Securities available for sale: The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2).

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value at December 31, 2023 and 2022 (in thousands):

<u>December 31, 2023</u>	<u>Fair Value Measurements Using:</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ —	\$ 102,499	\$ —	\$ 102,499
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>December 31, 2022</u>				
Assets Measured at Fair Value:				
On a Recurring Basis:				
Securities available for sale	\$ —	\$ 104,652	\$ —	\$ 104,652
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
On a Non-Recurring Basis:				
Servicing Assets	\$ —	\$ —	\$ 3,007	\$ 3,007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Company had no assets or liabilities measured at fair value on a non-recurring basis as of December 31, 2023. The amount of nonrecurring fair value loss recorded in 2022 for impairments of servicing assets held as of December 31, 2022 was \$0.3 million. To determine the fair value of the servicing assets, we use a discounted cash flow valuation technique which utilizes constant prepayment rates and discount rates as significant unobservable inputs as noted in the table below:

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

NOTE 16 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the asset or obligation could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The fair value of financial instruments fulfills the accounting requirements per the Financial Accounting Standards Board (“FASB”), Accounting Standards Codification (“ASC”) topic 825 - Financial Instruments. The fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the entire holdings of a particular financial instrument. Because no market value exists for a significant portion of the financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, involve uncertainties and matters of judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

The fair value hierarchy level and estimated fair value of financial instruments is summarized as follows (dollar amounts in thousands):

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

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

NOTE 17 – 401K BENEFIT PLAN

The Company maintains a 401K benefit plan that provides for employee contributions up to maximums allowed by law, which are matched up to 5% by the Company. Matching contributions charged to expense amounted to \$1.1 million and \$0.8 million in 2023 and 2022, respectively.

NOTE 18 – SHAREHOLDERS' EQUITY

Stock Repurchase Program

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

NOTE 19 – PARENT ONLY CONDENSED FINANCIAL STATEMENTS

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

**CONDENSED BALANCE SHEETS
December 31, 2023 and 2022
(Dollars in Thousands)**

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

PRIVATE BANCORP OF AMERICA, INC., AND SUBSIDIARY

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

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

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

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Net income	\$ 40,856	\$ 24,709
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in undistributed earnings of subsidiary	(40,481)	(25,633)
Amortization of debt issuance costs	7	7
Increase in other assets	(265)	(91)
Increase in other liabilities	103	35
Net Cash Provided By (Used in) Operating Activities	<u>220</u>	<u>(973)</u>
Cash Flows from Investment Activities		
Increase in interest-bearing deposits	<u>(3)</u>	<u>(33)</u>
Net Cash Used In Investing Activities	<u>(3)</u>	<u>(33)</u>
Cash Flows from Financing Activities		
Repurchase of common stock	—	(1,783)
Repurchase of restricted shares	(96)	(146)
Proceeds from exercise of stock options	437	211
Net Cash Provided By (Used In) Financing Activities	<u>341</u>	<u>(1,718)</u>
Change in Cash and Cash Equivalents	558	(2,724)
Cash and Cash Equivalents Beginning of Year	1,851	4,575
Cash and Cash Equivalents End of Year	<u>\$ 2,409</u>	<u>\$ 1,851</u>