

REFINITIV

DELTA REPORT

10-Q

CALB - CALIFORNIA BANCORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1011
CHANGES	294
DELETIONS	390
ADDITIONS	327

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OF 15(d) OR THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2023 March 31, 2024

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-39242

CALIFORNIA BANCORP

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

82-1751097
(I.R.S. Employer
Identification No.)

1300 Clay Street, Suite 500
Oakland, California 94612
(Address of principal executive offices)

(510) 457-3737
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, No Par Value (Title of class)	CALB (Trading Symbol)	NASDAQ Global Select Market (Name of exchange on which registered)
Common Stock, No Par Value	CALB	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes

YES

☒ NO ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, anon-acceleratedfiler, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule12b-2of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-acceleratedfiler ☒

Smaller reporting company ☒

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-2of the Act).

YES Yes ☐ NO No ☒

Number of shares outstanding of the registrant's common stock as of November 1, 2023 May 1, 2024: 8,394,962 8,439,185

CALIFORNIA BANCORP
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FOR THE QUARTER ENDED SEPTEMBER 30, 2023 MARCH 31, 2024

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PART 1 – FINANCIAL INFORMATION

Item 1. Financial Statements

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)
(Dollar amounts in thousands)

	September 30,	December 31,	December	
	2023	2022	March 31, 2024	31, 2023
ASSETS:				
Cash and due from banks	\$ 17,128	\$ 16,686	\$ 12,071	\$ 27,520
Federal funds sold	181,854	215,696	191,027	184,834

Total cash and cash equivalents	198,982	232,382	203,098	212,354
Investment securities:				
Available for sale, at fair value	44,227	47,012	31,078	44,560
Held to maturity, at amortized cost, net of allowance for credit losses of \$81 and \$0 at September 30, 2023 and December 31, 2022, respectively	105,017	108,866		
Held to maturity, at amortized cost, net of allowance for credit losses of \$75 and \$55 at March 31, 2024 and December 31, 2023, respectively			95,840	100,841
Total investment securities	149,244	155,878	126,918	145,401
Loans, net of allowance for credit losses of \$15,921 and \$17,005 at September 30, 2023 and December 31, 2022, respectively	1,558,506	1,578,456		
Loans, net of allowance for credit losses of \$15,981 and \$16,028 at March 31, 2024 and December 31, 2023, respectively			1,506,133	1,544,612
Premises and equipment, net	2,432	3,072	1,987	2,207
Bank owned life insurance (BOLI)	25,697	25,127	26,084	25,878
Goodwill and other intangible assets	7,442	7,472	7,422	7,432
Accrued interest receivable and other assets	41,614	39,828	50,899	48,021
Total assets	<u>\$ 1,983,917</u>	<u>\$ 2,042,215</u>	<u>\$ 1,922,541</u>	<u>\$ 1,985,905</u>
LIABILITIES AND SHAREHOLDERS' EQUITY:				
Deposits				
Non-interestbearing	\$ 686,723	\$ 811,671		
Interest bearing	1,020,358	980,069		
Noninterest-bearing			\$ 633,489	\$ 657,302
Interest-bearing			1,006,027	967,942
Total deposits	1,707,081	1,791,740	1,639,516	1,625,244
Other borrowings			—	75,000
Junior subordinated debt securities	54,256	54,152	54,326	54,291
Accrued interest payable and other liabilities	32,465	24,069	28,014	34,909
Total liabilities	1,793,802	1,869,961	1,721,856	1,789,444
Commitments and Contingencies (Note 5)				
Shareholders' equity				
Common stock, no par value; 40,000,000 shares authorized; 8,395,483 and 8,332,479 issued and outstanding at September 30, 2023 and December 31, 2022, respectively	112,656	111,257		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding at March 31, 2024 and December 31, 2023			—	—
Common stock, no par value; 40,000,000 shares authorized; 8,436,732 and 8,402,482 issued and outstanding at March 31, 2024 and December 31, 2023, respectively			113,566	113,227
Retained earnings	78,824	62,297	87,982	84,165
Accumulated other comprehensive loss, net of taxes	(1,365)	(1,300)	(863)	(931)
Total shareholders' equity	190,115	172,254	200,685	196,461
Total liabilities and shareholders' equity	<u>\$ 1,983,917</u>	<u>\$ 2,042,215</u>	<u>\$ 1,922,541</u>	<u>\$ 1,985,905</u>

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

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CALIFORNIA BANCORP

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2024	2023
Interest income		
Loans	\$ 23,574	\$ 22,472
Federal funds sold	2,334	1,760
Investment securities	1,474	1,307
Total interest income	27,382	25,539
Interest expense		
Deposits	9,096	6,022
Borrowings and subordinated debt	571	760
Total interest expense	9,667	6,782
Net interest income	17,715	18,757
Provision for credit losses	126	358
Net interest income after provision for credit losses	17,589	18,399
Non-interest income		
Service charges and other fees	1,379	863
Other	326	244
Total non-interest income	1,705	1,107
Non-interest expense		
Salaries and benefits	8,852	7,876
Premises and equipment	1,452	1,180
Merger related expenses	1,024	—
Professional fees	443	450
Data processing	432	608
Other	1,501	1,729
Total non-interest expense	13,704	11,843
Income before provision for income taxes	5,590	7,663
Provision for income taxes	1,773	2,212
Net income	\$ 3,817	\$ 5,451
Earnings per common share		
Basic	\$ 0.45	\$ 0.65
Diluted	\$ 0.45	\$ 0.64
Average common shares outstanding	8,413,735	8,339,080
Average common and equivalent shares outstanding	8,566,712	8,492,067

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

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CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2024	2023
Net Income	\$ 3,817	\$ 5,451
Other comprehensive income (loss)		
Unrealized gains (losses) on securities available for sale, net	87	326
Reclassification adjustment for securities transferred from available for sale to held to maturity in prior year, net	—	(61)
Amortization of unrealized losses on securities transferred from available for sale to held to maturity, net	6	2
Tax effect	(25)	(97)
Total other comprehensive income	68	170
Total comprehensive income	\$ 3,885	\$ 5,621

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

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CALIFORNIA BANCORP

CONSOLIDATED STATEMENTS OF INCOME CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest income				
Loans	\$ 23,804	\$ 19,084	\$ 69,752	\$ 50,268
Federal funds sold	2,814	867	6,811	1,283
Investment securities	1,476	1,217	4,241	3,247
Total interest income	28,094	21,168	80,804	54,798
Interest expense				
Deposits	8,961	1,672	22,476	3,274
Borrowings and subordinated debt	555	1,133	2,348	2,412
Total interest expense	9,516	2,805	24,824	5,686
Net interest income	18,578	18,363	55,980	49,112
Provision for credit losses	314	800	1,116	2,675
Net interest income after provision for credit losses	18,264	17,563	54,864	46,437
Non-interest income				
Service charges and other fees	1,003	1,237	2,733	3,260
Gain on the sale of loans	—	—	—	1,393
Other	291	247	803	759
Total non-interest income	1,294	1,484	3,536	5,412
Non-interest expense				
Salaries and benefits	8,238	7,415	23,945	21,654
Premises and equipment	1,155	1,275	3,503	3,844
Professional fees	411	524	1,332	1,662
Data processing	633	744	1,942	1,951
Other	1,414	1,259	4,575	3,841
Total non-interest expense	11,851	11,217	35,297	32,952
Income before provision for income taxes	7,707	7,830	23,103	18,897
Provision for income taxes	2,306	2,308	6,812	5,458
Net income	\$ 5,401	\$ 5,522	\$ 16,291	\$ 13,439
Earnings per common share				
Basic	\$ 0.64	\$ 0.66	\$ 1.95	\$ 1.62
Diluted	\$ 0.64	\$ 0.66	\$ 1.93	\$ 1.60
Average common shares outstanding	8,390,138	8,322,529	8,366,584	8,298,269
Average common and equivalent shares outstanding	8,455,917	8,405,669	8,438,444	8,394,439

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount		(Loss)	
Balance at December 31, 2023	8,402,482	\$ 113,227	\$ 84,165	\$ (931)	\$ 196,461
Stock awards issued and related compensation expense	50,428	772	—	—	772
Shares withheld to pay taxes on stock based compensation	(18,361)	(433)	—	—	(433)
Stock options exercised	5,775	79	—	—	79
Shares withheld to pay exercise price on stock options	(3,592)	(79)	—	—	(79)
Net income	—	—	3,817	—	3,817
Other comprehensive income	—	—	—	68	68
Balance at March 31, 2024	8,436,732	\$ 113,566	\$ 87,982	\$ (863)	\$ 200,685

	Common Stock		Retained Earnings	Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount		(Loss)	
Balance at December 31, 2022	8,332,479	\$ 111,257	\$ 62,297	\$ (1,300)	\$ 172,254
Adoption of new accounting standard	—	—	334	—	334
Stock awards issued and related compensation expense	34,560	631	—	—	631
Shares withheld to pay taxes on stock based compensation	(12,139)	(285)	—	—	(285)

Stock options exercised	478	6	—	—	6
Net income	—	—	5,451	—	5,451
Other comprehensive income	—	—	—	170	170
Balance at March 31, 2023	<u>8,355,378</u>	<u>\$ 111,609</u>	<u>\$ 68,082</u>	<u>\$ (1,130)</u>	<u>\$ 178,561</u>

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

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CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollar amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	\$ 5,401	\$ 5,522	\$ 16,291	\$ 13,439
Other comprehensive income (loss)				
Unrealized gains (losses) on securities available for sale, net	(10)	(1,006)	2	(1,788)
Unrealized losses on securities transferred from available for sale to held to maturity, net	—	—	—	(281)
Reclassification adjustment for securities transferred from available for sale to held to maturity in prior year, net	—	—	(61)	—
Amortization of unrealized losses on securities transferred from available for sale to held to maturity, net	(3)	2	(4)	6
Tax effect	3	299	(2)	615
Total other comprehensive loss	<u>(10)</u>	<u>(705)</u>	<u>(65)</u>	<u>(1,448)</u>
Total comprehensive income	<u>\$ 5,391</u>	<u>\$ 4,817</u>	<u>\$ 16,226</u>	<u>\$ 11,991</u>

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

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CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) - PART I
(Dollars in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2022	8,332,479	\$ 111,257	\$ 62,297	\$ (1,300)	\$ 172,254
Adoption of new accounting standard	—	—	334	—	334
Stock awards issued and related compensation expense	34,560	631	—	—	631
Shares withheld to pay taxes on stock based compensation	(12,139)	(285)	—	—	(285)
Stock options exercised	478	6	—	—	6
Net income	—	—	5,451	—	5,451
Other comprehensive income	—	—	—	170	170
Balance at March 31, 2023	<u>8,355,378</u>	<u>\$ 111,609</u>	<u>\$ 68,082</u>	<u>\$ (1,130)</u>	<u>\$ 178,561</u>
Adoption of new accounting standard	—	—	(99)	—	(99)
Stock awards issued and related compensation expense	32,558	611	—	—	611
Shares withheld to pay taxes on stock based compensation	(4,164)	(53)	—	—	(53)
Net income	—	—	5,440	—	5,440
Other comprehensive loss	—	—	—	(225)	(225)
Balance at June 30, 2023	<u>8,383,772</u>	<u>\$ 112,167</u>	<u>\$ 73,423</u>	<u>\$ (1,355)</u>	<u>\$ 184,235</u>
Stock awards issued and related compensation expense	14,201	538	—	—	538
Shares withheld to pay taxes on stock based compensation	(3,015)	(56)	—	—	(56)
Stock options exercised	525	7	—	—	7
Net income	—	—	5,401	—	5,401
Other comprehensive loss	—	—	—	(10)	(10)
Balance at September 30, 2023	<u>8,395,483</u>	<u>\$ 112,656</u>	<u>\$ 78,824</u>	<u>\$ (1,365)</u>	<u>\$ 190,115</u>

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

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CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED) - PART II
(Dollars in thousands)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2021	8,264,300	\$ 109,473	\$ 41,189	\$ 92	\$ 150,754
Stock awards issued and related compensation expense	11,513	494	—	—	494
Shares withheld to pay taxes on stock based compensation	(7,459)	(173)	—	—	(173)
Stock options exercised	4,200	55	—	—	55
Shares withheld to pay exercise price on stock options	(1,653)	(34)	—	—	(34)
Net income	—	—	3,673	—	3,673
Other comprehensive loss	—	—	—	(198)	(198)
Balance at March 31, 2022	8,270,901	\$ 109,815	\$ 44,862	\$ (106)	\$ 154,571
Stock awards issued and related compensation expense	43,855	539	—	—	539
Shares withheld to pay taxes on stock based compensation	(3,153)	(65)	—	—	(65)
Stock options exercised	7,350	42	—	—	42
Shares withheld to pay exercise price on stock options	(1,792)	(42)	—	—	(42)
Net income	—	—	4,244	—	4,244
Other comprehensive loss	—	—	—	(545)	(545)
Balance at June 30, 2022	8,317,161	\$ 110,289	\$ 49,106	\$ (651)	\$ 158,744
Stock awards issued and related compensation expense	14,314	586	—	—	586
Shares withheld to pay taxes on stock based compensation	(3,694)	(89)	—	—	(89)
Net income	—	—	5,522	—	5,522
Other comprehensive loss	—	—	—	(705)	(705)
Balance at September 30, 2022	8,327,781	\$ 110,786	\$ 54,628	\$ (1,356)	\$ 164,058

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

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CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Dollar amounts in thousands)

	Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2024	2023
Cash flows from operating activities:				
Net income	\$ 16,291	\$ 13,439	\$ 3,817	\$ 5,451
Adjustments to reconcile net income to net cash provided by (used for) operating activities:				
Adjustments to reconcile net income to net cash (used for) provided by operating activities:				
Provision for credit losses	1,116	2,675	126	358
Provision for deferred taxes	(206)	(1,383)	28	1,987
Depreciation	718	1,168	228	251
Deferred loan fees (costs), net	728	(182)		
Deferred loan (costs) fees, net			(116)	276
Stock based compensation, net	1,386	1,292	339	346
Increase in cash surrender value of life insurance	(528)	(497)	(185)	(173)
Discount on retained portion of sold loans, net	(27)	(27)	(9)	(9)
Gain on sale of loans	—	(1,393)		
Net changes in accrued interest receivable and other assets	(1,938)	1,954	(2,840)	(7,346)
Net changes in accrued interest payable and other liabilities	8,450	(1,894)	(6,694)	1,581
Net cash provided by operating activities	25,990	15,152		
Net cash (used for) provided by operating activities			(5,306)	2,722

Cash flows from investing activities:				
Purchase of investment securities	—	(78,780)		
Proceeds from principal payments on investment securities	6,156	21,859	18,509	2,081
Proceeds from sale of loans	—	37,271		
Net decrease (increase) in loans	20,164	(247,304)	38,303	(23,842)
Capital calls on low income tax credit investments	(273)	(438)	(5)	(234)
(Purchase) redemption of Federal Home Loan Bank stock	(675)	455		
Purchase of premises and equipment	(74)	(145)	(7)	(26)
Purchase of bank-owned life insurance policies	(42)	(46)	(22)	(34)
Net cash provided by (used for) investing activities	25,256	(267,128)	56,778	(22,055)
Cash flows from financing activities:				
Net (decrease) increase in customer deposits	(84,659)	28,940		
Paydown of long term borrowing, net	—	(56,387)		
Proceeds from short term and overnight borrowings, net	—	50,000		
Net increase (decrease) in customer deposits			14,272	(74,130)
(Paydown) proceeds from short term and overnight borrowings, net			(75,000)	75,000
Proceeds from exercised stock options, net	13	21	—	6
Net cash (used for) provided by financing activities	(84,646)	22,574	(60,728)	876
Decrease in cash and cash equivalents	(33,400)	(229,402)	(9,256)	(18,457)
Cash and cash equivalents, beginning of period	232,382	470,456	212,354	232,382
Cash and cash equivalents, end of period	\$ 198,982	\$ 241,054	\$ 203,098	\$ 213,925
Supplemental disclosure of cash flow information:				
Securities transferred from available for sale to the held to maturity classification	\$ —	\$ 49,889		
Recording of right to use assets and operating lease liabilities	\$ 6,127	\$ —	\$ —	\$ 6,127
Cash paid during the year for:				
Interest	\$ 22,502	\$ 6,089	\$ 9,743	\$ 6,095
Income taxes	\$ —	\$ 5,303	\$ 10	\$ —

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

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CALIFORNIA BANCORP

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Organization

California BanCorp (the "Company"), a California corporation headquartered in Oakland, California, is the bank holding company for its wholly-owned subsidiary California Bank of Commerce (the "Bank"), which offers a broad range of commercial banking services to closely held businesses and professionals located throughout Northern California. The Bank has a full-service branch located in Contra Costa County and 4 loan production offices located in Alameda County, Contra Costa County, Sacramento County, and Santa Clara County.

Proposed Merger with Southern California Bancorp

On January 30, 2024, the Company entered into a merger agreement with Southern California Bancorp ("SCB"), the bank holding company for Bank of Southern California, N.A. ("BSC"). The merger agreement provides that, subject to the receipt of required regulatory and shareholders approvals and the satisfaction of other conditions, the Company will merge with and into SCB and the Bank will merge with and into BSC. As a result of the merger, each outstanding share of California BanCorp common stock will convert into the right to receive 1.590 shares of SCB common stock. Immediately after the merger, the Company expects that the Company's shareholders will own approximately 43% of the combined company and SCB's shareholders will own approximately 57% of the combined company.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form10-Qand, therefore, do not include all footnotes as would be necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity and cash flows in conformity with accounting principles generally accepted in the United States of America ("GAAP"). However, these interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as of and for the year ended **December 31, 2022** **December 31, 2023**, and the notes thereto, included in the Company's Annual Report on Form10-Kfor the year ended **December 31, 2022** **December 31, 2023** filed with the Securities and Exchange Commission (the "SEC"), under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The results of operations for the three **and nine** months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending **December 31, 2023** **December 31, 2024**.

The Company's accounting and reporting policies conform to GAAP and to general practices within the banking industry.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods presented. Actual results may differ from those estimates used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term include estimates relating to: the determination of the allowance for credit losses; certain assets and liabilities carried at fair value; and accounting for income taxes.

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Reclassifications

Certain prior balances in the unaudited consolidated financial statements may have been reclassified to conform to current year presentation. These reclassifications had no effect on prior year net income or shareholders' equity.

Subsequent Events

Management has reviewed all events through the date the unaudited consolidated financial statements were filed with the SEC and concluded that no event required any adjustment to the balances presented.

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Goodwill

Goodwill impairment exists when a reporting unit's carrying value exceeds its fair value, which is determined through a qualitative assessment whether it is more likely than not that the fair value of equity of the reporting unit exceeds the carrying value ("Step Zero"). value.

The Company completed an interim impairment analysis of goodwill as of **September 30, 2023** **March 31, 2024** and determined there was no impairment.

Earnings Per Share ("EPS")

Basic earnings per common share represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Basic EPS is computed based upon net income divided by the weighted average number of common shares outstanding during the period. In determining the weighted average number of shares outstanding, vested restricted stock units are included. Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding including common stock that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during each reporting period. Diluted EPS is computed based upon net income divided by the weighted average number of common shares outstanding during each period, adjusted for the effect of dilutive potential common shares, such as restricted stock awards and units, calculated using the treasury stock method.

	Three months ended		Nine months ended		Three months ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
(Dollars in thousands, except per share data)						
Net income available to common shareholders	\$ 5,401	\$ 5,522	\$ 16,291	\$ 13,439	\$ 3,817	\$ 5,451
Weighted average basic common shares outstanding	8,390,138	8,322,529	8,366,584	8,298,269	8,413,735	8,339,080

Add: dilutive potential common shares	65,779	83,140	71,860	96,170	152,977	152,987
Weighted average diluted common shares outstanding	8,455,917	8,405,669	8,438,444	8,394,439	8,566,712	8,492,067
Basic earnings per share	\$ 0.64	\$ 0.66	\$ 1.95	\$ 1.62	\$ 0.45	\$ 0.65
Diluted earnings per share	\$ 0.64	\$ 0.66	\$ 1.93	\$ 1.60	\$ 0.45	\$ 0.64

Adoption of New Recent Accounting Standards and Related Accounting Policies Pronouncements

On January 1, 2023, in December 2023, the Company adopted FASB issued ASU No. 2022-02, 2023-09 **Financial Instruments—Credit Losses** **Income Taxes (Topic 326) 740: Improvements to Income Tax Disclosures**

. The amendments in this update eliminate require disaggregated information about the accounting guidance effective tax rate reconciliation and related additional disclosures on reconciling items and taxes paid that meet a quantitative threshold. The amendments are effective for Troubled Debt Restructurings (TDRs) by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings annual reporting periods beginning after December 15, 2024, and restructurings by creditors when a borrower may be adopted either prospectively or retrospectively. Early adoption is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within permitted. The Company is currently evaluating the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. The adoption of this accounting guidance did not have a material impact on the Company's Consolidated Financial Statements.

On January 1, 2023, the Company adopted ASU 2016-13 **Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)**. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the amendments on our financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses ("ACL"). **statement disclosures upon adoption.**

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The Company adopted ASC 326, and all related subsequent amendments thereto, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included a decrease in the allowance for credit losses on loans of \$1.8 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of \$1.4 million, which is recorded within other liabilities. Additionally, the Company recorded an allowance for credit losses for held to maturity securities of \$110,000, which is presented as a reduction to held to maturity securities outstanding. The Company recorded a net increase to retained earnings of \$334,000 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

The following accounting policies have been updated/implemented in connection with the adoption of CECL and should be read in conjunction with the significant accounting policies contained in our 2022 Form 10-K filed on March 24, 2023.

- **Allowance for Credit Losses on Loans**

The ACL on loans represents the Company's estimate of expected lifetime credit losses for its loans at the time of origination or acquisition and is maintained at a level deemed appropriate by management to provide for expected lifetime credit losses in the portfolio as of the date of the consolidated statements of financial condition. The ACL on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. Amortized cost does not include accrued interest, which management elected to exclude for the estimate of expected credit losses. The ACL on loans is increased by the provision for credit losses on loans, which is charged against current period operating results, and decreased by reversals of credit loss provisions as well as loan charge-offs, net of recoveries.

Management's determination of the ACL on loans is based on an evaluation of the composition of the loan portfolio, current economic conditions, historical loan loss experience, reasonable and supportable forecasts, and other risk factors. Loans with similar risk characteristics are collectively assessed within pools (or segments).

The discounted cash flow ("DCF") method is the primary credit loss estimation methodology used by the Company and involves estimating future cash flows for each individual loan and discounting them back to their present value using the loan's contractual interest rate, which is adjusted for any net deferred fees, costs, premiums, or discounts existing at the loan's origination or acquisition date (also referred to as the effective interest rate). The DCF method also considers factors such as loan term, prepayment or curtailment assumptions, and other relevant economic factors that could affect future cash flows. By discounting the cash flows, the method incorporates the time value of money and reflects the credit risk inherent in the loan.

The Company utilizes a forecast period of one year and then reverts to the mean of historical loss rates on a straight-line basis over the following one-year period. The Company considers economic forecasts of national gross domestic product, unemployment rates from the Federal Open Market Committee, and the House Price Index to inform the model for loss estimation. Historical loss rates used in the quantitative model were derived using both the Bank's and peer bank data obtained from publicly-available sources.

Additionally, management considers qualitative and environmental factors that are likely to cause estimated credit losses within the Company's existing portfolio to differ from historical loss (or peer) experience. Qualitative and environmental factors may include: consideration in trends of delinquencies, nonaccrual loans, and charged-off loans; trends in underlying collateral; effects in changes of lending policy and underwriting; regional and local economic trends; and conditions and concentrations of credit.

- **Allowance for Credit Losses on Off-Balance Sheet Credit Exposures**

The Company maintains an ACL on unfunded loan commitments and other off-balance sheet credit exposures, if applicable, as part of other liabilities and accrued expenses in the consolidated statements of financial condition. Adjustments to the ACL on off-balance sheet credit exposures are made through a charge to provision for credit losses in the Company's consolidated statements of income. The ACL on unfunded loan commitments is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees.

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- **Allowance for Credit Losses on Available for Sale Securities**

For available for sale securities in an unrealized loss position, the Company initially assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost is written down to fair value through income. For available for sale securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. If a credit loss exists an allowance for credit losses is recorded, through a charge to the provision to credit losses, to the extent that the fair value is less than the amortized cost basis. Accrued interest receivable on available for sale securities is excluded from the estimate of credit losses. The Company did not have any available for sale securities that required an ACL at September 30, 2023.

- **Allowance for Credit Losses on Held to Maturity Securities**

The Company measures expected credit losses on held to maturity investment securities on a collective basis by major security type. Accrued interest receivable on held to maturity investment securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Changes in the ACL for held to maturity securities are recorded through the provision for credit losses in the consolidated statements of income.

2. INVESTMENT SECURITIES

The following table summarizes the amortized cost and estimated fair value of securities available for sale and held to maturity at September 30, 2023, March 31, 2024 and December 31, 2022, December 31, 2023.

	Amortized	Gross Unrealized / Unrecognized	Gross Unrealized / Unrecognized	Estimated Fair		Amortized	Gross Unrealized / Unrecognized	Gross Unrealized / Unrecognized	Estimated Fair
(Dollars in thousands)	Cost	Gains	Losses	Value		Cost	Gains	Losses	Value
At September 30, 2023:									
At March 31, 2024:									
Mortgage backed securities	\$ 16,193	\$ 7	\$ (1,025)	\$ 15,175	\$ 12,288	\$ 22	\$ (787)	\$ 11,523	
Government agencies	29,888	—	(836)	29,052	19,941	—	(386)	19,555	
Total available for sale securities	<u>\$ 46,081</u>	<u>\$ 7</u>	<u>\$ (1,861)</u>	<u>\$ 44,227</u>	<u>\$ 32,229</u>	<u>\$ 22</u>	<u>\$ (1,173)</u>	<u>\$ 31,078</u>	
Mortgage backed securities	\$ 57,873	\$ —	\$ (8,663)	\$ 49,210	\$ 51,997	\$ 76	\$ (6,718)	\$ 45,355	
Government agencies	3,075	—	(672)	2,403	3,070	—	(507)	2,563	
Corporate bonds	44,069	—	(4,810)	39,259	40,773	—	(3,978)	36,795	

Total held to maturity securities, net	\$ 105,017	\$ —	\$ (14,145)	\$ 90,872	\$ 95,840	\$ 76	\$ (11,203)	\$ 84,713
At December 31, 2022:								
At December 31, 2023:								
Mortgage backed securities	\$ 18,629	\$ 26	\$ (897)	\$ 17,758	\$ 15,882	\$ 25	\$ (758)	\$ 15,149
Government agencies	29,809	—	(1,043)	28,766	29,916	—	(505)	29,411
Corporate bonds	430	58	—	488				
Total available for sale securities	\$ 48,868	\$ 84	\$ (1,940)	\$ 47,012	\$ 45,798	\$ 25	\$ (1,263)	\$ 44,560
Mortgage backed securities	\$ 61,363	\$ —	\$ (7,647)	\$ 53,716	\$ 56,928	\$ —	\$ (6,140)	\$ 50,788
Government agencies	3,083	—	(627)	2,456	3,072	—	(513)	2,559
Corporate bonds	44,420	30	(3,739)	40,711	40,841	—	(4,158)	36,683
Total held to maturity securities	\$ 108,866	\$ 30	\$ (12,013)	\$ 96,883				
Total held to maturity securities, net					\$ 100,841	\$ —	\$ (10,811)	\$ 90,030

The Company did not purchase any investment securities during the nine months ended September 30, 2023. The Company purchased 8 available for sale securities for \$36.0 million and 11 held to maturity securities for \$42.8 million during the nine months ended September 30, 2022. The Company did not sell any investment securities during the nine months ended September 30, 2023 March 31, 2024 and 2022, 2023.

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The following table summarizes the scheduled maturities of our available for sale and held to maturity investment securities as of September 30, 2023 March 31, 2024.

(Dollars in thousands)	Available for Sale		Held to Maturity		Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value	Cost	Value	Cost	Value
Less than one year	\$ 21,693	\$ 21,345	\$ 15,562	\$ 15,322	\$ 18,372	\$ 18,100	\$ 13,673	\$ 13,640
One to five years	14,919	14,351	19,971	19,554	4,976	4,846	14,480	14,044
Five to ten years	—	—	19,647	16,279	—	—	19,593	16,885
Beyond ten years	1,533	1,407	20,444	15,378	1,448	1,328	20,094	16,036
Securities not due at a single maturity date	7,936	7,124	29,393	24,339	7,433	6,804	28,000	24,108
Total investment securities	\$ 46,081	\$ 44,227	\$ 105,017	\$ 90,872	\$ 32,229	\$ 31,078	\$ 95,840	\$ 84,713

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. As such, certain securities are not included in the specific maturity categories above and instead are shown separately as securities not due at a single maturity date.

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Management monitors the credit quality of the held to maturity investment portfolio securities through the use of credit ratings by major credit agencies and analysis of issuer financial information, if available. Additionally, securities issued by government-sponsored agencies, such as FNMA, FHLMC and SBA, have implicit and/or explicit credit guarantees by the United States Federal Government which protect us from credit losses on the contractual cash flows of the securities. The following table reflects the amortized cost and fair value of available for sale and held to maturity investment securities as of September 30, 2023, March 31, 2024 and December 31, 2023, aggregated by credit quality indicators.

(Dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Aaa	\$ 29,888	\$ 29,052	\$ 11,519	\$ 8,861
Aa1/Aa2/Aa3	—	—	3,075	2,403
A1/A2	—	—	7,971	6,429
BBB	—	—	1,588	1,209
Not rated	16,193	15,175	80,864	71,970
Total investment securities	\$ 46,081	\$ 44,227	\$ 105,017	\$ 90,872

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(Dollars in thousands)	March 31, 2024		December 31, 2023	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
Aaa	\$ 11,261	\$ 9,179	\$ 11,382	\$ 9,473
Aa1/Aa2/Aa3	3,069	2,563	3,072	2,559
A1/A2/A3	4,774	3,466	4,770	3,543
Not rated	76,736	69,505	81,617	74,455
Total held to maturity securities	\$ 95,840	\$ 84,713	\$ 100,841	\$ 90,030

At September 30, 2023 and December 31, 2022, March 31, 2024, the Company had 5451 securities in an unrealized loss position. At December 31, 2023, the Company had 55 securities in an unrealized loss position. The following table summarizes the unrealized losses for those investment securities, at the respective reporting dates, aggregated by major security type and length of time in a continuous unrealized loss position.

(Dollars in thousands)	Less Than 12 Months		More Than 12 Months		Total		Less Than 12 Months		More Than 12 Months	
	Unrealized		Unrealized		Unrealized		Unrealized		Unrealized	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
At September 30, 2023:										
At March 31, 2024:										
Mortgage backed securities	\$ —	\$ —	\$ 13,320	\$ (1,025)	\$ 13,320	\$ (1,025)	\$ —	\$ —	\$ 9,783	\$ —
Government agencies	—	—	29,052	(836)	29,052	(836)	—	—	19,555	—
Total available for sale securities	\$ —	\$ —	\$ 42,372	\$ (1,861)	\$ 42,372	\$ (1,861)	\$ —	\$ —	\$ 29,338	\$ —
Mortgage backed securities	\$ —	\$ —	\$ 49,210	\$ (8,663)	\$ 49,210	\$ (8,663)	\$ —	\$ —	\$ 42,113	\$ —
Government agencies	—	—	2,403	(672)	2,403	(672)	—	—	2,563	—
Corporate bonds	7,661	(19)	31,598	(4,791)	39,259	(4,810)	—	—	36,795	—
Total held to maturity securities	\$ 7,661	\$ (19)	\$ 83,211	\$ (14,126)	\$ 90,872	\$ (14,145)	\$ —	\$ —	\$ 81,472	\$ —
At December 31, 2022:										

At December 31, 2023:										
Mortgage backed securities	\$ 10,920	\$ (537)	\$ 4,347	\$ (360)	\$ 15,267	\$ (897)	\$ —	\$ —	\$ 13,314	\$
Government agencies	28,765	(1,043)	—	—	28,765	(1,043)	—	—	29,411	—
Total available for sale securities	<u>\$ 39,685</u>	<u>\$ (1,580)</u>	<u>\$ 4,347</u>	<u>\$ (360)</u>	<u>\$ 44,032</u>	<u>\$ (1,940)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 42,725</u>	<u>\$</u>
Mortgage backed securities	\$ 32,271	\$ (5,244)	\$ 21,445	\$ (2,403)	\$ 53,716	\$ (7,647)	\$ —	\$ —	\$ 50,788	\$
Government agencies	—	—	2,456	(627)	2,456	(627)	—	—	2,559	—
Corporate bonds	14,607	(1,143)	22,880	(2,596)	37,487	(3,739)	—	—	36,683	—
Total held to maturity securities	<u>\$ 46,878</u>	<u>\$ (6,387)</u>	<u>\$ 46,781</u>	<u>\$ (5,626)</u>	<u>\$ 93,659</u>	<u>\$ (12,013)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 90,030</u>	<u>\$</u>

At September 30, 2023, March 31, 2024 and December 31, 2023, management determined that it did not intend to sell any available for sale investment securities with unrealized losses, and it is was unlikely that the Company will would be required to sell any of those securities with unrealized losses before recovery of their amortized cost. No allowances for credit losses have been were recognized, individually or collectively, on available for sale securities in an unrealized loss position, as management does did not believe any of the securities are were impaired due to reasons of credit quality at September 30, 2023, March 31, 2024 and December 31, 2023.

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The Company measures expected credit losses on held to maturity securities collectively by major security type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions along with reasonable and supportable forecasts. As of September 30, 2023, At March 31, 2024 and December 31, 2023, the Company determined that an allowance for credit losses of \$81,000, \$75,000 and \$55,000, respectively, was required for held to maturity securities. The allowance for credit losses pertained to corporate bonds and was presented as a reduction to the amortized cost of held to maturity securities outstanding.

The following table presents the balance and activity in the allowance for credit losses on held to maturity securities for the three and nine months ended September 30, 2023, March 31, 2024 and 2023.

(Dollars in thousands)	September 30, 2023	
	Three Months Ended	Nine Months Ended
Beginning balance	\$ 58	\$ —
Adoption of new accounting standard	—	110
Provision for credit losses	23	(29)
Net charge-offs	—	—
Balance at September 30, 2023	<u>\$ 81</u>	<u>\$ 81</u>

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(Dollars in thousands)	Three Months Ended March 31,	
	2024	2023
Beginning balance	\$ 55	\$ —
Adoption of new accounting standard	—	110
Provision for credit losses	20	—
Net charge-offs	—	—
Ending balance	<u>\$ 75</u>	<u>\$ 110</u>

On a quarterly basis, the Company utilizes a comprehensive risk assessment which includes an external rating methodology to identify, measure, and monitor risks associated with our held to maturity loan portfolio. The provision for credit losses in the third first quarter of 2023, 2024 was primarily driven by an increase in the risk of default pertaining to certain securities in the held to maturity portfolio, and was identified as part of the comprehensive quarterly analysis.

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Outstanding loans as of September 30, 2023, March 31, 2024 and December 31, 2022, December 31, 2023 are summarized below. Certain loans have been pledged to secure borrowing arrangements (see Note 4).

	September 30,	December 31,	March 31,	December 31,
(Dollars in thousands)	2023	2022	2024	2023
Commercial and industrial	\$ 633,902	\$ 634,535	\$ 610,459	\$ 626,615
Real estate - other	858,611	848,241	834,143	849,306
Real estate - construction and land	40,003	63,730	35,886	44,186
SBA	4,415	7,220	3,919	4,032
Other	36,184	39,695	36,484	35,394
Total loans, gross	1,573,115	1,593,421	1,520,891	1,559,533
Deferred loan origination costs, net	1,312	2,040	1,223	1,107
Allowance for credit losses	(15,921)	(17,005)	(15,981)	(16,028)
Total loans, net	\$ 1,558,506	\$ 1,578,456	\$ 1,506,133	\$ 1,544,612

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The Company categorizes its loan portfolio into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. The Company uses the following definitions for risk ratings:

Special Mention: A Special Mention credit has potential weaknesses that require management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

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

Doubtful: A Doubtful credit has all the weaknesses inherent in Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually, as part of the above described process, are considered to be pass-rated loans.

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The following table reflects the Company's recorded investment in loans by credit quality indicators and by year of origination as of March 31, 2024.

	Term Loans by Year of Origination						Revolving	Total
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior		
Commercial and industrial								
Pass	\$ 2,575	\$ 79,677	\$ 131,880	\$ 51,887	\$ 14,380	\$ 58,129	\$ 212,976	\$ 551,504
Special mention	—	117	250	1,815	442	937	22,159	25,720
Substandard	—	751	10,173	2,445	57	431	19,378	33,235
Total	\$ 2,575	\$ 80,545	\$ 142,303	\$ 56,147	\$ 14,879	\$ 59,497	\$ 254,513	\$ 610,459
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate - other								
Pass	\$ 6,979	\$ 41,701	\$ 186,703	\$ 187,023	\$ 83,281	\$ 210,914	\$ 69,193	\$ 785,794
Special mention	—	—	4,267	33,165	—	4,137	—	41,569
Substandard	—	—	—	1,638	—	5,142	—	6,780
Total	\$ 6,979	\$ 41,701	\$ 190,970	\$ 221,826	\$ 83,281	\$ 220,193	\$ 69,193	\$ 834,143
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate - construction and land								
Pass	\$ —	\$ 4,786	\$ 3,535	\$ 8,806	\$ —	\$ —	\$ —	\$ 17,127
Special mention	—	—	—	14,227	—	—	—	14,227
Substandard	—	2,889	—	—	—	1,643	—	4,532

Total	\$ —	\$ 7,675	\$ 3,535	\$ 23,033	\$ —	\$ 1,643	\$ —	\$ 35,886
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
SBA								
Pass	\$ —	\$ —	\$ 734	\$ —	\$ —	\$ 2,243	\$ 102	\$ 3,079
Special mention	—	—	—	—	—	88	—	88
Substandard	—	—	—	—	—	752	—	752
Total	\$ —	\$ —	\$ 734	\$ —	\$ —	\$ 3,083	\$ 102	\$ 3,919
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 309	\$ —	\$ 309
Other								
Pass	\$ 33	\$ 28	\$ 1,372	\$ —	\$ 148	\$ 32,451	\$ 2,452	\$ 36,484
Special mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total	\$ 33	\$ 28	\$ 1,372	\$ —	\$ 148	\$ 32,451	\$ 2,452	\$ 36,484
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 130	\$ —	\$ 130
Total								
Pass	\$ 9,587	\$ 126,192	\$ 324,224	\$ 247,716	\$ 97,809	\$ 303,737	\$ 284,723	\$ 1,393,988
Special mention	—	117	4,517	49,207	442	5,162	22,159	81,604
Substandard	—	3,640	10,173	4,083	57	7,968	19,378	45,299
Total	\$ 9,587	\$ 129,949	\$ 338,914	\$ 301,006	\$ 98,308	\$ 316,867	\$ 326,260	\$ 1,520,891
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 439	\$ —	\$ 439

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The following table reflects the Company's recorded investment in loans by credit quality indicators and by year of origination as of **September 30, 2023** and **December 31, 2023**.

(Dollars in thousands)	Term Loans by Year of Origination						Term Loans by Year of Origination			
	2023	2022	2021	Prior	Revolving	Total	2023	2022	2021	2020
Commercial and industrial										
Pass	\$ 60,791	\$ 124,822	\$ 65,445	\$ 84,021	\$ 221,977	\$ 557,056	\$ 86,292	\$ 136,525	\$ 55,779	\$ 15,000
Special mention	880	31,209	2,723	5,868	27,516	68,196	124	3,700	1,940	—
Substandard	—	1,883	780	567	5,420	8,650	751	10,888	1,319	—
Total	\$ 61,671	\$ 157,914	\$ 68,948	\$ 90,456	\$ 254,913	\$ 633,902	\$ 87,167	\$ 151,113	\$ 59,038	\$ 15,000
Current period gross charge-offs	\$ —	\$ 136	\$ —	\$ 20	\$ 247	\$ 403	\$ —	\$ 136	\$ —	\$ —
Real estate - other										
Pass	\$ 22,188	\$ 186,251	\$ 209,378	\$ 310,626	\$ 94,336	\$ 822,779	\$ 44,570	\$ 181,849	\$ 186,142	\$ 84,000
Special mention	—	14,924	10,210	6,948	—	32,082	—	4,293	33,356	—
Substandard	—	—	—	3,750	—	3,750	—	—	1,649	—
Total	\$ 22,188	\$ 201,175	\$ 219,588	\$ 321,324	\$ 94,336	\$ 858,611	\$ 44,570	\$ 186,142	\$ 221,147	\$ 84,000
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate - construction and land										
Pass	\$ 2,949	\$ 10,949	\$ 24,439	\$ —	\$ —	\$ 38,337	\$ 3,982	\$ 10,134	\$ 25,544	\$ —
Special mention	—	—	—	1,666	—	1,666	2,871	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Total	\$ 2,949	\$ 10,949	\$ 24,439	\$ 1,666	\$ —	\$ 40,003	\$ 6,853	\$ 10,134	\$ 25,544	\$ —
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
SBA										

Pass	\$ —	\$ 758	\$ 60	\$ 2,677	\$ 127	\$ 3,622	\$ —	\$ 747	\$ 17	\$
Special mention	—	—	—	141	—	141	—	—	—	—
Substandard	—	—	—	652	—	652	—	—	—	—
Total	<u>\$ —</u>	<u>\$ 758</u>	<u>\$ 60</u>	<u>\$ 3,470</u>	<u>\$ 127</u>	<u>\$ 4,415</u>	<u>\$ —</u>	<u>\$ 747</u>	<u>\$ 17</u>	<u>\$</u>
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$
Other										
Pass	\$ 10	\$ 1,612	\$ —	\$ 34,017	\$ 545	\$ 36,184	\$ —	\$ 1,511	\$ —	\$
Special mention	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—	—
Total	<u>\$ 10</u>	<u>\$ 1,612</u>	<u>\$ —</u>	<u>\$ 34,017</u>	<u>\$ 545</u>	<u>\$ 36,184</u>	<u>\$ —</u>	<u>\$ 1,511</u>	<u>\$ —</u>	<u>\$</u>
Current period gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$
Total										
Pass	\$85,938	\$324,392	\$299,322	\$431,341	\$316,985	\$1,457,978	\$134,844	\$330,766	\$267,482	\$100,
Special mention	880	46,133	12,933	14,623	27,516	102,085	2,995	7,993	35,296	
Substandard	—	1,883	780	4,969	5,420	13,052	751	10,888	2,968	—
Total	<u>\$86,818</u>	<u>\$372,408</u>	<u>\$313,035</u>	<u>\$450,933</u>	<u>\$349,921</u>	<u>\$1,573,115</u>	<u>\$138,590</u>	<u>\$349,647</u>	<u>\$305,746</u>	<u>\$101,</u>
Current period gross charge-offs	\$ —	\$ 136	\$ —	\$ 20	\$ 247	\$ 403	\$ —	\$ 136	\$ —	\$

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The following table reflects the loan portfolio allocated by the Company's credit quality indicators as of December 31, 2022.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
As of December 31, 2022:						
Grade:						
Pass	\$ 613,395	\$ 840,993	\$ 62,031	\$ 6,132	\$ 39,695	\$ 1,562,246
Special Mention	18,157	2,602	—	490	—	21,249
Substandard	2,983	4,646	1,699	598	—	9,926
Total	<u>\$ 634,535</u>	<u>\$ 848,241</u>	<u>\$ 63,730</u>	<u>\$ 7,220</u>	<u>\$ 39,695</u>	<u>\$ 1,593,421</u>

The increase in loans classified as special mention at September 30, 2023 compared to December 31, 2022 was primarily the result of the Company's heightened monitoring in response to current economic and operating trends.

The following table reflects an aging analysis of the loan portfolio by the time past due at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(Dollars in thousands)	30 Days	60 Days	90+ Days	Nonaccrual	Current	Total	30 Days	60 Days	90+ Days	Nonaccr
As of September 30, 2023:										
As of March 31, 2024:										
Commercial and industrial	\$ —	\$ —	\$ —	\$ 1,183	\$ 632,719	\$ 633,902	\$ 4,933	\$ —	\$ —	\$ 1,1
Real estate - other	—	—	—	—	858,611	858,611	5,044	—	—	—
Real estate - construction and land	—	—	—	—	40,003	40,003	—	16,793	—	—
SBA	—	—	—	53	4,362	4,415	—	398	—	—
Other	—	—	—	—	36,184	36,184	241	169	240	—

Total loans, gross	\$ —	\$ —	\$ —	\$ 1,236	\$ 1,571,879	\$ 1,573,115	\$ 10,218	\$ 17,360	\$ 240	\$ 1,2
As of December 31, 2022:										
As of December 31, 2023:										
Commercial and industrial	\$ —	\$ —	\$ —	\$ 1,028	\$ 633,507	\$ 634,535	\$ —	\$ —	\$ —	\$ 3,7
Real estate - other	3,160	—	—	—	845,081	848,241	1,824	—	—	—
Real estate - construction and land	—	—	—	—	63,730	63,730	—	—	—	—
SBA	—	—	—	222	6,998	7,220	—	—	—	—
Other	—	—	—	—	39,695	39,695	—	—	—	—
Total loans, gross	\$ 3,160	\$ —	\$ —	\$ 1,250	\$ 1,589,011	\$ 1,593,421	\$ 1,824	\$ —	\$ —	\$ 3,7

The increase in past due loans during the first quarter of 2024 was primarily due to one construction loan that was paid off in full during April 2024.

The following table reflects nonaccrual loans by portfolio segment as of March 31, 2024 and December 31, 2023.

(Dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
As of March 31, 2024:			
Commercial and industrial	\$ 1,159	\$ —	\$ 1,159
SBA	53	—	53
Total nonaccrual loans	\$ 1,212	\$ —	\$ 1,212
As of December 31, 2023:			
Commercial and industrial	\$ 3,708	\$ 20	\$ 3,728
SBA	53	—	53
Total nonaccrual loans	\$ 3,761	\$ 20	\$ 3,781

Interest forgone on nonaccrual loans totaled \$62,000 and \$42,000 for the three months ended March 31, 2024 and 2023, respectively. There was no interest recognized on a cash-basis on loans individually evaluated for expected credit losses/impairment during the three months ended March 31, 2024 and 2023.

The Company measures expected credit losses on a pooled basis when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated on an individual basis. When

The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management determines that foreclosure designates as having higher risk. Collateral dependent loans are loans for which the repayment is probable expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting dated and adjusted for selling costs as appropriate.

At September 30, 2023 and December 31, 2022, the Company determined that certain difficulty. These loans did do not share common risk characteristics with other loans in and are not included within the portfolio and therefore collectively evaluated these loans for expected determining the allowance for credit losses/impairment on an individual basis. The loans individually evaluated were classified as nonaccrual and were all collateral dependent losses. For collateral dependent loans, the Company has adopted the practical expedient under the ASC 326 to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. None of the individually evaluated loans required an allowance for credit losses as of the respective reporting dates.

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The following table reflects the recorded investment Company's collateral dependent loans by portfolio segment and unpaid principal balance for loans individually evaluated for expected credit losses/impairment as of September 30, 2023 and December 31, 2022 under ASC 326 and the previous accounting standard, respectively.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment
------------------------	---------------------	--------------------------	-----------------------------

As of September 30, 2023:			
Commercial and industrial	\$ 1,183	\$ 1,319	\$ 1,183
SBA	53	689	138
Total individually evaluated loans	<u>\$ 1,236</u>	<u>\$ 2,008</u>	<u>\$ 1,321</u>
As of December 31, 2022:			
Commercial and industrial	\$ 1,028	\$ 1,678	\$ 1,028
SBA	222	896	227
Total individually evaluated loans	<u>\$ 1,250</u>	<u>\$ 2,574</u>	<u>\$ 1,255</u>

The recorded investment in loans individually evaluated for expected credit losses/impairment excludes interest receivable and net deferred origination costs due to their immateriality.

The following table reflects the amortized cost of individually evaluated loans by type of collateral as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	Residential Property	Business Assets	Total Nonaccrual Loans
(Dollars in thousands)			
As of September 30, 2023:			
Commercial and industrial	\$ —	\$ 1,183	\$ 1,183
SBA	53	—	53
Total individually evaluated loans	<u>\$ 53</u>	<u>\$ 1,183</u>	<u>\$ 1,236</u>
As of December 31, 2022:			
Commercial and industrial	\$ —	\$ 1,028	\$ 1,028
SBA	222	—	222
Total individually evaluated loans	<u>\$ 222</u>	<u>\$ 1,028</u>	<u>\$ 1,250</u>

The following table reflects nonaccrual loans and the related allowance for credit losses by portfolio segment as of September 30, 2023 under ASC 326 and nonaccrual loans as of December 31, 2022 under the previous accounting standard, respectively.

	CECL			Incurred Loss December 31, 2022			
	September 30, 2023			Nonaccrual Loans	Residential Property	Business Assets	Total Collateral Dependent Loans
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans				
(Dollars in thousands)	Allowance	Allowance	Loans	Loans	Property	Assets	Loans
As of March 31, 2024:							
Commercial and industrial	\$ 1,183	\$ —	\$ 1,183	\$ 1,028	\$ —	\$ 8,785	\$ 8,785
SBA	53	—	53	222	451	—	451
Total individually evaluated loans	<u>\$ 1,236</u>	<u>\$ —</u>	<u>\$ 1,236</u>	<u>\$ 1,250</u>			
Total collateral dependent loans					<u>\$ 451</u>	<u>\$ 8,785</u>	<u>\$ 9,236</u>
As of December 31, 2023:							
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,728	\$ 3,728
SBA	53	—	53	222	451	—	451
Total collateral dependent loans	<u>\$ 53</u>	<u>\$ —</u>	<u>\$ 53</u>	<u>\$ 222</u>	<u>\$ 451</u>	<u>\$ 3,728</u>	<u>\$ 3,781</u>

Prior to the adoption of ASC 326 on January 1, 2023, the Company calculated the allowance for loan losses under the incurred loss methodology. The following table reflects information related to loans individually and collectively evaluated for impairment and related allowance for loan losses as of December 31, 2022.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
As of December 31, 2022:						
Gross loans:						
Loans individually evaluated for impairment	\$ 1,028	\$ —	\$ —	\$ 222	\$ —	\$ 1,250
Loans collectively evaluated for impairment	633,507	848,241	63,730	6,998	39,695	1,592,171
Total gross loans	<u>\$ 634,535</u>	<u>\$ 848,241</u>	<u>\$ 63,730</u>	<u>\$ 7,220</u>	<u>\$ 39,695</u>	<u>\$ 1,593,421</u>
Allowance for loan losses:						
Loans individually evaluated for impairment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Loans collectively evaluated for impairment	10,620	5,322	884	132	47	17,005
Total allowance for loan losses	<u>\$ 10,620</u>	<u>\$ 5,322</u>	<u>\$ 884</u>	<u>\$ 132</u>	<u>\$ 47</u>	<u>\$ 17,005</u>

Interest forgone on nonaccrual loans totaled \$62,000 and \$25,000 for the three months ended September 30, 2023 and 2022, respectively. Interest forgone on nonaccrual loans totaled \$150,000 and \$60,000 for the nine months ended September 30, 2023 and 2022, respectively. There was no interest recognized on a cash-basis on loans individually evaluated for expected credit losses/impairment during the three and nine months ended September 30, 2023 and 2022 under ASC 326 and the previous accounting standard, respectively.

The following tables reflect the changes in, and allocation of, the allowance for credit losses and allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2023 March 31, 2024 and 2022. The provision for credit losses of \$121,000 for the third quarter of 2023 was primarily the result of changes in the forecast assumptions utilized in the CECL model along with a specific reserve pertaining to a previously charged-off SBA loan for which the SBA is unlikely to cover the portion participated to another lender, offset by net recoveries during the quarter of \$78,000. In addition to changes in forecast assumptions and the above-mentioned specific reserve, the provision for credit losses of \$925,000 for the nine months ended September 30, 2023 was impacted by the recognition of net charge-offs during the period of \$169,000, 2023.

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(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Three months ended September 30, 2023:						
Beginning balance	\$ 10,803	\$ 2,970	\$ 737	\$ 40	\$ 1,172	\$ 15,722
Provision for credit losses	272	(66)	(351)	452	(186)	121
Charge-offs	(156)	—	—	—	—	(156)
Recoveries	196	—	—	38	—	234
Ending balance	<u>\$ 11,115</u>	<u>\$ 2,904</u>	<u>\$ 386</u>	<u>\$ 530</u>	<u>\$ 986</u>	<u>\$ 15,921</u>
Allowance for credit losses / gross loans	1.75 %	0.34 %	0.96 %	12.00 %	2.72 %	1.01 %
Net recoveries (charge-offs) / gross loans	0.01 %	0.00 %	0.00 %	0.86 %	0.00 %	0.00 %
Three months ended September 30, 2022:						
Beginning balance	\$ 9,526	\$ 5,243	\$ 907	\$ 273	\$ 8	\$ 15,957
Provision for loan losses	699	(70)	90	57	24	800
Charge-offs	—	—	—	(202)	—	(202)
Recoveries	—	—	—	—	—	—
Ending balance	<u>\$ 10,225</u>	<u>\$ 5,173</u>	<u>\$ 997</u>	<u>\$ 128</u>	<u>\$ 32</u>	<u>\$ 16,555</u>
Allowance for loan losses / gross loans	1.59 %	0.63 %	1.39 %	1.49 %	0.08 %	1.04 %
Net recoveries (charge-offs) / gross loans	0.00 %	0.00 %	0.00 %	-2.36 %	0.00 %	-0.01 %
Nine months ended September 30, 2023						
Beginning balance	\$ 10,620	\$ 5,322	\$ 884	\$ 132	\$ 47	\$ 17,005
Adoption of new accounting standard	(1,566)	(1,725)	1	(91)	1,541	(1,840)
Provision for credit losses	2,268	(693)	(499)	451	(602)	925
Charge-offs	(403)	—	—	—	—	(403)
Recoveries	196	—	—	38	—	234
Ending balance	<u>\$ 11,115</u>	<u>\$ 2,904</u>	<u>\$ 386</u>	<u>\$ 530</u>	<u>\$ 986</u>	<u>\$ 15,921</u>
Allowance for credit losses / gross loans	1.75 %	0.34 %	0.96 %	12.00 %	2.72 %	1.01 %
Net recoveries (charge-offs) / gross loans	-0.03 %	0.00 %	0.00 %	0.86 %	0.00 %	-0.01 %
Nine months ended September 30, 2022						
Beginning balance	\$ 8,552	\$ 4,524	\$ 681	\$ 309	\$ 15	\$ 14,081

Provision for loan losses	1,672	649	316	21	17	2,675
Charge-offs	—	—	—	(202)	—	(202)
Recoveries	1	—	—	—	—	1
Ending balance	<u>\$ 10,225</u>	<u>\$ 5,173</u>	<u>\$ 997</u>	<u>\$ 128</u>	<u>\$ 32</u>	<u>\$ 16,555</u>
Allowance for loan losses / gross loans	1.59 %	0.63 %	1.39 %	1.49 %	0.08 %	1.04 %
Net recoveries (charge-offs) / gross loans	0.00 %	0.00 %	0.00 %	-2.36 %	0.00 %	-0.01 %

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(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Three months ended March 31, 2024:						
Beginning balance	\$ 10,853	\$ 3,218	\$ 492	\$ 521	\$ 944	\$ 16,028
Provision for credit losses	231	(120)	50	(7)	147	301
Charge-offs	—	—	—	(309)	(130)	(439)
Recoveries	91	—	—	—	—	91
Ending balance	<u>\$ 11,175</u>	<u>\$ 3,098</u>	<u>\$ 542</u>	<u>\$ 205</u>	<u>\$ 961</u>	<u>\$ 15,981</u>
Allowance for credit losses / gross loans	1.83 %	0.37 %	1.51 %	5.23 %	2.63 %	1.05 %
Net recoveries (charge-offs) / gross loans	0.01 %	0.00 %	0.00 %	-7.88 %	-0.36 %	-0.02 %
Three months ended March 31, 2023:						
Beginning balance	\$ 10,620	\$ 5,322	\$ 884	\$ 132	\$ 47	\$ 17,005
Adoption of new accounting standard	(1,566)	(1,725)	1	(91)	1,541	(1,840)
Provision for credit losses	1,912	(654)	(142)	1	(653)	464
Charge-offs	(247)	—	—	—	—	(247)
Recoveries	—	—	—	—	—	—
Ending balance	<u>\$ 10,719</u>	<u>\$ 2,943</u>	<u>\$ 743</u>	<u>\$ 42</u>	<u>\$ 935</u>	<u>\$ 15,382</u>
Allowance for loan losses / gross loans	1.63 %	0.34 %	1.16 %	0.75 %	2.48 %	0.95 %
Net recoveries (charge-offs) / gross loans	-0.04 %	0.00 %	0.00 %	0.00 %	0.00 %	-0.02 %

Modifications Made to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

The effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, therefore a change to the allowance for credit losses is generally not recorded upon modification.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as an interest rate reduction or principal forgiveness, may be granted. Upon the Company's determination that a modified loan (or a portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of that loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

At September 30, 2023

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During the three months ended March 31, 2024, the Company had one loan two loans with a recorded investment or commitment with terms that had been modified due to the borrower experiencing financial difficulties. This loan These loans had no payments that were considered past due as of the reporting date. During the three months ended March 31, 2023, the Company had no loans with a recorded investment or commitment with terms that had been modified due to the borrower experiencing financial difficulties. The following table reflects the type of concession granted and the financial effect of the modification. modifications for the three months ended March 31, 2024.

(Dollars in thousands)	Amortized Cost	% of Total Portfolio Segment	Financial Effect	Amortized Cost	% of Total Portfolio Segment
SBA	\$ 50	1.13 %	Term Extension - extended forbearance expiration from March 31, 2023 to April 1, 2024		

Commercial and industrial		\$ 11,065	1.81 %	Term Extn from Ma
Commercial and industrial		3,641	0.60 %	Term extended
Total modified loans	\$ 50			

The Company had no loan modifications resulting from a borrower experiencing financial difficulties with a subsequent payment default within twelve months following the modification during the three and nine months ended September 30, 2023 March 31, 2024.

4. BORROWING ARRANGEMENTS

The Company has a borrowing arrangement with the Federal Reserve Bank of San Francisco (FRB) under which advances are secured by portions of the Bank's loan and investment securities portfolios. The Company's credit limit varies according to the amount and composition of the assets pledged as collateral. At September 30, 2023 March 31, 2024, amounts pledged and available borrowing capacity under such limits were approximately \$392.2 \$410.5 million and \$302.9 \$334.3 million, respectively. At December 31, 2022 December 31, 2023, amounts pledged and available borrowing capacity under such limits were approximately \$484.1 \$432.5 million and \$393.0 \$343.3 million, respectively.

The Company has a borrowing arrangement with the Federal Home Loan Bank of San Francisco (FHLB) under which advances are secured by portions of the Bank's loan portfolio. The Company's credit limit varies according to its total assets and the amount and composition of the loan portfolio pledged as collateral. At September 30, 2023 March 31, 2024, amounts pledged and available borrowing capacity under such limits were approximately \$414.0 \$397.0 million and \$368.5 \$351.5 million, respectively. At December 31, 2022 December 31, 2023, amounts pledged and available borrowing capacity under such limits were approximately \$386.1 \$401.4 million and \$335.1 \$280.9 million, respectively. On December 29, 2023, the Company secured a FHLB short-term borrowing for \$75.0 million at a fixed rate of 5.70%. This borrowing was repaid in full on January 2, 2024.

Under Federal Funds line of credit agreements with several correspondent banks, the Company can borrow up to \$123.0 million. There were no borrowings outstanding under these arrangements at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

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The Company maintains a revolving line of credit with a commitment of \$3.0 million for a six-month one-year term at a rate of Prime plus 0.40%. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, no borrowings were outstanding under this line of credit.

The Company issued \$20.0 million in subordinated debt on September 30, 2020. The subordinated debt has a fixed interest rate of 5.00% for the first 5 years and a stated maturity of September 30, 2030. After the fifth year, the interest rate changes to a quarterly variable rate equal to then current three-month term SOFR Secured Overnight Financing Rate ("SOFR") plus 0.488%. The subordinated debt was recorded net of related issuance costs of \$300,000. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the balance remained at \$20.0 million, net of the remaining unamortized issuance cost.

The Company issued an additional \$35.0 million in subordinated debt on August 17, 2021. The subordinated debt has a fixed interest rate of 3.50% for the first 5 years and a stated maturity of September 1, 2031. After the fifth year, the interest rate changes to a quarterly variable rate equal to then current three-month term SOFR plus 0.286%. The subordinated debt was recorded net of related issuance costs of \$760,000. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the balance remained at \$35.0 million, net of the remaining unamortized issuance cost.

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5. COMMITMENTS AND CONTINGENT LIABILITIES

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans included on the balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily 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 of the borrower. Collateral

held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had outstanding unfunded commitments for loans of approximately \$643.4 \$612.6 million and \$644.1 \$676.1 million, respectively.

The outstanding unfunded commitments for loans at September 30, 2023 March 31, 2024 was comprised of fixed rate commitments of approximately \$43.0 \$31.2 million and variable rate commitments of approximately \$600.4 \$581.4 million. The following table reflects the interest rate and maturity ranges for the unfunded fixed rate loan commitments as of September 30, 2023 March 31, 2024.

(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Unfunded fixed rate loan commitments:				
Interest rate less than or equal to 4.00%	\$ 19,346	\$ 3,217	\$ 47	\$ 22,610
Interest rate between 4.00% and 5.00%	—	6,781	144	6,925
Interest rate greater than or equal to 5.00%	9,457	2,225	1,823	13,505
Total unfunded fixed rate loan commitments	\$ 28,803	\$ 12,223	\$ 2,014	\$ 43,040

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(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Unfunded fixed rate loan commitments:				
Interest rate less than or equal to 4.00%	\$ 17,140	\$ 2,929	\$ 106	\$ 20,175
Interest rate between 4.00% and 5.00%	450	3,491	219	4,160
Interest rate greater than or equal to 5.00%	2,270	2,667	1,967	6,904
Total unfunded fixed rate loan commitments	\$ 19,860	\$ 9,087	\$ 2,292	\$ 31,239

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses related to unfunded commitments is included in other liabilities on the Company's consolidated balance sheets and was \$2.0 million and \$430,000 \$2.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the three and nine months ended September 30, 2023, March 31, 2024 and 2023.

(Dollars in thousands)	September 30, 2023		Three Months Ended March 31,	
	Three Months Ended	Nine Months Ended	2024	2023
Beginning balance	\$ 1,877	\$ 430	\$ 2,166	\$ 430
Adoption of new accounting standard	—	1,397	—	1,397
Provision for credit losses	170	220	(195)	(106)
Balance at September 30, 2023	\$ 2,047	\$ 2,047		
Ending balance			\$ 1,971	\$ 1,721

Operating Leases

The Company leases various office premises under long-term operating lease agreements. These leases expire between 2023 2026 and 2030, with certain leases containing either three, five, or seven-year renewal options.

The following table reflects the quantitative information for the Company's leases for the nine three months ended, and as of, September 30, 2023 March 31, 2024.

September 30,

(Dollars in thousands)	2023	March 31, 2024
Operating lease cost (cost resulting from lease payments)	\$ 1,483	\$ 590
Operating lease - operating cash flows (fixed payments)	\$ 1,142	\$ 598
Operating lease right-of-use assets (other assets)	\$ 9,219	\$ 8,557
Operating lease liabilities (other liabilities)	\$ 11,023	\$ 10,265
Weighted average lease term - operating leases	4.3 years	5.1 years
Weighted average discount rate - operating leases	4.99%	3.39%

The following table reflects the minimum commitments under these non-cancellable leases, before considering renewal options, as of September 30, 2023 March 31, 2024.

(Dollars in thousands)	September 30, 2023
2023	\$ 510
2024	2,414
2025	2,486
2026	2,451
2027	1,402
Thereafter	3,140
Total undiscounted cash flows	12,403
Discount on cash flows	(1,380)
Total lease liability	\$ 11,023

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(Dollars in thousands)	March 31, 2024
2024	\$ 1,814
2025	2,486
2026	2,451
2027	1,402
2028	1,078
Thereafter	2,063
Total undiscounted cash flows	11,294
Discount on cash flows	(1,029)
Total lease liability	\$ 10,265

Rent expense included in premises and equipment expense totaled \$502,000 \$590,000 and \$469,000 \$488,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Rent expense included in premises and equipment expense totaled \$1.5 million for the nine months ended September 30, 2023 and 2022, 2023, respectively.

Contingencies

The Company is involved in legal proceedings arising from normal business activities. Management, based upon the advice of legal counsel, believes the ultimate resolution of all pending legal actions will not have a material effect on the Company's financial position or results of operations.

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Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Insured financial institution deposits up to \$250,000 are fully insured by the FDIC under the FDIC's general deposit insurance rules.

At September 30, 2023 March 31, 2024, uninsured deposits at financial institutions were approximately \$407,000, \$2.5 million. At December 31, 2022 December 31, 2023, uninsured deposits at financial institutions were approximately \$2.9 \$3.0 million.

6. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1 - Quoted market prices for identical instruments traded in active exchange markets.

Level 2 - Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3 - Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

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The carrying amounts and estimated fair values of financial instruments at September 30, 2023, March 31, 2024 and December 31, 2022 December 31, 2023 are as follows:

	Carrying Amount	Fair Value Measurements				Carrying Amount	Fair Value Measurements		
(Dollars in thousands)		Level 1	Level 2	Level 3	Total		Level 1	Level 2	Level 3
As of September 30, 2023:									
As of March 31, 2024:									
Financial assets:									
Cash and cash equivalents	\$ 198,982	\$ 198,982	\$ —	\$ —	\$ 198,982	\$ 203,098	\$ 203,098	\$ —	\$ —
Investment securities:									
Available for sale	44,227	—	44,227	—	44,227	31,078	—	31,078	—
Held to maturity	105,017	—	83,675	7,197	90,872	95,840	—	77,361	7,197
Loans, net	1,558,506	—	—	1,478,998	1,478,998	1,506,133	—	—	1,438,998
Accrued interest receivable	9,020	—	1,096	7,924	9,020	10,120	—	1,018	9,002
Financial liabilities:									
Deposits	\$ 1,707,081	\$ 1,387,376	\$ 320,344	\$ —	\$ 1,707,720	\$ 1,639,516	\$ 1,311,636	\$ 328,188	\$ —
Subordinated debt	54,256	—	—	49,803	49,803	54,326	—	—	50,000
Accrued interest payable	4,024	—	3,922	102	4,024	3,216	—	3,114	102
As of December 31, 2022:									
As of December 31, 2023:									
Financial assets:									
Cash and due from banks	\$ 232,382	\$ 232,382	\$ —	\$ —	\$ 232,382	\$ 212,354	\$ 212,354	\$ —	\$ —
Investment securities:									
Available for sale	47,012	—	47,012	—	47,012	44,560	—	44,560	—
Held to maturity	108,866	—	89,433	7,450	96,883	100,841	—	82,806	7,450
Loans, net	1,578,456	—	—	1,519,903	1,519,903	1,544,612	—	—	1,470,000
Accrued interest receivable	7,769	—	926	6,843	7,769	8,847	—	982	7,769
Financial liabilities:									
Deposits	\$ 1,791,740	\$ 1,520,502	\$ 271,178	\$ —	\$ 1,791,680	\$ 1,625,244	\$ 1,315,032	\$ 311,213	\$ —
Other borrowings						75,000	—	—	75,000
Subordinated debt	54,152	—	—	49,027	49,027	54,291	—	—	50,000
Accrued interest payable	1,678	—	1,007	671	1,678	3,292	—	2,593	671

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The methods and assumptions used to estimate fair values are described as follows:

Cash and Due from banks - banks—The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment Securities - Securities—Since quoted prices are generally not available for identical securities, fair values are calculated based on market prices of similar securities on similar dates, resulting in Level 2 classification. For securities where market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators, resulting in Level 3 classification.

FHLB, IBFC, PCBB Stock - Stock—It is not practical to determine the fair value of these correspondent bank stocks due to restrictions placed on their transferability.

Loans - Loans—Fair values of loans for September 30, 2023, March 31, 2024, and December 31, 2022, December 31, 2023 are estimated on an exit price basis with contractual cash flow, prepayments, discount spreads, credit loss and liquidity premium assumptions. Loans with similar characteristics such as prepayment rates, terms and rate indexed are aggregated for purposes of the calculations. Loans are generally classified using Level 3 inputs.

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Loans individually evaluated for expected credit losses/impairment—Certain loans are individually evaluated on a quarterly basis for additional expected credit losses/impairment and adjusted accordingly. The fair value of loans that are individually evaluated with specific allocations of the allowance for credit losses that are secured by real property is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The methods utilized to estimate the fair value of individually evaluated loans do not necessarily represent an exit price.

Deposits - Deposits—The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 1 classification. The carrying amounts of variable rate and fixed-term money market accounts approximate their fair values at the reporting date resulting in Level 1 classification. For time certificates of deposit, the estimated remaining cash flows were discounted, based on current rates for similar instruments in market, to determine the fair value (premium)/discount and accordingly are classified as Level 2.

FHLB Advances - Advances—FHLB Advances are included in Other Borrowings. Fair values for FHLB Advances are estimated using discounted cash flow analyses using interest rates offered at each reporting date by correspondent banks for advances with similar maturities resulting in Level 3 classification.

Senior Notes - Notes—Fair values for senior notes are estimated using a discounted cash flow calculation based on current rates for similar types of debt, which may be unobservable, and by considering recent trading activity of similar instruments in the market, which may be inactive. Accordingly, senior notes are classified within the Level 3 classification.

Junior Subordinated Debt Securities - Securities—Fair values for subordinated debt are calculated based on their respective terms and discounted to the date of the valuation. A market rate based on recent debt offerings by peer banks, which may be unobservable, is used to discount the cash flows until the repricing date and the subsequent cash flows are discounted at Prime plus 2%. Additionally, the Company considers recent trading activity of similar instruments in the market, which may be inactive. Accordingly, junior subordinated debt securities are classified within the Level 3 classification.

Accrued Interest Receivable - Receivable—The carrying amounts of accrued interest receivable approximate fair value resulting in a Level 2 classification for accrued interest receivable on investment securities and a Level 3 classification for accrued interest receivable on loans since investment securities are generally classified using Level 2 inputs and loans are generally classified using Level 3 inputs.

Accrued Interest Payable - Payable—The carrying amounts of accrued interest payable approximate fair value resulting in a Level 2 classification, since accrued interest payable is from deposits that are generally classified using Level 2 inputs.

Off Balance Sheet Instruments - Instruments—Fair values of off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, as well as considering the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

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Assets Recorded at Fair Value on a Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of **September 30, 2023** March 31, 2024 and **December 31, 2022** December 31, 2023.

(Dollars in thousands)	Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
As of September 30, 2023:								
As of March 31, 2024:								
Investments available for sale:								
Mortgage backed securities	\$ 15,175	\$ —	\$ 15,175	\$ —	\$ 11,523	\$ —	\$ 11,523	\$ —
Government agencies	29,052	—	29,052	—	19,555	—	19,555	—
Total assets measured at fair value on a recurring basis	<u>\$ 44,227</u>	<u>\$ —</u>	<u>\$ 44,227</u>	<u>\$ —</u>	<u>\$ 31,078</u>	<u>\$ —</u>	<u>\$ 31,078</u>	<u>\$ —</u>
As of December 31, 2022:								
As of December 31, 2023:								
Investments available for sale:								
Mortgage backed securities	\$ 17,758	\$ —	\$ 17,758	\$ —	\$ 15,149	\$ —	\$ 15,149	\$ —
Government agencies	28,766	—	28,766	—	29,411	—	29,411	—
Corporate bonds	488	—	488	—	—	—	—	—
Total assets measured at fair value on a recurring basis	<u>\$ 47,012</u>	<u>\$ —</u>	<u>\$ 47,012</u>	<u>\$ —</u>	<u>\$ 44,560</u>	<u>\$ —</u>	<u>\$ 44,560</u>	<u>\$ —</u>

Fair values for available-for-sale investment securities are based on quoted market prices for exact or similar securities. During the periods presented, there were no significant transfers in or out of Levels 1 and 2 and there were no changes in the valuation techniques used. Additionally, there were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) at **September 30, 2023** March 31, 2024 and **December 31, 2022** December 31, 2023.

Assets Recorded at Fair Value on a Non-Recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date. The following table summarizes impaired loans measured at fair value on a non-recurring basis as of **September 30, 2023** March 31, 2024 and **December 31, 2022** December 31, 2023.

(Dollars in thousands)	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
As of September 30, 2023:				
Individually evaluated loans - Commercial	\$ 1,183	\$ —	\$ —	\$ 1,183
Individually evaluated loans - SBA	53	—	—	53
Total assets measured at fair value on a non-recurring basis	<u>\$ 1,236</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,236</u>
As of December 31, 2022:				
Impaired loans - Commercial	\$ 1,028	\$ —	\$ —	\$ 1,028
Impaired loans - SBA	222	—	—	222
Total assets measured at fair value on a non-recurring basis	<u>\$ 1,250</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,250</u>

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(Dollars in thousands)	Carrying Amount	Fair Value Measurements		
		Level 1	Level 2	Level 3
As of March 31, 2024:				
Individually evaluated loans - Commercial	\$ 1,159	\$ —	\$ —	\$ 1,159
Individually evaluated loans - SBA	53	—	—	53
Total assets measured at fair value on a non-recurring basis	<u>\$ 1,212</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,452</u>
As of December 31, 2023:				
Impaired loans - Commercial	\$ 3,728	\$ —	\$ —	\$ 3,728
Impaired loans - SBA	53	—	—	53
Total assets measured at fair value on a non-recurring basis	<u>\$ 3,781</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,781</u>

The fair value of individually evaluated loans is based upon independent market prices, estimated liquidation values of loan collateral or appraised value of the collateral as determined by third-party independent appraisers, less selling costs. Level 3 fair value measurement includes other real estate owned that has been measured at fair value upon transfer to foreclosed assets and loans collateralized by real property and other business asset collateral where a specific reserve has been established or a charge-off has been recorded. The unobservable inputs and qualitative information about the unobservable inputs are based on management's best estimates of appropriate discounts in arriving at fair value. Increases or decreases in any of those inputs could result in a significantly lower or higher fair value measurement. For example, a change in either direction of actual loss rates would have a directionally opposite change in the calculation of the fair value of individually evaluated loans.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following is a discussion of our financial condition at September 30, 2023, March 31, 2024 and December 31, 2022, December 31, 2023 and our results of operations for the three and nine months ended September 30, 2023, March 31, 2024 and 2022, 2023, and should be read in conjunction with our audited consolidated financial statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2022, December 31, 2023 that was filed with the Securities and Exchange Commission (the "SEC") on March 24, 2023, March 21, 2024 (our "Annual Report") and with the accompanying unaudited notes to consolidated financial statements set forth in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023, March 31, 2024 (this "Report"). Because we conduct all of our material business operations through our bank subsidiary, California Bank of Commerce, the discussion and analysis relates to activities primarily conducted by the Bank.

Forward Looking Statements

Statements contained in this Report that are not historical facts or that discuss our expectations, beliefs or views regarding future events, such as our future operations or future financial performance, or financial or other trends in our business or in the markets in which we operate, and our future plans constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. Additionally, statements regarding expectations, plans or objectives for future operations, products or services, loan recoveries and the proposed merger (the "Merger") of the Company and Southern California Bancorp may be forward-looking statements. Often, they forward-looking statements include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "project," "forecast," or words of similar meaning, or future or conditional verbs such as "will," "would," "should," "could," or "may." The information contained in such forward-looking statements is based on current information available to us and on assumptions that we make about future economic and market conditions and other events over which we do not have control. In addition, our business and the markets in which we operate are subject to a number of risks and uncertainties. Such risks and uncertainties, and the occurrence of events in the future or changes in circumstances that had not been anticipated, could cause our financial condition or actual operating results in the future to differ materially from our expected financial condition or operating results that are set forth in the forward-looking statements contained in this Report and could, therefore, also affect the price performance of our shares.

In addition to the risk of incurring loan losses and provision for credit losses, which is an inherent risk of the banking business, these risks and uncertainties include, but are not limited to, the following: deteriorating economic conditions and macroeconomic factors such as unemployment rates and the volume of bankruptcies, as well as changes in monetary, fiscal or tax policy, any of which could cause us to incur losses and adversely affect our results of operations in the future; the risk that the credit quality of our borrowers declines; potential declines in the value of the collateral for secured loans; the risk of a recession in the United States economy, and domestic or international economic conditions, which could cause us to incur credit losses and adversely affect our results of operations in the future; changes in prevailing interest rates, which may adversely affect our interest margins, net interest income and the value of our investment securities; the risk that we will not be able to manage our liquidity, interest rate or operational risks effectively, in which event our operating results or financial condition could be harmed; risks associated with seeking new client relationships and maintaining existing client relationships; the impacts of inflation; and the prospect of changes in government regulation of banking and other financial services organizations, which could impact our costs of doing business and restrict our ability to take advantage of business and growth opportunities; opportunities; our ability to retain deposits during the pendency of the Merger, and integration and conversion activities related to the Merger; terms and conditions in our merger agreement with Southern California Bancorp that restrict our business while the Merger is pending; the occurrence of any event, change, or other circumstances that could give rise to the right of one or both of the parties to terminate the merger agreement; delays in completing the Merger; the failure to satisfy any of the conditions to the Merger on a timely basis or at all; the possibility that the anticipated benefits of the Merger will not be realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas we and California Bank of Commerce do business; certain restrictions during the pendency of the Merger that may impact the parties' ability to pursue certain business opportunities or strategic transactions; the possibility that the Merger may be more expensive to

complete than anticipated, including as a result of unexpected factors or events; diversion of management's attention from ongoing business operations and opportunities during the pendency of the Merger; and potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the Merger and the integration of the two companies and banks. Readers of this Report are encouraged to review the additional information regarding these and other risks and uncertainties to which our business is subject that is contained in Part I, Item 1A of our Annual Report and in Part II, Item 1A of this Report, on Form 10-K for the year ended December 31, 2023, as such information may be updated from time to time in subsequent filings we may make with the SEC. We urge you to read those risk factors in conjunction with your review of the following discussion and analysis of our results of operations for the three and nine months ended, and our financial condition at, September 30, 2023 March 31, 2024.

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Due to the risks and uncertainties we face, readers are cautioned not to place undue reliance on the forward-looking statements contained in this Report, which speak only as of the date of this Report, or to make predictions about future performance based solely on historical financial performance. We also disclaim any obligation to update forward-looking statements contained in this Report as a result of new information, future events or otherwise, except as may otherwise be required by law.

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Overview

California BanCorp (the "Company," "we" or "us"), a California corporation headquartered in Oakland, California, is the bank holding company for its wholly-owned subsidiary California Bank of Commerce (the "Bank"). The Bank has a full service branch in California located in Contra Costa County and 4 loan production offices in California located in Alameda County, Contra Costa County, Sacramento County, and Santa Clara County.

Proposed Merger with Southern California Bancorp

On January 30, 2024, the Company entered into a merger agreement with Southern California Bancorp ("SCB"), the bank holding company for Bank of Southern California, N.A. ("BSC"). The merger agreement provides that, subject to the receipt of required regulatory and shareholders approvals and the satisfaction of other conditions, the Company will merge with and into SCB and the Bank will merge with and into BSC. As a result of the merger, each outstanding share of California BanCorp common stock will convert into the right to receive 1.590 shares of SCB common stock. Immediately after the merger, the Company expects that the Company's shareholders will own approximately 43% of the combined company and SCB's shareholders will own approximately 57% of the combined company.

Critical Accounting Policies

Our unaudited consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make complex and subjective estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

Our most significant accounting policies are described in Note 1 to our audited financial statements for the year ended December 31, 2022 December 31, 2023, included in our Annual Report on Form 10-K and in Note 1 to our unaudited financial statements, which are included elsewhere in this Quarterly Report on Form 10-Q.

Non-GAAP Financial Measures

Some of the financial measures discussed in this Report are considered non-GAAP financial measures. A non-GAAP financial measure is a financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, from the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles.

We believe that non-GAAP financial measures provide useful information to management and investors that is supplementary to our statements of financial condition, results of income and cash flows computed in accordance with GAAP. However, we acknowledge that our non-GAAP financial measures have limitations. As such, you should not view this disclosure as a substitute for results determined in accordance with GAAP, and it is not necessarily comparable to non-GAAP financial measures that other banking companies use. Other banking companies may use names similar to those we use for the non-GAAP financial measures we disclose, but may calculate them

differently. You should understand how we and other companies each calculate their non-GAAP financial measures when making comparisons.

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The following table summarizes the details of the non-GAAP financial measure reflecting net income adjusted for the impact of merger related expenses that the Company has included in this Report for the three months ended March 31, 2024 and 2023.

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Net income	\$ 3,817	\$ 5,451
Add: After-tax merger related expenses	1,024	—
Adjusted net income	<u>\$ 4,841</u>	<u>\$ 5,451</u>

The following table summarizes the details of the non-GAAP financial measure reflecting earnings per share adjusted for the impact of merger related expenses that the Company has included in this Report for the three months ended March 31, 2024 and 2023.

(Dollars in thousands, except per share data)	Three months ended March 31,	
	2024	2023
Adjusted net income	\$ 4,841	\$ 5,451
Adjusted basic earnings per share	<u>\$ 0.58</u>	<u>\$ 0.65</u>
Adjusted diluted earnings per share	<u>\$ 0.57</u>	<u>\$ 0.64</u>
Average common shares outstanding	<u>8,413,735</u>	<u>8,339,080</u>
Average common and equivalent shares outstanding	<u>8,566,712</u>	<u>8,492,067</u>

The following table summarizes the details of the non-GAAP financial measure reflecting total revenue that the Company has included in this Report for the three months ended March 31, 2024 and 2023.

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Net interest income	\$ 17,715	\$ 18,757
Non-interest income	1,705	1,107
Total revenue	<u>\$ 19,420</u>	<u>\$ 19,864</u>

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The following table summarizes the details of the non-GAAP financial measure reflecting non-interest expense adjusted for capitalized loan origination costs and the impact of merger related expenses that the Company has included in this Report for the three months ended March 31, 2024 and 2023.

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Non-interest expense	\$ 13,704	\$ 11,843
Add: Capitalized loan origination costs	414	651
Less: Merger related expenses	<u>(1,024)</u>	<u>—</u>
Total non-interest expense, before capitalization of loan origination costs and merger related expenses	<u>\$ 13,094</u>	<u>\$ 12,494</u>

The following table summarizes the details of the non-GAAP financial measure reflecting the efficiency ratio adjusted for the impact of merger related expenses that the Company has included in this Report for the three months ended March 31, 2024 and 2023.

(Dollars in thousands)	Three months ended March 31,	
	2024	2023
Non-interest expense	\$ 13,704	\$ 11,843
Less: Merger related expenses	(1,024)	—
Total non-interest expense, before merger related expenses	\$ 12,680	\$ 11,843
Total revenue	\$ 19,420	\$ 19,864
Adjusted efficiency ratio	<u>65.29 %</u>	<u>59.62 %</u>

Results of Operations – Three Months Ended September 30, 2023 March 31, 2024 and 2022: 2023:

Overview

For the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023, net income was \$5.4 \$3.8 million and \$5.5 million, respectively, representing a decrease of \$121,000, \$1.6 million, or 2% 30%. Compared to the same period last year, net interest income after the provision for credit losses increased decreased by \$701,000, which was offset by a decrease in \$810,000, non-interest income of \$190,000 and an increase in increased by \$598,000, non-interest expense increased by \$1.9 million, and income tax expense decreased by \$439,000. Excluding the impact of \$634,000, merger related expenses pertaining to the pending transaction with Southern California Bancorp, the Company's net income for the first quarter of 2024 was \$4.8 million (See Non-GAAP Financial Measures).

Diluted earnings per share were \$0.45 for the first quarter of 2024, compared to \$0.64 for the first quarter of 2023. Excluding the impact of merger related expenses, the Company's diluted earnings per share were \$0.57 for the first quarter of 2024 (See Non-GAAP Financial Measures).

Net Interest Income and Margin

Net interest income, the difference between interest earned on loans and investments and interest paid on deposits and borrowings, is the principal component of the Company's earnings. Net interest income is affected by changes in the nature and volume of earning assets and interest-bearing liabilities held during the quarter, the rates earned on such assets and the rates paid on interest bearing liabilities.

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Net interest income for the three months ended September 30, 2023 March 31, 2024, was \$18.6 \$17.7 million, an increase a decrease of \$215,000, \$1.1 million, or 1% 6% from \$18.4 \$18.8 million for the same period in 2022, 2023. The increase decrease in net interest income was primarily attributable to the rising interest rate environment combined with a more less favorable mix of higher yielding average earning assets offset, in part, by and an increase in the cost of total deposits, deposits, which negatively impacted net interest margin. Contributing to the less favorable mix of average earning assets, the Company experienced a reduction in loan balances as a result of conservative underwriting combined with decreased demand and pay-offs occurring in the normal course of business. Net interest margin decreased by 8 13 basis points to 3.86% 3.89% for the three months ended September 30, 2023 March 31, 2024, compared to 3.94% 4.02% for the three months ended September 30, 2022 March 31, 2023.

Average total interest-earning assets were \$1.91 \$1.83 billion in the third first quarter of 2023 2024 compared to \$1.85 \$1.89 billion for the same period during 2022, 2023. The increase decrease in total interest-earning assets was primarily due to growth of the reduction in the loan portfolio combined with increased decreased liquidity generated resulting from growth in the deposit portfolio, a lower balance of demand deposits. For the quarter ended September 30, 2023 March 31, 2024, the yield on average earning assets increased 129 54 basis points to 5.83% 6.01% from 4.54% 5.47% for the quarter ended September 30, 2022 March 31, 2023. The yield on total average gross loans in the three months ended September 30, 2023 March 31, 2024 was 6.09% 6.24%, representing an increase of 112 48 basis points compared to 4.97% 5.76% in the same period one year earlier. For the three months ended September 30, 2023 March 31, 2024 compared to the same period in 2022, 2023, the yield on average federal funds sold increased 323 83 basis points to 5.35% 5.38% from 2.12% 4.55%, and the yield on average investment securities increased 95 86 basis points to 3.90% 4.29% from 2.95% 3.43%.

For the three months ended September 30, 2023 March 31, 2024, average loans increased \$28.3 decreased \$63.6 million, or 2% 4%, from the quarter ended September 30, 2022 while March 31, 2023 and average interest-bearing deposit balances increased \$151.2 decreased

\$1.4 million, or 18% 0%, from the same quarter in the prior year. Average non-interest bearing noninterest-bearing deposits for the third first quarter of 2023 2024 decreased \$23.9 \$71.7 million, or 3% 10%, from the same period in the prior year. The average loan to deposit ratio for the third first quarter of 2023 2024 was 90.25% 93.19% compared to 95.69% 93.08% for the third first quarter of 2022, 2023.

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Of the \$28.3 \$63.6 million increase decrease in average loan balances year over year, average commercial and real estate related loans increased decreased by \$19.3 \$31.0 million and \$33.7 \$27.3 million, respectively, as a result of organic growth. These increases were offset by a decrease in average construction and land loans of \$15.1 million, a decrease in respectively. Additionally, SBA loans of \$5.2 decreased by \$2.0 million, and a decrease in other loans of \$4.4 decreased by \$3.3 million.

Of the \$151.2 million increase in average interest-bearing deposit balances year over year, \$119.7 million was attributable to time deposits and \$42.8 million was attributable to money market and savings accounts, offset by a decrease in demand accounts of \$11.3 million. The cost of interest-bearing deposits was 3.54% 3.76% during the quarter ended September 30, 2023 March 31, 2024 compared to 0.78% 2.49% in the same quarter one year earlier. In addition, the overall cost of average total deposit balances increased by 165 82 basis points to 2.07% 2.24% in the third first quarter of 2023 2024 compared to 0.42% 1.42% in the third first quarter of 2022.

The following table shows the composition of average earning assets and average funding sources, average yields and rates, and the net interest margin for the quarters ended September 30, 2023 and 2022.

	Three months ended September 30,					
	2023			2022		
	Average Balance	Yields or Rates	Interest Income/ Expense	Average Balance	Yields or Rates	Interest Income/ Expense
(Dollars in thousands)						
ASSETS						
Interest earning assets:						
Loans (1)	\$ 1,551,708	6.09 %	\$ 23,804	\$ 1,523,442	4.97 %	\$ 19,084
Federal funds sold	208,725	5.35 %	2,814	162,314	2.12 %	867
Investment securities	150,322	3.90 %	1,476	163,486	2.95 %	1,217
Total interest earning assets	1,910,755	5.83 %	28,094	1,849,242	4.54 %	21,168
Noninterest-earning assets:						
Cash and due from banks	20,351			20,153		
All other assets (2)	62,041			60,832		
TOTAL	\$ 1,993,147			\$ 1,930,227		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Demand	\$ 28,766	0.33 %	\$ 24	\$ 40,044	0.08 %	\$ 8
Money market and savings	642,909	2.95 %	4,775	600,100	0.62 %	938
Time	332,662	4.96 %	4,162	213,001	1.35 %	726
Other	54,235	4.06 %	555	154,101	2.92 %	1,133
Total interest-bearing liabilities	1,058,572	3.57 %	9,516	1,007,246	1.10 %	2,805
Noninterest-bearing liabilities:						
Demand deposits	715,079			738,951		
Accrued expenses and other liabilities	30,665			21,094		
Shareholders' equity	188,831			162,936		

TOTAL	\$ 1,993,147		\$ 1,930,227
Net interest income and margin (3)	3.86 %	\$ 18,578	3.94 % \$ 18,363

- (1) Nonperforming loans are included in average loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of net deferred loan (costs) fees of \$(82,000) and \$100,000, respectively.
- (2) Other noninterest-earning assets includes the allowance for credit losses of \$15.8 million and \$16.0 million, respectively.
- (3) Net interest margin is net interest income divided by total interest-earning assets.

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The following table shows the effect of the interest differential of volume and rate changes for the quarters ended September 30, 2023 and 2022. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

(Dollars in thousands)	Three Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to		
	Change in:		
	Average Volume	Average Rate	Net Change
Interest income:			
Loans	\$ 434	\$ 4,286	\$ 4,720
Federal funds sold	626	1,321	1,947
Investment securities	(129)	388	259
Interest expense:			
Deposits			
Demand	(9)	25	16
Money market and savings	318	3,519	3,837
Time	1,497	1,939	3,436
Other borrowings	(1,022)	444	(578)
Net interest income	\$ 147	\$ 68	\$ 215

Interest Income

Interest income increased by \$6.9 million in the third quarter of 2023 compared to the same period of 2022, primarily due to an increase in the prime rate which generated higher yields on our loan portfolio. The prime rate at September 30, 2023 and September 30, 2022 was 8.50% and 6.25%, respectively. Interest earned on our loan portfolio of \$23.8 million in the third quarter of 2023 represented an increase of \$4.7 million, or 25%, compared to \$19.1 million for the third quarter of 2022.

Additionally, the Company benefited from a more favorable mix of other earning assets. Interest earned on federal funds sold of \$2.8 million for the three months ended September 30, 2023 compared to \$867,000 for the same period in the prior year. Interest earned on investment securities of \$1.5 million for the three months ended September 30, 2023 compared to \$1.2 million for the three months ended September 30, 2022.

Interest Expense

Interest expense increased by \$6.7 million in the third quarter of 2023 compared to the same period of 2022, primarily due to the effect of increased rates paid on interest-bearing deposits and other borrowings, combined with a higher level of interest-bearing deposits. The average rate paid on interest-bearing liabilities in the third quarter of 2023 compared to the same period one year earlier increased 247 basis point to 3.57% from 1.10%.

Provision for Credit Losses

The provision for credit losses of \$314,000 for the three months ended September 30, 2023 was comprised of \$121,000 pertaining to the ACL on loans, \$170,000 pertaining to the ACL for unfunded loan commitments, and \$23,000 pertaining to the ACL for held to maturity securities.

The provision for credit losses on loans of \$314,000 for the third quarter of 2023 compared to a provision for loan losses of \$800,000 for the third quarter of 2022. The Company had loan charge-offs of \$156,000 and recoveries of \$234,000 during the third quarter of 2023, compared to loan charge-offs of \$202,000 and no recoveries during the third quarter of 2022. The allowance for credit losses on loans as a percentage of outstanding loans was 1.01% at September 30, 2023 and 1.07% at December 31, 2022. On January 1, 2023, the Company adopted the current expected losses (CECL) accounting standard (ASC 326). The Company's allowance for credit losses on loans was 0.95% upon adoption of the standard on January 1, 2023. 2023.

Non-interest Income

The following table reflects the major components of the Company's non-interest income for the three months ended September 30, 2023 and 2022.

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Service charges and other fees	\$ 1,003	\$ 1,237	\$ (234)	-19 %
Earnings on BOLI	179	167	12	7 %
Other	112	80	32	40 %
Total non-interest income	<u>\$ 1,294</u>	<u>\$ 1,484</u>	<u>\$ (190)</u>	<u>-13 %</u>

Non-interest income decreased by \$190,000, or 13% in the third quarter of 2023, compared to the third quarter of 2022. The decrease was primarily due to a decrease in service charges and other fee income related to fewer prepayment penalties assessed on loans.

Non-interest Expense

The following table reflects the major components of the Company's non-interest expense for the three months ended September 30, 2023 and 2022.

(Dollars in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	Amount	Percent
Salaries and benefits	\$ 8,238	\$ 7,415	\$ 823	11 %
Premises and equipment	1,155	1,275	(120)	-9 %
Professional fees	411	524	(113)	-22 %
Data processing	633	744	(111)	-15 %
Other	1,414	1,259	155	12 %
Total non-interest expense	<u>\$ 11,851</u>	<u>\$ 11,217</u>	<u>\$ 634</u>	<u>6 %</u>

Non-interest expense was \$11.9 million and \$11.2 million for the three months ended September 30, 2023 and 2022, respectively. Excluding capitalized loan origination costs, non-interest expense for the third quarter of 2023 was \$12.5 million compared to \$12.3 million for the third quarter of 2022, representing an increase of \$200,000, or 2%. The increase in non-interest expense, excluding capitalized origination costs, from the third quarter of 2022 was primarily due to an increase in salaries and benefits related to investments to support the continued growth of the business.

For the three months ended September 30, 2023 and 2022, the Company's efficiency ratio, the ratio of non-interest expense to revenues, was 59.64% and 56.52%, respectively.

Provision for Income Taxes

Income tax expense was \$2.3 million for both the third quarter of 2023 and for the same period in prior year. The effective tax rates for those time periods were 29.9% and 29.5%, respectively.

Results of Operations – Nine Months Ended September 30, 2023 and 2022:

Overview

For the nine months ended September 30, 2023 and September 30, 2022, net income was \$16.3 million and \$13.4 million, respectively, representing an increase of \$2.9 million, or 21%. Compared to the same period last year, net interest income after the provision for credit losses increased by \$8.4 million, which was offset by a decrease in non-interest income of \$1.9 million, an increase in non-interest expense of \$2.3 million and an increase in the provision for income taxes of \$1.3 million.

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Net Interest Income and Margin

Net interest income for the nine months ended September 30, 2023, was \$56.0 million, an increase of \$6.9 million, or 14% from \$49.1 million for the same period in 2022. The increase in net interest income was primarily attributable to the rising interest rate environment combined with a more favorable mix of higher yielding earning assets offset, in part, by an increase in the cost of total deposits. Net interest margin increased by 34 basis points to 3.94% for the nine months ended September 30, 2023, compared to 3.60% for the nine months ended September 30, 2022.

Average total interest-earning assets were \$1.90 billion in the nine months ended September 30, 2023 compared to \$1.83 billion for the same period during 2022. The increase in total interest-earning assets was primarily due to growth of the loan portfolio. For the nine months ended September 30, 2023, the yield on average earning assets increased 167 basis points to 5.68% from 4.01% for the nine months ended September 30, 2022. The yield on total average gross loans for the nine months ended September 30, 2023 was 5.94%, representing an increase of 132 basis points compared to 4.62% in the same period one year earlier. For the nine months ended September 30, 2023 compared to the same period in 2022, the yield on federal funds sold increased 430 basis points to 5.09 % from 0.79%, and the yield on average investment securities increased 93 basis points to 3.72% from 2.79%.

For the nine months ended September 30, 2023, average loans increased \$116.7 million, or 8%, from the nine months ended September 30, 2022 while average interest-bearing deposit balances increased \$115.1 million, or 13%, from the same period in the prior year. Average non-interest bearing deposits for the first nine months of 2023 decreased \$17.6 million, or 2%, from the same period in the prior year. The average loan to deposit ratio for the nine months ended September 30, 2023 was 92.31% compared to 90.65% for the nine months ended September 30, 2022.

Of the \$116.7 million increase in average loan balances year over year, average commercial and real estate loans increased by \$73.0 million and \$82.5 million, respectively, as a result of organic growth. These increases were partially offset by a decrease in average SBA loans of \$27.0 million primarily due to PPP loan forgiveness and a decrease in other loans of \$15.1 million primarily due to the sale of a portion of our solar loan portfolio.

Of the \$115.1 million increase in average interest-bearing deposit balances year over year, \$150.8 million was attributable to time deposits, offset by a decrease in money market and savings accounts of \$26.5 million, and a decrease in demand accounts of \$9.2 million. The cost of interest-bearing deposits was 3.06% during the nine months ended September 30, 2023 compared to 0.51% for the same period one year earlier. In addition, the overall cost of average total deposit balances increased by 150 basis points to 1.77% during the nine months ended September 30, 2023 compared to 0.27% during the nine months ended September 30, 2022.

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The following table shows the composition of average earning assets and average funding sources, average yields and rates, and the net interest margin for the nine months quarters ended September 30, 2023 March 31, 2024 and 2022, 2023.

	Nine months ended September 30,						Three months ended			
	2023			2022			2024			
	Average	Yields or	Interest Income/	Average	Yields or	Interest Income/	Average	Yields or	Interest Income/	Av
	Balance	Rates	Expense	Balance	Rates	Expense	Balance	Rates	Expense	Ba
(Dollars in thousands)										
ASSETS										
Interest earning assets:										
Loans (1)	\$ 1,570,411	5.94 %	\$ 69,752	\$ 1,453,741	4.62 %	\$ 50,268	\$ 1,518,722	6.24 %	\$ 23,574	\$ 1,5
Federal funds sold	178,948	5.09 %	6,811	217,008	0.79 %	1,283	174,551	5.38 %	2,334	1
Investment securities	152,574	3.72 %	4,241	155,423	2.79 %	3,247	138,060	4.29 %	1,474	1

Total interest earning assets	1,901,933	5.68 %	80,804	1,826,172	4.01 %	54,798	1,831,333	6.01 %	27,382	1,8
Noninterest-earning assets:										
Cash and due from banks	19,227			19,550						
All other assets (2)	62,679			61,939						
TOTAL	\$ 1,983,839			\$ 1,907,661						
LIABILITIES AND SHAREHOLDERS' EQUITY										
LIABILITIES AND SHAREHOLDERS' EQUITY										
Interest-bearing liabilities:										
Deposits:										
Demand	\$ 31,029	0.19 %	\$ 43	\$ 40,214	0.08 %	\$ 25	\$ 24,736	0.20 %	12	\$
Money market and savings	626,318	2.49 %	11,672	652,849	0.45 %	2,185	635,696	3.12 %	4,928	6
Time	323,148	4.45 %	10,761	172,284	0.83 %	1,064	311,884	5.36 %	4,156	3
Other	71,782	4.37 %	2,348	125,108	2.58 %	2,412	55,130	4.17 %	571	
Total interest-bearing liabilities	1,052,277	3.15 %	24,824	990,455	0.77 %	5,686	1,027,446	3.78 %	9,667	1,0
Noninterest-bearing liabilities:										
Demand deposits	720,694			738,273						
Accrued expenses and other liabilities	27,827			20,848						
Shareholders' equity	183,041			158,085						
TOTAL	\$ 1,983,839			\$ 1,907,661						
Net interest income and margin (3)		3.94 %	\$ 55,980		3.60 %	\$ 49,112		3.89 %	\$ 17,715	

- (1) Nonperforming loans are included in average loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of net deferred loan (costs) fees costs of \$(482,000) \$34,000 and \$501,000, \$226,000 for the three months ended March 31, 2024 and 2023, respectively.
- (2) Other noninterest-earning average assets includes the allowance for credit losses of \$16.1 million and \$15.0 \$17.0 million for the three months ended March 31, 2024 and 2023, respectively.
- (3) Net interest margin is net interest income divided by total interest-earning assets.

The following table shows the effect of the interest differential of volume and rate changes for the nine months quarters ended September 30, 2023 March 31, 2024 and 2022, 2023. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

	Nine Months Ended September 30, 2023 vs. 2022			Three Months Ended March 31, 2024 vs. 2023		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Change in:			Change in:		
	Average	Average	Net	Average	Average	Net
(Dollars in thousands)	Volume	Rate	Change	Volume	Rate	Change
Interest income:						
Loans	\$ 5,182	\$ 14,302	\$ 19,484	\$ (987)	\$ 2,089	\$ 1,102
Federal funds sold	(1,449)	6,977	5,528	235	339	574
Investment securities	(79)	1,073	994	(177)	344	167
Interest expense:						
Deposits						
Demand	(13)	31	18	(5)	10	5
Money market and savings	(494)	9,981	9,487	70	1,754	1,824
Time	5,024	4,673	9,697	22	1,223	1,245
Other borrowings	(1,744)	1,680	(64)	(165)	(24)	(189)
Net interest income	\$ 881	\$ 5,987	\$ 6,868	\$ (851)	\$ (191)	\$ (1,042)

Interest Income

Interest income increased by \$26.0 \$1.9 million for in the nine months ended September 30, 2023 first quarter of 2024 compared to the same period of 2022, 2023, primarily due to an increase in the prime rate which generated higher yields on our loan portfolio combined with PPP loans that were forgiven by the SBA being replaced with higher yielding commercial and real estate other loans, partially offset by a decrease in amortization of net fees collected on PPP loans portfolio. The prime rate at September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 was 8.50% and 6.25%, respectively. The average prime rate for the nine months ended September 30, 2023 and 2022 was 8.09% and 4.20% 8.00%, respectively. Interest earned on our loan portfolio of \$69.8 \$23.6 million for in the nine months ended September 30, 2023 first quarter of 2024 represented an increase of \$19.5 \$1.1 million, or 39% 5%, compared to \$50.3 \$22.5 million for the same period in 2022.

Additionally, the Company benefited from a more favorable mix first quarter of other earning assets. 2023. Interest earned on federal funds sold of \$6.8 \$2.3 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$1.3 \$1.8 million for the same period in the prior year. Interest earned on investment securities of \$4.2 \$1.5 million for the nine three months ended September 30, 2023 March 31, 2024 compared to \$3.2 \$1.3 million for the same period in the prior year. three months ended March 31, 2023.

Interest Expense

Interest expense increased by \$19.1 \$2.9 million for in the nine months ended September 30, 2023 first quarter of 2024 compared to the same period of 2022, 2023, primarily due to the effect of increased rates paid on interest-bearing deposits combined with a higher level of interest-bearing deposits and other borrowings. The average rate paid on interest-bearing liabilities for in the nine months ended September 30, 2023 first quarter of 2024 compared to the same period one year earlier increased 238 114 basis point to 3.15% 3.78% from 0.77% 2.64%.

Provision for Credit Losses

The provision for credit losses of \$1.1 million \$126,000 for the nine three months ended September 30, 2023 March 31, 2024 was comprised of \$925,000 \$301,000 pertaining to the ACL allowance for credit losses on loans, and \$220,000 \$(195,000) pertaining to the

ACL allowance for credit losses for unfunded loan commitments, partially offset by a release of reserves and \$20,000 pertaining to the ACL allowance for credit losses for held to maturity securities of \$29,000. securities.

The provision for credit losses on loans of \$1.1 million \$301,000 for the nine months ended September 30, 2023 first quarter of 2024 compared to a provision for loan credit losses on loans of \$2.7 million \$464,000 for the same period in the prior year. first quarter of 2023. The Company had net loan charge-offs of \$169,000 \$439,000 and \$201,000 recoveries of \$91,000 during the nine months ended September 30, 2023 first quarter of 2024, compared to loan charge-offs of \$247,000 and 2022, respectively. no recoveries during the first quarter of 2023. The allowance for credit losses on loans as a percentage of outstanding loans was 1.01% 1.05% at September 30, 2023 March 31, 2024 and 1.07% 1.03% at December 31, 2022. On January 1, 2023, the Company adopted the current expected losses (CECL) accounting standard (ASC 326). The Company's allowance for credit losses on loans was 0.95% upon adoption of the standard on January 1, 2023 December 31, 2023.

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NoninterestNon-interest Income

The following table reflects the major components of the Company's noninterestnon-interest income for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023.

(Dollars in thousands)	Nine Months Ended				Three Months Ended		Increase	
	September 30,		Increase (Decrease)		March 31,		(Decrease)	
	2023	2022	Amount	Percent	2024	2023	Amount	Percent
Service charges and other fees	\$ 2,733	\$ 3,260	\$ (527)	-16 %	\$ 1,379	\$ 863	\$ 516	60 %
Gain on sale of SBA loans	—	1,393	(1,393)	100 %				
Earnings on BOLI	528	497	31	6 %	185	173	12	7 %
Other	275	262	13	5 %	141	71	70	99 %
Total non-interest income	\$ 3,536	\$ 5,412	\$ (1,876)	-35 %	\$ 1,705	\$ 1,107	\$ 598	54 %

NoninterestNon-interest income decreased increased by \$1.9 million, \$598,000, or 35%, for 54% in the nine months ended September 30, 2023, first quarter of 2024, compared to the nine months ended first quarter of 2022 2023. The decrease increase was primarily attributable due to a gain of \$1.4 million recognized on the sale of a portion of our solar loan portfolio an increase in the prior year and a decrease of \$527,000 pertaining to service charges and other fees. fee income related to treasury management activities and prepayment penalties assessed on loans.

Net interest income and non-interest income comprised total revenue of \$19.4 million and \$19.9 million for the quarters ended March 31, 2024 and March 31, 2023, respectively (See Non-GAAP Financial Measures).

NoninterestNon-interest Expense

The following table reflects the major components of the Company's noninterestnon-interest expense for the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023.

(Dollars in thousands)	Nine Months Ended				Three Months Ended		Increase	
	September 30,		Increase (Decrease)		March 31,		(Decrease)	
	2023	2022	Amount	Percent	2024	2023	Amount	Percent
Salaries and benefits	\$ 23,945	\$ 21,654	\$ 2,291	11 %	\$ 8,852	\$ 7,876	\$ 976	12 %
Premises and equipment	3,503	3,844	(341)	-9 %	1,452	1,180	272	23 %
Merger related expenses					1,024	—	1,024	100 %

Professional fees	1,332	1,662	(330)	-20%	443	450	(7)	-2%
Data processing	1,942	1,951	(9)	0%	432	608	(176)	-29%
Other	4,575	3,841	734	19%	1,501	1,729	(228)	-13%
Total non-interest expense	\$ 35,297	\$ 32,952	\$ 2,345	7%	\$ 13,704	\$ 11,843	\$ 1,861	16%

Non-interest expense was \$35.3\$13.7 million and \$33.0\$11.8 million for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Excluding capitalized loan origination costs and the impact of merger related expenses, non-interest expense for the nine months ended September 30, 2023 first quarter of 2024 was \$37.3\$13.1 million compared to \$36.1\$12.5 million for the nine months ended September 30, 2022, first quarter of 2023, representing an increase of \$1.2 million, \$600,000, or 3%.

Salaries and benefits for the nine months ended September 30, 2023 were \$23.9 million, representing an increase of \$2.3 million, or 11%, compared to \$21.6 million for the nine months ended September 30, 2022 5% (See Non-GAAP Financial Measures). The increase in salaries non-interest expense, excluding capitalized origination costs and benefits expense merger related expenses, from the first quarter of 2024 was primarily due to an increase in salaries and benefits as well as premises and equipment related to investments to support the continued growth of the business combined with a reduction in capitalized loan origination costs, business.

For the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, the Company's efficiency ratio, the ratio of non-interest expense to revenues, was 59.31% 70.57% and 60.44% 59.62%, respectively. Excluding the impact of merger related expenses, the Company's efficiency ratio was 65.29% for the first quarter of 2024 (See Non-GAAP Financial Measures).

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Provision for Income Taxes

Income tax expense was \$6.8 million and \$5.5\$1.8 million for the nine months ended September 30, 2023 first quarter of 2024 and 2022, \$2.2 million for the same period in prior year. The effective tax rates for those time periods were 29.5% 31.7% and 28.9%, respectively. The increase in the effective tax rate from the prior year was due to the recognition of non-deductible merger related expenses.

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Financial Condition:

Overview

Total assets of the Company were \$1.98\$1.92 billion as of September 30, 2023 March 31, 2024 compared to \$2.04\$1.99 billion as of December 31, 2022 December 31, 2023. The decrease in total assets from year-end was primarily due to slower loan growth as a result of conservative new loan production and decreased liquidity related to a reduction in non-interest bearing deposits, deposits and other borrowings.

Loan Portfolio

Our loan portfolio consists almost entirely of loans to customers who have a full banking relationship with us. Gross loan balances decreased by \$20.3\$38.6 million, or 1% 2%, from December 31, 2022 December 31, 2023 to September 30, 2023 March 31, 2024 primarily due to a reduction in the commercial and industrial construction loans and land, SBA and other loan portfolios, partially offset by an increase in real estate other loans due to organic growth, related loans.

The loan portfolio at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was comprised of approximately 40% of commercial and industrial loans. In addition, commercial real estate loans comprised 55% 57% of our loans at September 30, 2023 March 31, 2024 and 53% at December 31, 2022 December 31, 2023. Our loans are generated by our relationship managers and executives. Our senior management is actively involved in the lending, underwriting, and collateral valuation processes. Higher dollar loans or loan commitments are also approved through a bank loan committee comprised of executives and outside board members.

The following table reflects the composition of the Company's loan portfolio and the percentage distribution at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

September 30,	December 31,
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	2023	2022	March 31, 2024	December 31, 2023
(Dollars in thousands)				
Commercial and industrial	\$ 633,902	\$ 634,535	\$ 610,459	\$ 626,615
Real estate - other	858,611	848,241	834,143	849,306
Real estate - construction and land	40,003	63,730	35,886	44,186
SBA	4,415	7,220	3,919	4,032
Other	36,184	39,695	36,484	35,394
Total loans, gross	1,573,115	1,593,421	1,520,891	1,559,533
Deferred loan origination costs, net	1,312	2,040	1,223	1,107
Allowance for credit losses	(15,921)	(17,005)	(15,981)	(16,028)
Total loans, net	\$ 1,558,506	\$ 1,578,456	\$ 1,506,133	\$ 1,544,612
Commercial and industrial	40 %	40 %	40 %	40 %
Real estate - other	55 %	53 %	55 %	54 %
Real estate - construction and land	3 %	4 %	2 %	3 %
SBA	0 %	1 %	1 %	1 %
Other	2 %	2 %	2 %	2 %
Total loans, gross	100 %	100 %	100 %	100 %

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The following table shows the maturity distribution for total loans outstanding as of **September 30, 2023** **March 31, 2024**. The maturity distribution is grouped by remaining scheduled principal payments that are due within one year, after one but within five years, after five years but within fifteen years, or after fifteen years. The principal balances of loans are indicated by both fixed and variable rate categories.

	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years But Less Than Fifteen Years	Over Fifteen Years	Total	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years But Less Than Fifteen Years	Over Fifteen Years
(Dollars in thousands)									
Commercial and industrial	\$ 180,569	\$ 349,172	\$ 104,161	\$ —	\$ 633,902	\$ 191,014	\$ 317,172	\$ 102,273	\$ —
Real estate - other	51,460	423,190	372,551	11,410	858,611	40,144	492,815	289,810	1,006
Real estate - construction and land	38,463	520	1,020	—	40,003	33,653	1,227	1,006	—
SBA	193	992	2,417	813	4,415	53	1,062	1,996	—
Other	592	1,764	—	33,828	36,184	2,464	1,569	—	3,351
Total loans, gross	\$ 271,277	\$ 775,638	\$ 480,149	\$ 46,051	\$ 1,573,115	\$ 267,328	\$ 813,845	\$ 395,085	\$ 4,357

(Dollars in thousands)	Loans With			Loans With		
	Fixed	Variable	Total	Fixed	Variable	Total
	Rates (1)	Rates		Rates (1)	Rates	
Commercial and industrial	\$ 172,911	\$ 460,991	\$ 633,902	\$ 150,375	\$ 460,084	\$ 610,459
Real estate - other	581,614	276,997	858,611	570,177	263,966	834,143
Real estate - construction and land	3,571	36,432	40,003	3,541	32,345	35,886
SBA	137	4,278	4,415	—	3,919	3,919
Other	35,582	602	36,184	33,972	2,512	36,484
Total loans, gross	\$ 793,815	\$ 779,300	\$ 1,573,115	\$ 758,065	\$ 762,826	\$ 1,520,891

(1) Excludes variable rate loans on floors

Nonperforming Assets

Nonperforming assets are comprised of loans on nonaccrual status, loans 90 days or more past due and still accruing interest, and other real estate owned. We had no other real estate owned at **September 30, 2023**, **March 31, 2024** and **December 31, 2023**. A loan is placed on nonaccrual status if there is concern that principal and interest may not be fully collected or if the loan has been past due for a period of 90 days or more, unless the obligation is both well secured and in process of legal collection. 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. Loans are returned to accrual status when they are brought current with respect to principal and interest payments and future payments are reasonably assured.

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The following table presents information regarding the Company's nonperforming and modified loans as of **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023**.

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(Dollars in thousands)	September 30,	December 31,	March 31,	December 31,
	2023	2022	2024	2023
Nonaccrual loans	\$ 1,236	\$ 1,250	\$ 1,212	\$ 3,781
Loans over 90 days past due and still accruing	—	—	240	—
Total nonperforming loans	1,236	1,250	1,452	3,781
Foreclosed assets	—	—	—	—
Total nonperforming assets	\$ 1,236	\$ 1,250	\$ 1,452	\$ 3,781
Modified loans	\$ 50	\$ —	\$ 14,706	\$ 9,737
Nonperforming loans / gross loans	0.08 %	0.08 %	0.10 %	0.24 %
Allowance for credit losses / nonperforming loans	1288.11 %	1360.40 %	1100.62 %	423.91 %

Allowance for Credit Losses

Effective January 1, 2023, the Company adopted the Current Expected Credit Losses (CECL) Methodology for estimating the allowance for credit losses. Our allowance for credit losses is maintained at a level management believes is adequate to account for expected credit losses in the loan portfolio as of the reporting date. We determine the allowance

based on a quarterly evaluation of risk.

Our allowance is established through charges to the provision for credit losses. Loans, or portions of loans, deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to our allowance for credit losses. The allowance is decreased by the reversal of prior provisions when the total allowance balance is deemed excessive for the risks inherent in the portfolio. The allowance for credit losses balance is neither indicative of the specific amounts of future charge-offs that may occur, nor is it an indicator of any future loss trends.

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The following tables provide information on the activity within the allowance for credit losses as of and for the periods indicated.

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(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Three months ended September 30, 2023:						
Beginning balance	\$ 10,803	\$ 2,970	\$ 737	\$ 40	\$ 1,172	\$ 15,722
Provision for credit losses	272	(66)	(351)	452	(186)	121
Charge-offs	(156)	—	—	—	—	(156)
Recoveries	196	—	—	38	—	234
Ending balance	<u>\$ 11,115</u>	<u>\$ 2,904</u>	<u>\$ 386</u>	<u>\$ 530</u>	<u>\$ 986</u>	<u>\$ 15,921</u>
Allowance for credit losses / gross loans	1.75 %	0.34 %	0.96 %	12.00 %	2.72 %	1.01 %
Net recoveries (charge-offs) / gross loans	0.01 %	0.00 %	0.00 %	0.86 %	0.00 %	0.00 %
Three months ended September 30, 2022:						
Beginning balance	\$ 9,526	\$ 5,243	\$ 907	\$ 273	\$ 8	\$ 15,957
Provision for loan losses	699	(70)	90	57	24	800
Charge-offs	—	—	—	(202)	—	(202)
Recoveries	—	—	—	—	—	—
Ending balance	<u>\$ 10,225</u>	<u>\$ 5,173</u>	<u>\$ 997</u>	<u>\$ 128</u>	<u>\$ 32</u>	<u>\$ 16,555</u>
Allowance for loan losses / gross loans	1.59 %	0.63 %	1.39 %	1.49 %	0.08 %	1.04 %
Net recoveries (charge-offs) / gross loans	0.00 %	0.00 %	0.00 %	-2.36 %	0.00 %	-0.01 %

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(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA
Nine months ended September 30, 2023										
Three months ended March 31, 2024:										
Beginning balance							\$ 10,853	\$ 3,218	\$ 492	\$ 527

Provision for credit losses							231	(120)	50	(7)
Charge-offs							—	—	—	(308)
Recoveries							91	—	—	—
Ending balance							<u>\$ 11,175</u>	<u>\$ 3,098</u>	<u>\$ 542</u>	<u>\$ 208</u>
Allowance for credit losses / gross loans							1.83 %	0.37 %	1.51 %	5.23 %
Net recoveries (charge-offs) / gross loans							0.01 %	0.00 %	0.00 %	-7.88 %
Three months ended March 31, 2023:										
Beginning balance	\$ 10,620	\$ 5,322	\$ 884	\$ 132	\$ 47	\$ 17,005	\$ 10,620	\$ 5,322	\$ 884	\$ 132
Adoption of new accounting standard	(1,566)	(1,725)	1	(91)	1,541	(1,840)	(1,566)	(1,725)	1	(91)
Provision for credit losses	2,268	(693)	(499)	451	(602)	925	1,912	(654)	(142)	—
Charge-offs	(403)	—	—	—	—	(403)	(247)	—	—	—
Recoveries	196	—	—	38	—	234	—	—	—	—
Ending balance	<u>\$ 11,115</u>	<u>\$ 2,904</u>	<u>\$ 386</u>	<u>\$ 530</u>	<u>\$ 986</u>	<u>\$ 15,921</u>	<u>\$ 10,719</u>	<u>\$ 2,943</u>	<u>\$ 743</u>	<u>\$ 42</u>
Allowance for credit losses / gross loans	1.75 %	0.34 %	0.96 %	12.00 %	2.72 %	1.01 %				
Allowance for loan losses / gross loans							1.63 %	0.34 %	1.16 %	0.75 %
Net recoveries (charge-offs) / gross loans	-0.03 %	0.00 %	0.00 %	0.86 %	0.00 %	-0.01 %	-0.04 %	0.00 %	0.00 %	0.00 %
Nine months ended September 30, 2022										
Beginning balance	\$ 8,552	\$ 4,524	\$ 681	\$ 309	\$ 15	\$ 14,081				
Provision for loan losses	1,672	649	316	21	17	2,675				
Charge-offs	—	—	—	(202)	—	(202)				
Recoveries	1	—	—	—	—	1				
Ending balance	<u>\$ 10,225</u>	<u>\$ 5,173</u>	<u>\$ 997</u>	<u>\$ 128</u>	<u>\$ 32</u>	<u>\$ 16,555</u>				
Allowance for loan losses / gross loans	1.59 %	0.63 %	1.39 %	1.49 %	0.08 %	1.04 %				

Net recoveries (charge-offs) / gross loans	0.00 %	0.00 %	0.00 %	-2.36 %	0.00 %	-0.01 %
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Investment Portfolio

Our investment portfolio is comprised of debt securities. We use two classifications for our investment portfolio: available for sale and held to maturity. Securities that we have the positive intent and ability to hold to maturity are classified as "held to maturity securities" and reported at amortized cost. Securities not classified as held to maturity securities are classified as "investment securities available for sale" and reported at fair value.

During the first quarter of 2022, the Company re-designated certain securities previously classified as available for sale to the held to maturity classification. The re-designated securities consisted of mortgage backed securities and government agencies with a total carrying value of \$49.9 million at December 31, 2022. At the time of re-designation the securities included \$281,000 of pretax unrealized losses in other comprehensive income which is being amortized over the remaining life of the securities in a manner consistent with the amortization of a premium or discount.

Our investments provide a source of liquidity as they can be pledged to support borrowed funds or can be liquidated to generate cash proceeds. The investment portfolio is also a significant resource to us in managing interest rate risk, as the maturity and interest rate characteristics of this asset class can be readily changed to match changes in the loan and deposit portfolios. The majority of our investment portfolio is comprised of mortgage backed securities, government agency securities, and corporate bonds.

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The following table reflects the amortized cost and fair market values for the total portfolio for each of the categories of investments in our securities portfolio as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

	Amortized	Gross Unrealized / Unrecognized	Gross Unrealized / Unrecognized	Estimated Fair					
					Amortized	Gross Unrealized / Unrecognized	Gross Unrealized / Unrecognized	Estimated Fair	
(Dollars in thousands)	Cost	Gains	Losses	Value	Cost	Gains	Losses	Value	
At September 30, 2023:									
At March 31, 2024:									
Mortgage backed securities	\$ 16,193	\$ 7	\$ (1,025)	\$ 15,175	\$ 12,288	\$ 22	\$ (787)	\$ 11,523	
Government agencies	29,888	—	(836)	29,052	19,941	—	(386)	19,555	
Total available for sale securities	\$ 46,081	\$ 7	\$ (1,861)	\$ 44,227	\$ 32,229	\$ 22	\$ (1,173)	\$ 31,078	
Mortgage backed securities	\$ 57,873	\$ —	\$ (8,663)	\$ 49,210	\$ 51,997	\$ 76	\$ (6,718)	\$ 45,355	
Government agencies	3,075	—	(672)	2,403	3,070	—	(507)	2,563	
Corporate bonds	44,069	—	(4,810)	39,259	40,773	—	(3,978)	36,795	
Total held to maturity securities, net	\$ 105,017	\$ —	\$ (14,145)	\$ 90,872	\$ 95,840	\$ 76	\$ (11,203)	\$ 84,713	

At December 31, 2022:									
At December 31, 2023:									
Mortgage backed securities	\$ 18,629	\$ 26	\$ (897)	\$ 17,758	\$ 15,882	\$ 25	\$ (758)	\$ 15,149	
Government agencies	29,809	—	(1,043)	28,766	29,916	—	(505)	29,411	
Corporate bonds	430	58	—	488					
Total available for sale securities	\$ 48,868	\$ 84	\$ (1,940)	\$ 47,012	\$ 45,798	\$ 25	\$ (1,263)	\$ 44,560	
Mortgage backed securities	\$ 61,363	\$ —	\$ (7,647)	\$ 53,716	\$ 56,928	\$ —	\$ (6,140)	\$ 50,788	
Government agencies	3,083	—	(627)	2,456	3,072	—	(513)	2,559	
Corporate bonds	44,420	30	(3,739)	40,711	40,841	—	(4,158)	36,683	
Total held to maturity securities	\$ 108,866	\$ 30	\$ (12,013)	\$ 96,883					
Total held to maturity securities, net					\$ 100,841	\$ —	\$ (10,811)	\$ 90,030	

The Company adopted ASC 326 on January 1, 2023 and, as a result, records an allowance for credit losses on investment securities. No allowances for credit losses have been recognized, individually or collectively, on available for sale securities in an unrealized loss position, as management does not believe any of the securities are impaired due to reasons of credit quality at September 30, 2023, March 31, 2024. As of September 30, 2023, March 31, 2024 and December 31, 2023, the Company determined that an allowance for credit losses of \$81,000, \$75,000 and \$55,000, respectively, was required for held to maturity securities. The allowance for credit losses pertained to corporate bonds and was presented as a reduction to the amortized cost of held to maturity securities outstanding.

Deposits

Our deposits are primarily generated through core customer relationships, related predominantly to business relationships. Many of our business customers maintain high levels of liquid balances in their demand deposit accounts and use the Bank's treasury management services. At September 30, 2023, approximately 95% of commercial relationships held deposits at the Bank, primarily in operating accounts, and there were no significant industry concentrations. An additional source of deposits is periodically obtained through third-party brokers. At September 30, 2023, March 31, 2024 and December 31, 2022, December 31, 2023, the Company held wholesale brokered time deposits of \$241.1, \$261.6 million and \$180.3, \$244.0 million, respectively.

The Company is also a participant in the Certificate of Deposit Account Registry Service (CDARS), IntraFi Network (ICS), and Reich & Tang Deposit Solutions (R&T) network, all of which provide reciprocal deposit placement services to fully qualify large customer deposits for FDIC insurance among other participating banks. At September 30, 2023, March 31, 2024 and December 31, 2022, December 31, 2023, the Company had \$494.5, \$456.8 million and \$46.9, \$460.0 million of reciprocal deposits, respectively. At September 30, 2023, March 31, 2024 and December 31, 2023 insured deposits represented 61% of the total deposit portfolio and uninsured deposits represented 39% of the total deposit portfolio, compared to insured deposits of 32% of the total deposit portfolio and uninsured deposits of 68% of the total deposit portfolio at December 31, 2022, portfolio.

At **September 30, 2023** **March 31, 2024**, approximately **40%** **39%** of our deposits were in noninterest-bearing demand deposits. The balance of our deposits at **September 30, 2023** **March 31, 2024** were held in interest-bearing demand, savings and money market accounts and time deposits. Approximately 41% of total deposits were held in interest-bearing demand, savings and money market deposit accounts at **September 30, 2023** **March 31, 2024**, which provide our customers with interest and liquidity. Time deposits comprised the remaining **19%** **20%** of our deposits at **September 30, 2023** **March 31, 2024**.

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The following table provides a comparative distribution of our deposits by outstanding balance as well as by percentage of total deposits at the dates indicated.

(Dollars in thousands)	Balance	% of Total	Balance	% of Total
At September 30, 2023:				
At March 31, 2024:				
Demand noninterest-bearing	\$ 686,723	40 %	\$ 633,489	39 %
Demand interest-bearing	28,533	2 %	21,911	1 %
Money market and savings	672,119	39 %	656,236	40 %
Time	319,706	19 %	327,880	20 %
Total deposits	\$ 1,707,081	100 %	\$ 1,639,516	100 %
At December 31, 2022:				
At December 31, 2023:				
Demand noninterest-bearing	\$ 811,671	45 %	\$ 657,302	40 %
Demand interest-bearing	37,815	2 %	26,715	2 %
Money market and savings	671,016	38 %	631,015	39 %
Time	271,238	15 %	310,212	19 %
Total deposits	\$ 1,791,740	100 %	\$ 1,625,244	100 %

The aggregate amount of time deposits in excess of the FDIC insurance limit was **\$34.8 million** and **\$43.6** **\$33.9** million at **September 30, 2023** **March 31, 2024** and **December 31, 2022**, respectively. **December 31, 2023**. The following table reflects the aggregate maturities of those deposits as of the respective reporting periods.

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
(Dollars in thousands)				
3 months or less	\$ 28,782	\$ 33,344	\$ 28,024	\$ 5,827
Over 3 months through 6 months	6,059	10,254	5,847	28,022
Over 6 months through 12 months	—	—	9	6
Over 12 months	—	—	—	—
Total uninsured time deposits	\$ 34,841	\$ 43,598	\$ 33,880	\$ 33,855

Liquidity

Our primary source of funding is deposits from our core banking relationships. However, the majority of the Bank's deposits are transaction accounts or money market accounts that are payable on demand. Additionally, a small number of customers represent a large portion of the Bank's deposits, as evidenced by the fact that approximately **18%** **20%** of deposits were represented by the 10 largest depositors at both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. We strive to manage our liquidity in a manner that enables us to meet expected and unexpected liquidity needs under both normal and adverse conditions. The Bank maintains significant on-balance sheet and off-balance liquidity sources, including a marketable securities portfolio, the ability to supplement core deposits with brokered time deposits combined with the stability provided by utilizing reciprocal deposit networks, (see

"Deposits", page 42), and our borrowing capacity through various secured and unsecured sources. Our borrowing capacity includes lines of credit with the FRB, FHLB, and correspondent banks that enable us to borrow funds as described in Note 4 to the consolidated financial statements included in Item 1 of this Report.

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Capital Resources

We are subject to various regulatory capital requirements administered by federal and state banking regulators. Our capital management consists of providing equity to support our current operations and future growth. Failure to meet minimum regulatory capital requirements may result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and off-balance sheet items as calculated under regulatory accounting policies. At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we were in compliance with all applicable regulatory capital requirements, including the capital conservation buffer, and the Bank's capital ratios exceeded the minimums necessary to be considered "well-capitalized" for purposes of the FDIC's prompt corrective action regulations. At September 30, 2023 March 31, 2024, the capital conservation buffer was 4.76% 5.63%.

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At September 30, 2023 March 31, 2024, the Bank had a Tier 1 risk-based capital ratio of 11.85% 12.69%, a total capital to risk-weighted assets ratio of 12.76% 13.63%, and a leverage ratio of 11.75% 12.72%. At December 31, 2022 December 31, 2023, the Bank had a Tier 1 risk-based capital ratio of 10.54% 12.04%, a total capital to risk-weighted assets ratio of 11.40% 12.96%, and a leverage ratio of 10.23% 12.14%.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this item.

Item 4. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of September 30, 2023 of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

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PART II – OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are party to legal actions that are routine and incidental to our business. Given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business, we, like all banking organizations, are subject to heightened regulatory compliance and legal risk. However, based on available information, management does not expect the ultimate disposition of any or a combination of these actions to have a material adverse effect on our business, financial condition and results of operation.

Item 1A. Risk Factors

We disclosed certain

There have been no material changes to the risks and uncertainties that we face described under the caption "Risk Factors" in Item 1A of Part I of our Annual Report on

Form10-Kfor the year ended December 31, 2022 December 31, 2023, which we filed with the SEC on March 24, 2023 March 21, 2024. The information presenter

Adverse developments affecting the banking industry have eroded customer confidence in the banking system and could have a material effect on our business.

The recent high-profile failures of several depository institutions have negatively impacted customer confidence in the safety and soundness of some regional and national banks.

If we are required to sell securities to meet liquidity needs, we could realize significant losses.

As a result of increases in interest rates over the last year, the market values of previously issued government and other debt securities have declined significantly.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

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Item 5. Other Information

None

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Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger and Reorganization, dated as of January 30, 2024, by and between Southern California Bancorp and California BanCorp (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 30, 2024)
3.1	Articles of Incorporation of California BanCorp (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form 10 filed with the Commission on March 4, 2020)
3.2	Amended and Restated Bylaws of California Bancorp BanCorp (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10 filed with the Commission on March 4, 2020)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protections Act of 2002
32.2	Certification of Principal Financial Officer Pursuant to Section 906 of the Public Company Accounting Reform and Investor Protections Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

California BanCorp

Dated: November 9, 2023 May 9, 2024

By: /s/ Steven E. Shelton

Steven E. Shelton
Chief Executive Officer
(Principal Executive Officer)

Dated: November 9, 2023 May 9, 2024

By: /s/ Thomas A. Sa

Thomas A. Sa
President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven E. Shelton, certify that:

1. I have reviewed this periodic report on Form 10-Q of California BanCorp.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2023 May 9, 2024

/s/ Steven E. Shelton

Steven E. Shelton
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Sa, certify that:

1. I have reviewed this periodic report on Form 10-Q of California BanCorp.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrants' board of directors (or persons performing the equivalent functions):
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 9, 2023 May 9, 2024

/s/ Thomas A. Sa

Thomas A. Sa

President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE
PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002

In connection with the periodic report of California BanCorp (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Steven E. Shelton, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 9, 2023 May 9, 2024

/s/ Steven E. Shelton

Steven E. Shelton
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE
PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002

In connection with the periodic report of California Bancorp (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission (the "Report"), I, Thomas A. Sa, President and Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: November 9, 2023 May 9, 2024

/s/ Thomas A. Sa

Thomas A. Sa

President and Chief Financial Officer

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