

REFINITIV

DELTA REPORT

10-Q

BCML - BAYCOM CORP

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

The following comparison report has been automatically generated

TOTAL DELTAS 1870

█ CHANGES 469

█ DELETIONS 838

█ ADDITIONS 563

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF 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

For the transition period from _____ to _____

Commission File Number: 001-38483

BAYCOM CORP

(Exact name of registrant as specified in its charter)

California

37-1849111

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

500 Ygnacio Valley Road, Suite 200, Walnut Creek, California

94596

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (925) 476-1800

None

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value per share	BCML	The NASDAQ Stock Market LLC

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 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

As of **November 8, 2023** **May 8, 2024**, there were **11,551,271** **11,248,342** shares of the registrant's common stock outstanding.

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QUARTERLY REPORT ON FORM 10-Q
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As used throughout this report, the terms "we," "our," "us," "BayCom," or the "Company" refer to BayCom Corp and its consolidated subsidiary, United Business Bank, which we sometimes refer to as the "Bank," unless the context otherwise requires.

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QUARTERLY REPORT ON FORM 10-Q
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BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
 (In thousands, except for share data)
 (unaudited)

	September 30,		December 31,			
	2023		2022		March 31,	December 31,
			(As Restated)		2024	2023
ASSETS						
Cash due from banks	\$ 30,444		\$ 26,980		\$ 20,379	\$ 17,901
Federal funds sold and interest-bearing balances in banks		271,490		149,835	327,953	289,638
Cash and cash equivalents		301,934		176,815	348,332	307,539
Time deposits in banks		1,743		2,241	996	1,245

Investment securities available-for-sale ("AFS"), at fair value, net of allowance for credit losses of \$0 at both September 30, 2023 and December 31, 2022	145,845	154,004		
Investment securities available-for-sale ("AFS"), at fair value, net of allowance for credit losses of \$0 at both March 31, 2024 and December 31, 2023			167,919	163,152
Equity securities	11,639	13,757	13,158	12,585
Federal Home Loan Bank ("FHLB") stock, at par	11,313	10,679	11,313	11,313
Federal Reserve Bank ("FRB") stock, at par	9,621	9,602	9,630	9,626
Loans held for sale	1,274	2,380	1,684	—
Loans, net of allowance for credit losses of \$19,800 at September 30, 2023 and \$18,900 at December 31, 2022	1,949,004	2,002,224		
Loans, net of allowance for credit losses of \$18,890 at March 31, 2024 and \$22,000 at December 31, 2023			1,867,840	1,905,829
Premises and equipment, net	13,466	13,278	14,355	13,734
Other real estate owned ("OREO")	—	21		
Core deposit intangible, net	4,221	5,201	3,610	3,915
Cash surrender value of bank owned life insurance ("BOLI") policies, net	22,698	22,193	23,044	22,867
Right-of-use assets ("ROU"), net	15,220	16,569	13,460	13,939
Goodwill	38,838	38,838	38,838	38,838
Interest receivable and other assets	47,570	45,532	46,530	47,378
Total assets	\$ 2,574,386	\$ 2,513,334	\$ 2,560,709	\$ 2,551,960
LIABILITIES AND SHAREHOLDERS' EQUITY				
Noninterest and interest bearing deposits	\$ 2,159,444	\$ 2,085,479	\$ 2,142,907	\$ 2,132,750
Junior subordinated deferrable interest debentures, net	8,544	8,484	8,585	8,565
Subordinated debt, net	63,839	63,711	63,609	63,881
Salary continuation plan	4,886	4,840	4,667	4,552
Lease liabilities	16,017	17,138	14,321	14,752
Interest payable and other liabilities	14,396	16,533	12,385	14,591
Total liabilities	2,267,126	2,196,185	2,246,474	2,239,091
Commitments and contingencies (Note 18)				
Commitments and contingencies (Note 17)				
Shareholders' equity				
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding at both September 30, 2023 and December 31, 2022	—	—		
Common stock, no par value; 100,000,000 shares authorized; 11,673,830 and 12,838,462 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	183,212	204,301		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding at both March 31, 2024 and December 31, 2023			—	—
Common stock, no par value; 100,000,000 shares authorized; 11,377,117 and 11,551,271 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			177,075	180,913
Additional paid in capital	287	287	287	287
Accumulated other comprehensive loss, net of tax	(17,260)	(11,561)	(14,108)	(14,592)
Retained earnings	141,021	124,122	150,981	146,261
Total shareholders' equity	\$ 307,260	\$ 317,149	\$ 314,235	\$ 312,869
Total liabilities and shareholders' equity	\$ 2,574,386	\$ 2,513,334	\$ 2,560,709	\$ 2,551,960

See Notes to Condensed Consolidated Financial Statements.

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BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (In thousands, except for share and per share data)
 (unaudited)

	Three months ended		Nine months ended		Three months ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Interest income:						
Loans, including fees	\$ 27,229	\$ 24,010	\$ 80,151	\$ 69,921	\$ 25,257	\$ 26,255
Investment securities	1,704	1,555	5,037	4,483	1,956	1,640
Fed funds sold and interest-bearing balances in banks	3,521	1,286	7,910	2,303	4,115	1,829
FHLB dividends	232	160	616	467	272	188
FRB dividends	144	126	432	387	144	144
Total interest and dividend income	32,830	27,137	94,146	77,561	31,744	30,056
Interest expense:						
Deposits	6,908	1,387	16,489	4,310	8,227	3,700
Subordinated debt	896	896	2,687	2,687	893	896
Junior subordinated deferrable interest debentures	217	129	623	319	217	203
Total interest expense	8,021	2,412	19,799	7,316	9,337	4,799
Net interest income	24,809	24,725	74,347	70,245	22,407	25,257
Provision for (reversal of) credit losses	674	1,194	(311)	3,824		
Net interest income after provision for (reversal of) credit losses	24,135	23,531	74,658	66,421		
Provision for credit losses					252	275
Net interest income after provision for credit losses					22,155	24,982
Noninterest income:						
Gain on sale of loans	28	1,278	508	2,714	—	412
Loss on equity securities	(274)	(362)	(2,087)	(3,971)		
Gain (loss) on equity securities					573	(896)
Service charges and other fees	973	817	2,740	2,165	839	885
Loan servicing and other loan fees	431	488	1,434	1,670	392	410
Income on investment in Small Business Investment Company ("SBIC" fund	225	(63)	939	155		
Bargain purchase gain	—	—	—	1,665		

(Loss) income on investment in Small Business Investment Company ("SBIC") fund						(30)	489
Other income and fees	271	224	769	796	288	261	
Total noninterest income	1,654	2,382	4,303	5,194	2,062	1,561	
Noninterest expense:							
Salaries and employee benefits	10,284	10,164	32,065	29,751	10,036	11,036	
Occupancy and equipment	2,133	2,043	6,134	6,388	2,154	2,027	
Data processing	1,774	1,562	4,855	5,502	1,753	1,465	
Other expense	2,328	2,327	6,551	7,986	2,128	2,001	
Total noninterest expense	16,519	16,096	49,605	49,627	16,071	16,529	
Income before provision for income taxes	9,270	9,817	29,356	21,988	8,146	10,014	
Provision for income taxes	2,640	2,847	8,327	5,882	2,269	2,823	
Net income	\$ 6,630	\$ 6,970	\$ 21,029	\$ 16,106	\$ 5,877	\$ 7,191	
Earnings per common share:							
Basic earnings per common share	\$ 0.56	\$ 0.52	\$ 1.72	\$ 1.22	\$ 0.51	\$ 0.57	
Weighted average common shares outstanding	11,812,583	13,307,555	12,243,506	13,179,263	11,525,752	12,699,476	
Diluted earnings per common share	\$ 0.56	\$ 0.52	\$ 1.72	\$ 1.22	\$ 0.51	\$ 0.57	
Weighted average common shares outstanding	11,812,583	13,307,555	12,243,506	13,179,263	11,525,752	12,699,476	

See Notes to Condensed Consolidated Financial Statements.

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BAYCOM CORP AND SUBSIDIARY							
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME							
	Three months ended		Nine months ended		Three months ended		
	September 30,		September 30,		March 31,		
	2023	2022	2023	2022	2024	2023	
			(As Restated)				
Net income	\$ 6,630	\$ 6,970	\$ 21,029	\$ 16,106	\$ 5,877	\$ 7,191	
Other comprehensive loss:							
Change in unrealized loss on available-for-sale securities	(1,178)	(6,835)	(8,001)	(19,200)			
Deferred tax benefit	338	1,967	2,302	5,525			
Other comprehensive loss, net of tax	(840)	(4,868)	(5,699)	(13,675)			
Change in unrealized gain (loss) on AFS securities					696	(1,821)	
Deferred tax (expense) benefit					(212)	524	
Other comprehensive income (loss), net of tax					484	(1,297)	
Total comprehensive income	\$ 5,790	\$ 2,102	\$ 15,330	\$ 2,431	\$ 6,361	\$ 5,894	

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BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (In thousands, except for share and per share data)
 (unaudited)

	Accumulated					
	Number of	Common	Additional	Other	Total	
	Shares	Stock	Paid in	Comprehensive	Retained	Shareholders' Equity
<u>Three months ended September 30, 2023</u>						
Balance, July 1, 2023	11,900,022	\$ 187,579	\$ 287	\$ (16,420)	\$ 135,568	\$ 307,014
Net income					6,630	6,630
Other comprehensive loss, net				(840)		(840)
Restricted stock granted	13,457					—
Cash dividends of \$0.10 per share					(1,177)	(1,177)
Stock based compensation		153				153
Repurchase of shares	(239,649)	(4,520)				(4,520)
Balance, September 30, 2023	11,673,830	\$ 183,212	\$ 287	\$ (17,260)	\$ 141,021	\$ 307,260
<u>Three months ended September 30, 2022</u>						
Balance, July 1, 2022	13,471,363	\$ 216,079	\$ 287	\$ (6,641)	\$ 110,830	\$ 320,555
(As Restated)					6,970	6,970
Net income						
Other comprehensive loss, net				(4,868)		(4,868)
Restricted stock granted	10,618					—
Cash dividends of \$0.05 per share					(658)	(658)
Stock based compensation		232				232
Repurchase of shares	(406,534)	(7,828)				(7,828)
Balance, September 30, 2022	13,075,447	\$ 208,483	\$ 287	\$ (11,509)	\$ 117,142	\$ 314,403
(As Restated)						
<u>Three months ended March 31, 2024</u>						
Number of	Common	Additional	Other	Total		
Shares	Stock	Paid in	Comprehensive	Retained	Shareholders' Equity	
Balance, December 31, 2023	11,551,271	\$ 180,913	\$ 287	\$ (14,592)	\$ 146,261	\$ 312,869
Net income					5,877	5,877
Other comprehensive income, net				484		484
Restricted stock granted	24,471					—

Forfeiture of restricted stock grants	(505)	—
Cash dividends of \$0.10 per share		(1,157) (1,157)
Stock based compensation	160	160
Repurchase of shares	(198,120) (3,998)	(3,998)
Balance, March 31, 2024	<u>11,377,117</u> <u>\$ 177,075</u> <u>\$ 287</u> <u>\$ (14,108)</u> <u>\$ 150,981</u> <u>\$ 314,235</u>	
<u>Three months ended March 31, 2023</u>		
Balance, December 31, 2022		
(As Restated)	<u>12,838,462</u> <u>\$ 204,301</u> <u>\$ 287</u> <u>\$ (11,561)</u> <u>\$ 124,122</u> <u>\$ 317,149</u>	
Net income		7,191 7,191
Other comprehensive loss, net		(1,297) (1,297)
Cumulative change from adoption of ASU		
2016-13, net of tax		(491) (491)
Restricted stock granted	28,392	—
Cash dividends of \$0.10 per share		(1,264) (1,264)
Stock based compensation	250	250
Repurchase of shares	(422,877) (8,066)	(8,066)
Balance, March 31, 2023		
(As Restated)	<u>12,443,977</u> <u>\$ 196,485</u> <u>\$ 287</u> <u>\$ (12,858)</u> <u>\$ 129,558</u> <u>\$ 313,472</u>	

See Notes to Condensed Consolidated Financial Statements.

BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 (In thousands, except for share and per share data)

(unaudited)

	Accumulated						Total Shareholders' Equity
	Number of Shares	Common Stock	Additional Capital	Other Comprehensive Income/(Loss)	Retained Earnings		
	Amount						
<u>Nine months ended September 30, 2023</u>							
Balance, January 1, 2023							
(As Restated)	12,838,462	\$ 204,301	\$ 287	\$ (11,561)	\$ 124,122	\$ 317,149	
Net income						21,029	21,029
Other comprehensive loss, net				(5,699)			(5,699)
Cumulative change from adoption of ASU							
2016-13, net of tax						(491)	(491)
Restricted stock granted	41,849						—
Cash dividends of \$0.30 per share						(3,639)	(3,639)
Stock based compensation		585					585
Repurchase of shares	(1,206,481)	(21,674)	287	\$ (17,260)	\$ 141,021	\$ 307,260	(21,674)
Balance, September 30, 2023	<u>11,673,830</u>	<u>\$ 183,212</u>	<u>\$ 287</u>	<u>\$ (17,260)</u>	<u>\$ 141,021</u>	<u>\$ 307,260</u>	
<u>Nine months ended September 30, 2022</u>							
Balance, January 1, 2022	10,680,386	\$ 157,098	\$ 287	\$ 2,166	\$ 103,056	\$ 262,607	
Net income						16,106	16,106
Other comprehensive loss, net				(13,675)			(13,675)
Restricted stock granted	33,091						—
Restricted stock forfeited	(1,854)						—
Issuance of common shares to acquire							
Pacific Enterprise Bancorp	3,032,579	64,140					64,140
Cash dividends of \$0.15 per share						(2,020)	(2,020)
Stock based compensation		789					789
Repurchase of shares	(668,755)	(13,544)					(13,544)
Balance, September 30, 2022	<u>13,075,447</u>	<u>\$ 208,483</u>	<u>\$ 287</u>	<u>\$ (11,509)</u>	<u>\$ 117,142</u>	<u>\$ 314,403</u>	
(As Restated)							

See Notes to Condensed Consolidated Financial Statements.

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BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In thousands)
 (unaudited)

Nine months ended September 30, 2023		Three months ended March 31, 2024	

	(As Restated)		(As Restated)	
Cash flows from operating activities:				
Net income	\$ 21,029	\$ 16,106	\$ 5,877	\$ 7,191
Adjustments to reconcile net income to net cash provided by operating activities:				
(Reversal of) provision for credit losses	(311)	3,824		
Decrease in deferred tax assets	(1,711)	(1,149)		
Provision for credit losses			252	275
Deferred tax expense			1,909	1,681
Accretion on acquired loans	(941)	(417)	(38)	(893)
Gain on sale of loans	(508)	(2,714)	—	(412)
Proceeds from sale of loans	9,585	41,833	—	8,497
Loans originated for sale	(7,202)	(35,948)	—	(6,372)
Loss on sale of OREO	21	—		
Bargain purchase gain	—	(1,665)		
Accretion on junior subordinated debentures	60	61	20	20
Gain on repayment of subordinated debt, net			34	—
Increase in cash surrender value of life insurance policies	(505)	(453)	(177)	(166)
Amortization/accretion of premiums/discounts on investment securities, net	295	452	36	113
Loss on equity securities	2,087	3,971		
(Gain) loss on equity securities			(573)	896
Depreciation and amortization	1,266	1,500	491	453
Core deposit intangible amortization	980	1,527	305	369
Stock based compensation expense	585	789	160	250
Decrease in deferred loan origination fees, net	(156)	(1,645)		
Increase (decrease) in deferred loan origination fees, net			64	(66)
Net change in interest receivable and other assets	2,345	(90)	(811)	1,317
Increase in salary continuation plan, net	46	331	115	81
Net change in interest payable and other liabilities	(4,572)	(2,557)	(2,581)	(5,046)
Net cash provided by operating activities	22,393	23,756	5,083	8,188
Cash flows from investing activities:				
Proceeds from maturities of interest bearing deposits in banks	498	1,095	249	—
Purchase of investment securities AFS	(6,416)	(25,523)	(7,132)	(1,500)
Purchase of equity securities	—	(156)		
Proceeds from maturities, repayments and calls of investment securities AFS	6,310	9,217	3,025	1,170
Proceeds from sales of investment securities AFS	—	63		
Purchase of Federal Home Loan Bank stock	(634)	—		
Purchase of Federal Reserve Bank stock	(19)	(1,003)		
Increase in loans, net	53,859	81,107		
Purchase of FRB stock			(4)	(7)
Decrease (increase) in loans, net			36,027	(20,560)
Purchase of equipment and leasehold improvements, net	(703)	(606)	(1,143)	(148)
Net cash received for acquisitions	—	18,423		
Net cash provided by investing activities	52,895	82,617		
Net cash provided by (used in) investing activities			31,022	(21,045)

BAYCOM CORP AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – (continued)
 (In thousands)
 (unaudited)

	Nine months ended	
	September 30,	
	2023	2022
	(As Restated)	
Cash flows from financing activities:		
Decrease in noninterest and interest bearing deposits in banks, net	(64,030)	(19,205)
Increase (decrease) in time deposits, net	137,995	(227,268)
Repurchase of common stock	(21,674)	(13,544)
Dividends paid on common stock	(2,460)	(1,362)
Net cash provided by (used in) financing activities	<u>49,831</u>	<u>(261,379)</u>
Increase (decrease) in cash and cash equivalents	<u>125,119</u>	<u>(155,006)</u>
Cash and cash equivalents at beginning of period	176,815	379,687
Cash and cash equivalents at end of period	<u><u>\$ 301,934</u></u>	<u><u>\$ 224,681</u></u>
 Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 18,827	\$ 8,295
Income taxes paid, net	2,885	5,898
Recognition of ROU assets	995	1,425
Recognition of lease liability	982	1,429
 Non-cash investing and financing activities:		
Change in unrealized loss on available-for-sale securities, net of tax	\$ (5,699)	\$ (13,675)
Cash dividends declared on common stock not yet paid	(1,179)	(658)
 Acquisition:		
Assets acquired, net of cash received	\$ —	\$ 440,785
Liabilities assumed	—	380,055
Common stock issued	—	64,140
	Three months ended	
	March 31,	
	2024	2023
	(As Restated)	
Cash flows from financing activities:		
Decrease in noninterest and interest bearing deposits in banks, net	(26,816)	(54,301)
Increase in time deposits, net	36,973	96,591
Repayment of subordinated debt, net	(315)	—
Repurchase of common stock	(3,998)	(8,066)
Dividends paid on common stock	(1,156)	(644)
Net cash provided by financing activities	<u>4,688</u>	<u>33,580</u>
Increase in cash and cash equivalents	<u>40,793</u>	<u>20,723</u>
Cash and cash equivalents at beginning of period	307,539	176,815
Cash and cash equivalents at end of period	<u><u>\$ 348,332</u></u>	<u><u>\$ 197,538</u></u>
 Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest expense	\$ 9,673	\$ 5,108
Income taxes paid, net	—	10
Recognition of ROU assets	575	—

Recognition of lease liability	570	—
Non-cash operating activities:		
Increase in allowance for credit losses upon adoption of ASU 2016-03	\$ —	\$ 1,545
Non-cash investing and financing activities:		
Change in unrealized gain (loss) on AFS securities, net of tax	\$ 484	\$ (1,297)
Transfer of loans to held-for-sale	1,684	—
Cash dividends declared on common stock not yet paid	(1,157)	(1,264)

See Notes to Condensed Consolidated Financial Statements.

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NOTE 1 – BASIS OF PRESENTATION

BayCom Corp (the "Company") is a bank holding company headquartered in Walnut Creek, California. United Business Bank (the "Bank"), the Company's wholly owned banking subsidiary, is a California state-chartered bank which provides a broad range of financial services primarily to local small and mid-sized businesses, service professionals and individuals. In its **18** **19** years of operation, the Bank has grown to 35 full-service banking branches, with **17** **16** locations in California, **one** in **Nevada**, two in Washington, five in New Mexico and 11 in Colorado. The condensed consolidated financial statements include the accounts of the Company and the Bank.

All intercompany transactions and balances have been eliminated in consolidation. The condensed consolidated financial statements include all adjustments of a normal and recurring nature, which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the periods presented. **Amounts presented in the consolidated financial statements and footnote tables** are rounded and presented to the nearest thousands of dollars except per share amounts. If the amounts are above \$1.0 million, they are rounded one decimal point, and if they are above \$1.0 billion, they are rounded two decimal points.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, therefore, do not include all information and footnotes normally included in annual financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto included in the Company's Annual Report on Form **10-K/A** **10-K** for the year ended **December 31, 2022** **December 31, 2023**. Results of operations for interim periods are not necessarily indicative of results for the full year. Certain prior year information has been reclassified to conform to the current year presentation. None of the reclassifications impacted consolidated net income, earnings per share or shareholders' equity.

On April 5, 2012, the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") was signed into law. The JOBS Act contains provisions that, among other things, reduce certain reporting requirements for a public company that **qualifies** **qualified** as an "emerging growth company," or EGC. The Company **qualifies** **qualified** as an EGC and **will remain** **remained** an EGC until December 31, 2023, the last day of the Company's fiscal year following the fifth anniversary of the completion of the Company's initial public **offering**, or sooner under certain **circumstances** (none of which currently apply), **offering**. As an EGC, we **may** **were** **permitted** to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements **are** **were** made applicable to private companies. We **have** **taken**, **and intend to continue to take**, **took** advantage of the benefits of this extended transition period. Accordingly, **period**; **accordingly**, our condensed consolidated financial statements **for** **periods** **prior** **to** **our** **exit** **from** **EGC** **status** may not be comparable to companies that comply with such new or revised accounting standards.

On February 1, 2022, the Company completed its acquisition of Pacific Enterprise Bancorp ("PEB") and PEB's wholly owned subsidiary bank, Pacific Enterprise Bank, headquartered in Irvine, California ("PEB Merger"). See "Note 3 – Acquisitions" for additional information on the PEB Merger.

Restatement of Previously Issued Consolidated Financial Statements

On July 18, 2023, the audit committee of the Company's board of directors concluded that the Company's previously issued unaudited interim consolidated financial statements for the period ended March 31, 2023 and the consolidated financial statements for the year ended December 31, 2022, as well as for the unaudited interim periods included in that fiscal year (collectively, "Restated Periods"), should no longer be relied upon because of errors related to the accounting for unrealized losses on preferred equity securities that resulted in material misstatements of noninterest income and accumulated other comprehensive income.

At the time of its purchase of the preferred equity securities for investment purposes, the Company inappropriately accounted for them as ~~available-for-sale~~ AFS debt securities under Accounting Standards Codification ("ASC") Topic 320 – *Investments-Debt Securities*. As such, the changes in the fair value of these securities were not recorded as part of net income but rather as a component of shareholders' equity (in accumulated other comprehensive income, net of tax). However, as a result of subsequent research and third-party consultation, the Company determined that the securities should instead have been accounted for under ASC Topic 321 – *Investments-Equity Securities*. The result of this change in classification of the preferred equity securities is that the change in the fair value of the securities each quarter should have been recorded in noninterest income on the consolidated statements of income.

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On July 25, 2023, the Company filed amendments to its Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2023, September 30, 2022, June 30, 2022, and March 31, 2022, and its Form 10-K for the year ended December 31, 2022, (the "Original Reports") with the Securities and Exchange Commission ("SEC"), to reflect the restatement of the Company's consolidated financial statements for the Restated Periods (the "Amended Form 10-Qs" and the "Amended Form 10-K," collectively, the "Amended Reports").

As disclosed in the Original Reports, the Company recorded the change, net of taxes, in the fair value of preferred equity securities as part of other comprehensive loss, net of taxes, under ASC Topic 320 – *Investments-Debt Securities* rather than as part of non-interest income under ASC Topic 321 – *Investments-Equity Securities*. In addition, various footnotes in the Amended Reports reflect the effects of these restatements.

For additional information on the effects of the restatement, see Note 2 *Restatement of Consolidated Financial Statements* in the Notes to Consolidated Financial Statements contained in the Amended Form 10-K and Note 3. *Restatement of the Consolidated Financial Statements* in the Notes to Condensed Consolidated Financial Statements contained in each of the Amended Form 10-Qs.

NOTE 2 - ACCOUNTING GUIDANCE NOT YET EFFECTIVE AND ADOPTED ACCOUNTING GUIDANCE

Accounting Guidance Adopted in 2023/2024

On ~~January 1, 2023~~ January 1, 2024, the Company adopted Accounting Standards Update ("ASU") 2016-13 2023-02, *Financial Instruments — Investments - Equity Method and Joint Ventures* (Topic 323): *Accounting for Investments in Tax Credit Losses* (ASC 326): *Measurement Structures Using the Proportional Amortization Method*, a consensus of *Credit Losses on Financial Instruments*, which replaces the *incurred loss methodology* Emerging Issues Task Force. ASU 2023-02 allows an entity the option to apply the proportional amortization method of accounting to other equity investments that *is referred* are made for the primary purpose of receiving tax credits or other income tax benefits if certain conditions are met. Prior to this ASU, the application of the proportional amortization method of accounting was limited to investments in low-income housing tax credit structures. The proportional amortization method of accounting results in the amortization of applicable investments, as well as the *current expected* related income tax credits or other income tax benefits received, being presented on a single line in the statements of income, income tax expense. Under this ASU, an entity has the option to apply the proportional amortization

method of accounting to applicable investments on a tax-credit-program-by-tax-credit program basis. In addition, the amendments in this ASU require that all tax equity investments accounted for using the proportional amortization method use the delayed equity contribution guidance in paragraph 323-740-25-3, requiring a liability to be recognized for delayed equity contributions that are unconditional and legally binding or for equity contributions that are contingent upon a future event when that contingent event becomes probable. Under this ASU, low-income housing tax credit loss ("CECL") methodology. The measurement investments for which the proportional amortization method is not applied can no longer be accounted for using the delayed equity contribution guidance. Further, this ASU specifies that impairment of expected low-income housing tax credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures investments not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases. In addition, ASU 2016-13 made changes to the accounting for available for sale debt securities. One such change requires increases or decreases in credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities, based on management's intent to sell the security or likelihood the Company will be required to sell the security, before recovery of the amortized cost basis. The Company adopted ASU 2016-13 using the modified retrospective equity method must apply the impairment guidance in Subtopic 323-10: Investments - Equity Method and Joint Ventures - Overall. This ASU also clarifies that for all financial assets measured at amortized cost and off-balance sheet low-income housing tax credit exposures. Results for the reporting periods beginning on and after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable generally accepted accounting principles in the United States ("GAAP"). The Company adopted ASU 2016-13 using the prospective transition approach for financial assets purchased with credit deterioration (PCD) that were previously classified as purchase credit impaired (PCI) and investments not accounted for under ASC 310-30. In accordance with the proportional amortization method or the equity method, an entity shall account for them under Topic 321: Investments - Equity Securities. The amendments in the ASU 2016-13, management also require additional disclosures in interim and annual periods concerning investments for which the proportional amortization method is applied, including (i) the nature of tax equity investments, and (ii) the effect of tax equity investments and related income tax credits and other income tax benefits on the financial position and results of operations. ASU 2023-02 is effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption of ASU 2023-02 did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. The remaining noncredit discount (based have a material impact on the adjusted amortized costs basis) will be accreted into interest income at the effective interest rate as of adoption. The Company recognized an increase in the allowance for credit loss on loans totaling \$1.5 million (which included a reclassification of the net credit discounts on acquired PCI loans to the allowance for credit losses of \$845,000) Company's consolidated financial statements and an increase to the allowance for credit losses on unfunded commitments of \$45,000, as a cumulative effect adjustment from change in accounting policies, with a corresponding after-tax decrease to opening retained earnings of \$491,000 related disclosures.

Fair Value Measurement (Topic 820) On January 1, 2023, - In June 2022, the Company adopted Financial Accounting Standards Board ("FASB") issued ASU 2022-02 *Financial Instruments — Credit Losses: Troubled Debt Restructurings and Vintage Disclosures*, No. 2022-03, Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The guidance in the ASU 2022-02 eliminates clarifies that a contractual restriction on the recognition measurement guidance for troubled debt restructured ("TDR") loans, and instead requires an entity to evaluate whether a modification represents a new loan or a continuation sale of an existing loan equity security is not considered part of the unit of account on the equity security and, therefore, is not considered in accordance with ASC Topic 310-20, *Receivables - Nonrefundable Fees* measuring fair value. The ASU also requires additional disclosures about the restriction. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and Other Costs. On interim periods within those fiscal years. The adoption of ASU 2022-03 did not have a prospective basis, entities are subject to new disclosure requirements covering modifications of receivables to borrowers experiencing significant impact on the Company's consolidated financial difficulty. In addition, ASU 2022-02 requires that an entity include in its vintage disclosures the current period-gross loan charge-offs by year of origination for financing receivables statements and net investment in leases within the scope of Subtopic 326-20. The Company adopted ASU 2022-02 on January 1, 2023 using a prospective transition method, and has thus far observed no material impact to deferred fees and costs and the related timing of net interest income recognition as a result of adoption. disclosures.

See "Critical Accounting Estimates" for additional information on the Company's allowance for credit losses methodology.

Recent Accounting Guidance Not Yet Effective

Business Combinations (Topic 805) - In March 2020, August 2023, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-04, **Reference Rate Reform (Topic 848)**. 2023-05, **Business Combinations—Joint Venture (JV) Formations: Recognition and Initial Measurement**. The amendments in this ASU are elective and provide optional guidance for requires newly-formed JVs to apply a limited period of time to ease the potential burden new basis of accounting to all of its contributed net assets, which results in the JV initially measuring its contributed net assets under ASC 805-20, **Business Combinations**. The new guidance would be applied prospectively and is effective for all newly-formed joint venture entities with a formation date on or recognizing after January 1, 2025, with early adoption permitted. The Company is evaluating the effects accounting and disclosure requirements of reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offer Rate ("LIBOR") or another reference rate discontinued because of reference rate reform. The amendments in this ASU may be elected through December 31, 2024 (as amended by ASU No. 2022-06 discussed below). An entity may elect the amendments in this update for an interim period with adoption methods varying based on transaction type. We have not elected to apply amendments at this time and will assess the applicability of this ASU to us as we continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations. The Company does not expect the adoption of ASU 2020-04 them to have a material impact effect on its the consolidated financial statements.

Segment Reporting – Improvements to Reportable Segment Disclosures (Topic 280) – In December 2022, November 2023, the FASB issued ASU No. 2022-06, **Reference Rate Reform (Topic 848): Deferral** 2023-07 to enhance disclosures about significant segment expenses for public entities reporting segment information under Topic 280. It requires that a public entity disclose, on an annual and interim basis, significant expense categories for each reportable segment. Significant expense categories are derived from expenses that are 1) regularly reported to an entity's chief operating decision-maker ("CODM"), and 2) included in a segment's reported measure of profit or loss. The disclosures should include an amount for "other segment items," reflecting the difference between 1) segment revenue less significant segment expenses, and 2) the reportable segment's profit or loss measures. It requires that a public entity disclose the title and position of the **Sunset Date CODM** and how the CODM uses the reported measure of **Topic 848**, profit or loss to assess segment performance and to allocate resources. Further it clarifies that entities with a single reportable segment must disclose both new and existing segment reporting requirements. The objective of amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Entities must adopt the guidance in **Topic 848** was on a retrospective basis. The Company is evaluating the accounting and disclosure requirements of this update and does not expect them to provide temporary relief during have a material effect on the transition period, as noted in the discussion of ASU 2020-04 above, under which the sunset provision was based on an expectation that the LIBOR would cease being published after December 31, 2021. In March 2021, the UK Financial Conduct Authority announced that the intended cessation date of certain tenors of USD LIBOR would be June 30, 2023, which was beyond the original sunset date of **Topic 848**. Therefore, this amendment deferred the sunset date of **Topic 848** from December 31, 2022 to December 31, 2024, consolidated financial statements.

NOTE 3/Income Taxes – ACQUISITIONS

Improvements to Income Tax Disclosures (Topic 740) –Acquisition of Pacific Enterprise Bancorp ("PEB")

On February 1, 2022, In December 2023, the Company completed its acquisition of PEB. As of FASB issued ASU 2023-09 to provide additional transparency into an entity's income tax disclosures primarily related to the acquisition date, PEB merged into the Company rate reconciliation and Pacific Enterprise Bank, PEB's wholly owned bank subsidiary, merged into the Bank. income taxes paid information. The acquisition expanded the Company's market share in California with one branch in Irvine. At the effective time of the PEB merger, the Company paid aggregate consideration to PEB shareholders of approximately \$64.1 million consisting of 3,032,579 shares of the Company's common stock and \$275,000 in cash. Noninterest income for the three months ended March 31, 2022 included \$1.6 million in bargain purchase gain, and included in noninterest expense for standard requires that period was \$3.1 million of nonrecurring acquisition-related expenses.

The following table summarizes the fair value of the assets acquired and liabilities assumed at the acquisition date:

	PEB
	Acquisition
	Date
	<u>February 1, 2022</u>
Fair value of assets:	
Cash and due from banks	\$ 5,350
Total cash and cash equivalents	<u>5,350</u>
Interest bearing deposits in banks	13,348
Investment securities available-for-sale	3
FHLB stock, at par	2,294
FRB stock, at par	942
Loans, net	412,851
Premises and equipment, net	221
Core deposit intangible	756
Deferred tax assets, net	1,192
Interest receivable and other assets	9,178
Total assets acquired	<u>446,135</u>
Liabilities:	
Deposits	
Noninterest bearing	60,006
Interest bearing	<u>316,679</u>
Total Deposits	376,685
Interest payable and other liabilities	3,370
Total liabilities assumed	<u>380,055</u>
Stock consideration	64,140
Cash consideration	275
Bargain purchase gain	<u>\$ 1,665</u>

The following table presents the net assets acquired and the estimated fair value adjustments, which resulted in bargain purchase gain at the acquisition date:

	PEB
	Acquisition
	Date
	<u>February 1, 2022</u>
Book value of net assets acquired	\$ 61,469
Fair value adjustments:	
Loans, net	5,840
Premises and equipment, net	26
Core deposit intangible	756
Time deposits	(869)
Reserve for unfunded commitments	283
Write-up right-of-use asset	439
Total purchase accounting adjustments	<u>6,475</u>
Tax effect of purchase accounting adjustments at 27.9%	<u>(1,864)</u>
Fair value of assets acquired	66,080
Value of stock issued/cash paid for stock options	<u>64,415</u>

Bargain purchase gain	\$ 1,665
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Pro Forma Results of Operations

The operating results of the Company for the three and nine months ended September 30, 2023 public business entities disclose, on an annual basis, specific categories in the condensed consolidated statements rate reconciliation and additional information for reconciling items meeting a certain quantitative threshold. The amendments also require that entities disclose on an annual basis: 1) income taxes paid (net of refunds received) disaggregated by federal (national), state, and foreign taxes and 2) the income include the operating results taxes paid (net of PEB, since its acquisition date. The following table represents the net interest refunds received) disaggregated by individual jurisdictions exceeding 5% of total income net income, basic and diluted earnings per share, as if the PEB merger was effective January 1, 2022 taxes paid (net of refunds received). The unaudited pro forma information in the following table is intended amendments are effective for informational purposes only

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and is not necessarily indicative of future operating results or operating results that would have occurred had the merger been completed at the public business entities for annual periods beginning of the respective periods. No assumptions have been applied to the pro forma results of operation regarding possible revenue enhancements, expense efficiencies or asset dispositions.

Unaudited pro forma net interest income, net income and earnings per share for the three and nine months ended September 30, 2023 and 2022 are presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (As Restated)	2023	2022 (As Restated)
Net interest income	\$ 24,809	\$ 24,725	\$ 74,347	\$ 71,097
Net income	6,630	6,970	21,029	12,869
Basic earnings per share	\$ 0.56	\$ 0.52	\$ 1.72	\$ 0.95
Diluted earnings per share	0.56	0.52	1.72	0.95

These amounts include the third-party acquisition-related expenses, accretion of the discounts on acquired loans and amortization of the fair value mark adjustments on core deposit intangible.

Acquisition expenses

Acquisition expenses are recognized as incurred and continue until all systems are converted and operational functions become fully integrated. No third-party acquisition expenses were recognized in the consolidated statements of income for the three and nine months ended September 30, 2023 after December 15, 2024. The Company recognized third-party acquisition expenses for evaluating the three accounting and nine months ended September 30, 2022, as follows: disclosure requirements of this update and does not expect them to have a material effect on the consolidated financial statements.

	2022		
	Three months ended		Nine months ended
	September 30,	September 30,	
Severance expense	\$ —	\$ 556	
Occupancy expense	—	375	
Data processing	—	1,073	
Professional fees	—	724	
Other expenses	—	347	

Total	\$ —	\$ 3,075
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NOTE 4 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair values of securities available-for-sale at the dates indicated are summarized as follows:

	Amortized cost	Gross unrealized gains		Gross unrealized losses		Estimated fair value
<u>September 30, 2023</u>						
U.S. Government Agencies	\$ 1,501	\$ —	\$ —	\$ —	\$ 1,501	
Municipal securities	20,302	2	(2,119)		18,185	
Mortgage-backed securities	33,489	11	(5,074)		28,426	
Collateralized mortgage obligations	28,782	—	(3,139)		25,643	
SBA securities	5,632	59	(98)		5,593	
Corporate bonds	80,373	10	(13,886)		66,497	
Total	\$ 170,079	\$ 82	\$ (24,316)		\$ 145,845	

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	Amortized cost	Gross unrealized gains		Gross unrealized losses		Estimated fair value
<u>December 31, 2022 (As Restated)</u>						
U.S. Government Agencies	\$ 1,505	\$ —	\$ —	\$ —	\$ 1,505	
Municipal securities	21,099	2	(1,544)		19,557	
Mortgage-backed securities	37,199	23	(4,212)		33,010	
Collateralized mortgage obligations	28,153	—	(2,729)		25,424	
SBA securities	4,381	19	(95)		4,305	
Corporate bonds	77,900	156	(7,853)		70,203	
Total	\$ 170,237	\$ 200	\$ (16,433)		\$ 154,004	

NOTE 3 – INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and estimated fair values of securities AFS at the dates indicated are summarized as follows:

	Amortized cost	Gross unrealized gains		Gross unrealized losses		Estimated fair value
<u>December 31, 2022 (As Restated)</u>						

<u>March 31, 2024</u>						
Municipal securities	\$ 23,080	\$ 98	\$ (1,326)	\$ 21,852		
Mortgage-backed securities	40,499	136	(3,745)	36,890		
Collateralized mortgage obligations	37,787	136	(2,330)	35,593		
SBA securities	4,954	40	(82)	4,912		
Corporate bonds	81,391	7	(12,726)	68,672		
Total	\$ 187,711	\$ 417	\$ (20,209)	\$ 167,919		

<u>December 31, 2023</u>	Gross		Gross			
	Amortized		unrealized			
	cost	gains	losses	Estimated		
Municipal securities	\$ 21,910	\$ 75	\$ (1,158)	\$ 20,827		
Mortgage-backed securities	41,048	194	(3,641)	37,601		
Collateralized mortgage obligations	35,019	256	(2,299)	32,976		
SBA securities	5,280	49	(77)	5,252		
Corporate bonds	80,383	7	(13,894)	66,496		
Total	\$ 183,640	\$ 581	\$ (21,069)	\$ 163,152		

Amortized cost and fair values exclude accrued interest receivable of **\$1.4** **\$1.5** million and \$1.2 million at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively, which is included in interest receivable and other assets in the condensed consolidated balance sheets.

During both the three **and nine** months ended **September 30, 2023**, **March 31, 2024** and **2023**, the Company sold no securities available-for-sale. During the three and nine months ended September 30, 2022, the Company sold no securities available-for-sale and one security available-for-sale for a minimal realized gain, respectively.

The estimated fair value and gross unrealized losses for securities available-for-sale aggregated by the length of time that individual securities have been in a continuous unrealized loss position at the dates indicated are as follows:

<u>September 30, 2023</u>	Less than 12 months		12 months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	fair value	loss	fair value	loss	fair value	loss
Municipal securities	\$ 1,441	\$ (16)	\$ 15,178	\$ (2,103)	\$ 16,619	\$ (2,119)
Mortgage-backed securities	—	—	27,653	(5,074)	27,653	(5,074)
Collateralized mortgage obligations	3,147	(28)	22,496	(3,111)	25,643	(3,139)
SBA securities	—	—	1,604	(98)	1,604	(98)
Corporate bonds	—	—	62,514	(13,886)	62,514	(13,886)
Total	\$ 4,588	\$ (44)	\$ 129,445	\$ (24,272)	\$ 134,033	\$ (24,316)

<u>December 31, 2022 (As Restated)</u>	Less than 12 months		12 months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	fair value	loss	fair value	loss	fair value	loss
Municipal securities	\$ 1,147	\$ (8)	\$ 16,843	\$ (1,536)	\$ 17,990	\$ (1,544)
Mortgage-backed securities	—	—	31,291	(4,212)	31,291	(4,212)
Collateralized mortgage obligations	2,284	(26)	23,140	(2,703)	25,424	(2,729)
SBA securities	—	—	1,416	(95)	1,416	(95)
Corporate bonds	—	—	64,797	(7,853)	64,797	(7,853)
Total	\$ 3,431	\$ (34)	\$ 137,487	\$ (16,399)	\$ 140,918	\$ (16,433)

At September 30, 2023, the Company held 324 securities available-for-sale, of which 293 were in an unrealized loss position for more than twelve months and 22 were in an unrealized loss position for less than twelve months.

The securities that were in an unrealized loss position as of September 30, 2023, were evaluated to determine whether the decline in fair value below the amortized cost basis resulted from a credit loss or other factors. In making this assessment, management considers the length of time and the extent to which fair value is less than amortized cost, the nature of the security, the underlying collateral, and the financial condition and prospects of the issuer, among other factors. This assessment also includes a determination of whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

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As of September 30, 2023, the Company expects to recover the amortized cost basis of its securities, has no present intent to sell any investment securities with unrealized losses, it is more likely than not that we will not be required to sell securities with unrealized losses before recovery of their amortized cost and the decline in fair value is largely attributed to changes in interest rates and other market conditions. The issuers of these securities continue to make timely principal and interest payments. No allowances for credit losses have been recognized on investment securities available-for-sale 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.

AFS.

The amortized cost and estimated fair value of securities **available-for-sale AFS** at the dates indicated by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2023		December 31, 2022		March 31, 2024		December 31, 2023	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
			(As Restated)	(As Restated)				
Available-for-sale								
Securities AFS								
Due in one year or less	\$ 7,127	\$ 7,094	\$ 4,994	\$ 4,960	\$ 4,880	\$ 4,839	\$ 6,397	\$ 6,338
Due after one through five years	17,483	16,111	18,892	17,925	16,285	14,560	15,909	14,206
Due after five years through ten years	100,031	83,665	95,071	85,482	102,621	89,055	102,430	87,867
Due after ten years	45,438	38,975	51,280	45,637	63,925	59,465	58,904	54,741
Total	\$ 170,079	\$ 145,845	\$ 170,237	\$ 154,004	\$ 187,711	\$ 167,919	\$ 183,640	\$ 163,152

Equity Securities – The Company recognized a net loss on equity At March 31, 2024, there were \$12.0 million securities of \$274,000 and \$2.1 million for the three and nine months ended September 30, 2023, and recognized a net loss on equity pledged, compared to no securities of \$362,000 and \$4.0 million for the three and nine months ended September 30, 2022, respectively, due to a decrease in fair value of the equity securities. Equity securities were \$11.6 million and \$13.8 million as of September 30, 2023 and December 31, 2022, respectively.

NOTE 5 – LOANS

The Company's loan portfolio pledged at the dates indicated is summarized below: December 31, 2023.

	September 30,	December 31,
	2023	2022
Commercial and industrial (1)	\$ 170,943	\$ 188,538
Construction and land	8,404	13,163
Commercial real estate	1,701,145	1,704,716
Residential	87,599	110,606
Consumer	639	4,183
Total loans	<u>1,968,730</u>	<u>2,021,206</u>
Net deferred loan costs (fees)	74	(82)
Allowance for credit losses (2)	<u>(19,800)</u>	<u>(18,900)</u>
Net loans	<u><u>\$ 1,949,004</u></u>	<u><u>\$ 2,002,224</u></u>

(1) Includes \$4.3 million and \$11.1 million of U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans as of September 30, 2023 and December 31, 2022, respectively.

(2) Allowance for credit losses at September 30, 2023 is estimated under CECL whereas at December 31, 2022, the allowance for loan losses is estimated under the incurred loss methodology.

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The estimated fair value and gross unrealized losses for securities AFS aggregated by the length of time that individual securities have been in a continuous unrealized loss position at the dates indicated are as follows:

	Less than 12 months		12 months or more		Total	
	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	fair value	loss	fair value	loss	fair value	loss
March 31, 2024						
Municipal securities	\$ 2,479	\$ (24)	\$ 15,167	\$ (1,302)	\$ 17,646	\$ (1,326)
Mortgage-backed securities	1,355	(23)	25,932	(3,722)	27,287	(3,745)
Collateralized mortgage obligations	—	—	23,863	(2,330)	23,863	(2,330)
SBA securities	—	—	1,710	(82)	1,710	(82)
Corporate bonds	—	—	67,675	(12,726)	67,675	(12,726)
Total	<u>\$ 3,834</u>	<u>\$ (47)</u>	<u>\$ 134,347</u>	<u>\$ (20,162)</u>	<u>\$ 138,181</u>	<u>\$ (20,209)</u>

Less than 12 months 12 months or more Total

	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
December 31, 2023						
Municipal securities	\$ 2,483	\$ (28)	\$ 13,975	\$ (1,130)	\$ 16,458	\$ (1,158)
Mortgage-backed securities	1,369	(30)	26,435	(3,611)	27,804	(3,641)
Collateralized mortgage obligations	1,496	(8)	20,713	(2,291)	22,209	(2,299)
SBA securities	—	—	1,610	(77)	1,610	(77)
Corporate bonds	—	—	65,505	(13,894)	65,505	(13,894)
Total	\$ 5,348	\$ (66)	\$ 128,238	\$ (21,003)	\$ 133,586	\$ (21,069)

At March 31, 2024, the Company held 321 securities AFS, of which 301 were in an unrealized loss position for more than twelve months and 17 were in an unrealized loss position for less than twelve months. At December 31, 2023, the Company held 334 investment securities, of which 297 were in an unrealized loss position for more than twelve months and 22 were in an unrealized loss position for less than twelve months. The Company anticipates full recovery of amortized cost with respect to these securities at maturity or sooner in the event of a more favorable market interest rate environment.

Allowance for credit losses on investment debt securities available-for-sale

Securities that were in an unrealized loss position as of March 31, 2024 were evaluated to determine whether the decline in fair value below the amortized cost basis resulted from a credit loss or changes in required yields by investors in these types of securities, among other factors. This assessment first includes a determination of whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. In making this assessment, management considers the nature of the security and any related government guarantees, any changes to the rating of the security by a rating agency, creditworthiness of the issuers/guarantors, the underlying collateral, the financial conditions and prospects of the issuer, and any adverse conditions specifically related to the security, among other factors.

As of March 31, 2024, the Company expects to recover the amortized cost basis of its securities, has no present intent to sell any investment securities with unrealized losses and it is not more likely than not that we will not be required to sell securities with unrealized losses before recovery of their amortized cost and the decline in fair value is largely attributed to changes in interest rates and other market conditions. The issuers of these securities continue to make timely principal and interest payments. No allowances for credit losses have been recognized on investment debt securities AFS in an unrealized loss position, as management does not believe any of the securities are impaired due to reasons of credit quality at March 31, 2024.

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Equity Securities

The Company recognized a net gain on equity securities of \$573,000 and a net loss on equity securities of \$896,000 for the three months ended March 31, 2024 and 2023, respectively. Equity securities were \$13.2 million and \$12.6 million as of March 31, 2024 and December 31, 2023, respectively.

NOTE 4 – LOANS

The Company's loan portfolio at the dates indicated is summarized below:

	March 31,		December 31,	
	2024	2023	2024	2023
Commercial and industrial (1)	\$ 160,594	\$ 162,889		
Construction and land	9,616	9,559		
Commercial real estate	1,632,090	1,668,585		
Residential	83,868	86,002		
Consumer	570	738		
Total loans	1,886,738	1,927,773		
Net deferred loan (fees) costs	(8)	56		
Allowance for credit losses	(18,890)	(22,000)		
Net loans	<u>\$ 1,867,840</u>	<u>\$ 1,905,829</u>		

(1) Includes \$2.9 million and \$3.8 million of U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP") loans as of March 31, 2024 and December 31, 2023, respectively.

Net loans exclude accrued interest receivable of \$6.3 million and \$6.2 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively, which is included in interest receivable and other assets in the condensed consolidated balance sheets.

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The Company's total individually evaluated loans, including nonaccrual loans, modified loans to borrowers experiencing financial difficulty, and accreting purchase credit deteriorated ("PCD") loans that have experienced post-acquisition declines in cash flows expected to be collected are summarized as follows:

	Commercial and industrial	Construction and land	Commercial real estate	Residential	Consumer	Total	Commercial and industrial	Construction and land	Commercial real estate	Residential	Consumer	Total
<u>September 30, 2023</u>												
<u>March 31, 2024</u>												
Recorded investment in loans individually evaluated:												
With no specific allowance recorded	\$ —	\$ 366	\$ 7,802	\$ 1,401	\$ —	\$ 9,569	\$ 103	\$ 366	\$ 13,208	\$ 1,324	\$ —	\$ 15,001

With a specific allowance recorded	1,944	—	2,655	153	—	4,752	1,564	—	5,400	139	—	7,103
Total recorded investment in loans individually evaluated	\$ 1,944	\$ 366	\$ 10,457	\$ 1,554	\$ —	\$ 14,321	\$ 1,667	\$ 366	\$ 18,608	\$ 1,463	\$ —	\$ 22,104
Specific allowance on loans individually evaluated	\$ 1,572	\$ —	\$ 309	\$ 2	\$ —	\$ 1,883	\$ 1,290	\$ —	\$ 58	\$ 2	\$ —	\$ 1,350
<u>December 31, 2022</u>												
<u>December 31, 2023</u>												
Recorded investment in loans individually evaluated:												
With no specific allowance recorded	\$ 89	\$ —	\$ 11,706	\$ 1,991	\$ —	\$ 13,786	\$ 273	\$ 366	\$ 1,298	\$ 1,349	\$ —	\$ 3,286
With a specific allowance recorded	789	—	259	214	—	1,262	1,799	—	7,745	147	—	9,691
Total recorded investment in loans individually evaluated	\$ 878	\$ —	\$ 11,965	\$ 2,205	\$ —	\$ 15,048	\$ 2,072	\$ 366	\$ 9,043	\$ 1,496	\$ —	\$ 12,977
Specific allowance on loans individually evaluated	\$ 687	\$ —	\$ 259	\$ 222	\$ —	\$ 1,168	\$ 1,423	\$ —	\$ 3,008	\$ 2	\$ —	\$ 4,433

From time to time, the Company may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers who may be experiencing financial difficulties. Prior to 2023, a modified loan was classified as a troubled debt restructuring (TDR) if the borrower was experiencing financial difficulties and a concession was made at the time of the modification. TDR restructuring, these loans were generally placed on nonaccrual status at the time of restructuring, nonaccrual. These loans were may be returned to accrual status after the borrower demonstrated performance with the modified terms for a sustained period of time (generally six months) months and the capacity to continue to perform in accordance with the modified terms of the restructured debt.

Effective January 1, 2023, the Company adopted ASU No. 2022-02, which eliminated the accounting guidance for TDR loans while enhancing disclosure requirements for certain loan modifications by creditors when a borrower is experiencing financial difficulty. The Company adopted ASU No. 2022-02 using the prospective transition method. At the date of adoption, the Company was no longer required to utilize a loan-level discounted cash flow approach for determining the allowance for certain modified loans previously classified as TDR loans. The ACL on a modified loan to a borrower experiencing financial difficulty is measured using the same method as individually evaluated loans. There was no material impact upon adopting this standard as the Company elected to not change how it measured credit losses on TDRs.

During the three and nine months ended September 30, 2023, March 31, 2024 and 2023, there were no modifications of loans to borrowers experiencing financial difficulty. During the three and nine months ended September 30, 2022, there were no loans and four total modifications of loans to borrowers experiencing financial difficulty, consisting of two commercial real estate loans, one residential real estate loan, and one commercial and industrial loan, respectively. The type of modification for the two commercial real estate loans and the one residential real estate loan was a term extension, with no change to the pre-modification and post modification amortized cost balance, which for these three loans totaled \$4.1 million. The type of modification for the commercial and industrial loan was a suspension of interest payments with principal payments designated payments-in-kind, with no change to the pre-modification and post modification amortized cost balance of \$4.9

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The Company closely monitors the performance of modified loans to borrowers experiencing financial difficulty to understand the effectiveness of modification efforts. There were no commitments to lend additional amounts for modified loans to borrowers experiencing financial difficulty at September 30, 2023.

A summary of modified loans to borrowers experiencing financial difficulty by type of concession and type of loan, as of the dates indicated, is set forth below (number of loans not in thousands):

	Number of loans	Rate modification	Term modification	Rate & term modification	% of Total loans outstanding		Number of loans	Rate modification	Term modification	Rate & term modification	% of Total loans outstanding	
September 30, 2023												
March 31, 2024												
Commercial and industrial	3	\$ —	\$ 142	\$ —	\$ 142	0.08 %	2	\$ —	\$ 117	\$ —	\$ 117	0.07 %
Construction and land	—	—	—	—	—	—	—	—	—	—	—	— %
Commercial real estate	5	—	4,241	—	4,241	0.25	4	—	2,143	—	2,143	0.13 %
Residential	1	—	803	—	803	0.92	1	—	767	—	767	0.91 %
Consumer	—	—	—	—	—	—	—	—	—	—	—	— %
Total	9	\$ —	\$ 5,186	\$ —	\$ 5,186	0.26 %	7	\$ —	\$ 3,027	\$ —	\$ 3,027	0.16 %
September 30, 2022												
March 31, 2023												
Commercial and industrial	3	\$ —	\$ 1,699	\$ —	\$ 1,699	0.77 %	3	\$ —	\$ 154	\$ —	\$ 154	0.08 %
Construction and land	—	—	—	—	—	—	—	—	—	—	—	— %
Commercial real estate	6	—	5,345	—	5,345	0.32	6	—	5,112	—	5,112	0.29 %
Residential	2	—	974	—	974	1.10	1	—	829	—	829	0.86 %
Consumer	—	—	—	—	—	—	—	—	—	—	—	— %
Total	11	\$ —	\$ 8,018	\$ —	\$ 8,018	0.40 %	10	\$ —	\$ 6,095	\$ —	\$ 6,095	0.30 %

For the three and nine months ended September 30, 2023, March 31, 2024 and 2023, the Company recorded \$1.3 million of charge-offs and no charge-offs for modified loans to borrowers experiencing financial difficulty. During the three and nine months ended September 30, 2022, the Company recorded a \$2.4 million charge-off related to one modified loan to a borrower experiencing financial difficulty and no charge-offs related to modified loans to borrowers experiencing financial difficulty, respectively. During the three and nine months ended September 30, 2023 and 2022, there were no modified loans to borrowers experiencing financial difficulty for which there was a payment default within the first 12 months of the modification.

As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, individually evaluated modified loans to borrowers experiencing financial difficulty had a related allowance of \$342,000 \$42,000 and \$393,000, \$1.3 million, respectively. As of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, none and \$759,000 of modified loans to borrowers

experiencing financial difficulty were performing in accordance with their modified terms, respectively. Accruing modified loans to borrowers experiencing financial difficulty are included in the loans individually evaluated as part of the calculation of the allowance for credit losses for loans.

Risk Rating System

The Company evaluates and assigns a risk grade to each loan based on certain criteria to assess the credit quality of the loan. The assignment of a risk rating is done for each individual loan. Loans are graded from inception and on a continuing basis until the debt is repaid. Any adverse or beneficial trends will trigger a review of the loan risk rating. Each loan is assigned a risk grade based on its characteristics. Loans with low to average credit risk are assigned a lower risk grade than those with higher credit risk as determined by the individual loan characteristics.

The Company's Pass loans include loans with acceptable business or individual credit risk where the borrower's operations, cash flow or financial condition provides evidence of low to average levels of risk.

Loans that are assigned higher risk grades are loans that exhibit the following characteristics:

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Special Mention loans have potential weaknesses that deserve close attention. If left uncorrected, these potential weaknesses may result in a deterioration of the repayment prospects for the loan or in the Company's credit position at some future date. Special Mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. A Special Mention rating is a temporary rating, pending the occurrence of an event that would cause the risk rating either to improve or to be downgraded.

Loans in this category would be characterized by any of the following situations:

- Credit that is currently protected but is potentially a weak asset;

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- Credit that is difficult to manage because of an inadequate loan agreement, the condition of and/or control over collateral, failure to obtain proper documentation, or any other deviation from product lending practices; and
- Adverse financial trends.

Substandard loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged. Loans classified substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Substandard loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. The potential loss does not have to be recognizable in an individual credit for that credit to be risk rated Substandard. A loan can be fully and adequately secured and still be considered Substandard.

Some characteristics of Substandard loans are:

- Inability to service debt from ordinary and recurring cash flow;
- Chronic delinquency;
- Reliance upon alternative sources of repayment;
- Term loans that are granted on liberal terms because the borrower cannot service normal payments for that type of debt;

- Repayment dependent upon the liquidation of collateral;
- Inability to perform as agreed, but adequately protected by collateral;
- Necessity to renegotiate payments to a non-standard level to ensure performance; and
- The borrower is bankrupt, or for any other reason, future repayment is dependent on court action.

Doubtful loans have all the weaknesses inherent in loans classified as Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and value, highly questionable and improbable. Doubtful loans have a high probability of loss, yet certain important and reasonably specific pending factors may work toward the strengthening of the credit.

Losses are recognized as charges to the allowance when the loan or portion of the loan is considered uncollectible or at the time of foreclosure. Recoveries on loans previously charged off are credited to the allowance for credit losses.

Revolving loans that are converted to term loans are treated as new originations in the tables below and are presented by year of initial origination. During the three months ended March 31, 2024, and the year ended December 31, 2023, \$129,000 and \$7.1 million of revolving loans were converted to term loans, respectively.

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The following tables present the internally assigned risk grade by class of loans at the dates indicated:

	Revolving								Term loans - amortized cost by origination year					
	Term loans - amortized cost by origination year						Prior	amortized cost	Total	2024	2023	2022	2021	2020
	2023	2022	2021	2020	2019	Prior								
<u>September</u>														
<u>30, 2023</u>														
<u>March 31,</u>														
<u>2024</u>														
Commercial and industrial:														
Pass	\$ 23,283	\$ 27,432	\$ 21,522	\$ 24,532	\$ 27,434	\$ 18,876	\$ 18,144	\$ 161,223	\$ 5,556	\$ 24,834	\$ 24,099	\$ 16,934	\$ 19,792	\$ 41,905
Special mention	—	—	—	1,375	977	3,302	1,701	7,355	—	—	—	—	1,269	2,680
Substandard	—	—	—	192	237	910	1,026	2,365	—	—	—	—	156	903
Total commercial and industrial	\$ 23,283	\$ 27,432	\$ 21,522	\$ 26,099	\$ 28,648	\$ 23,088	\$ 20,871	\$ 170,943	\$ 5,556	\$ 24,834	\$ 24,099	\$ 16,934	\$ 21,217	\$ 45,488
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 27	\$ 282	\$ —	\$ 309	\$ —	\$ —	\$ —	\$ 45	\$ 133
Construction and land:														
Pass	\$ 448	\$ 5,487	\$ —	\$ 1,193	\$ 144	\$ 710	\$ —	\$ 7,982	\$ —	\$ 1,338	\$ 6,040	\$ —	\$ 1,159	\$ 713
Special mention	—	—	—	—	—	56	—	56	—	—	—	—	—	—
Substandard	—	—	—	366	—	—	—	366	—	—	—	—	—	366
Total construction and land	\$ 448	\$ 5,487	\$ —	\$ 1,559	\$ 144	\$ 766	\$ —	\$ 8,404	\$ —	\$ 1,338	\$ 6,040	\$ —	\$ 1,525	\$ 713

YTD gross charge-offs																	
Commercial real estate:																	
Pass	\$74,308	\$409,040	\$378,185	\$150,881	\$183,877	\$400,607	\$8,085	\$1,604,983	\$10,704	\$82,139	\$381,844	\$358,419	\$135,808	\$525,343			
Special mention	—	3,448	4,667	8,582	15,437	38,990	—	71,124	—	—	7,099	13,773	19,163	51,708			
Substandard	—	—	89	—	11,583	13,366	—	25,038	—	—	3,328	2,431	—	31,046			
Total commercial real estate	\$74,308	\$412,488	\$382,941	\$159,463	\$210,897	\$452,963	\$8,085	\$1,701,145	\$10,704	\$82,139	\$392,271	\$374,623	\$154,971	\$608,097			
YTD gross charge-offs																	
Residential:																	
Pass	\$ — \$	— \$	2,449	\$ 4,370	\$ 8,553	\$ 38,243	\$ 32,406	\$ 86,021	\$ 702	\$ — \$	— \$	— \$	2,410	\$ 4,268	\$ 42,287		
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	430		
Substandard	—	—	—	—	—	—	1,578	—	1,578	—	—	—	—	—	1,522		
Total residential	\$ — \$	— \$	2,449	\$ 4,370	\$ 8,553	\$ 39,821	\$ 32,406	\$ 87,599	\$ 702	\$ — \$	— \$	— \$	2,410	\$ 4,268	\$ 44,239		
YTD gross charge-offs	\$ — \$	— \$	— \$	— \$	— \$	— \$	172	\$	3 \$	175	\$ — \$	— \$	— \$	— \$	— \$	— \$	—
Consumer:																	
Pass	\$ 164	\$ 77	\$ —	\$ 8	\$ 21	\$ 78	\$ 271	\$ 619	\$ —	\$ 31	\$ 57	\$ —	\$ 2	\$ 78			
Special mention	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	20	—	—	20	—	—	—	—	—	—	18		
Total consumer	\$ 164	\$ 77	\$ —	\$ 8	\$ 41	\$ 78	\$ 271	\$ 639	\$ —	\$ 31	\$ 57	\$ —	\$ 2	\$ 96			
YTD gross charge-offs	\$ — \$	— \$	— \$	— \$	— \$	— \$	— \$	— \$	3 \$	3	\$ — \$	— \$	— \$	— \$	— \$	— \$	—
Total loans outstanding																	
Risk ratings																	
Pass	\$98,203	\$442,036	\$402,156	\$180,984	\$220,029	\$458,514	\$58,906	\$1,860,828	\$16,962	\$108,342	\$412,040	\$377,763	\$161,029	\$610,326			
Special mention	—	3,448	4,667	9,957	16,414	42,348	1,701	78,535	—	—	7,099	13,773	20,432	54,818			
Substandard	—	—	89	558	11,840	15,854	1,026	29,367	—	—	3,328	2,431	522	33,489			
Doubtful	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total loans outstanding	\$98,203	\$445,484	\$406,912	\$191,499	\$248,283	\$516,716	\$61,633	\$1,968,730	\$16,962	\$108,342	\$422,467	\$393,967	\$181,983	\$698,633			
YTD gross charge-offs	\$ — \$	— \$	— \$	— \$	— \$	27	\$ 454	\$ 6 \$	487	\$ — \$	— \$	— \$	— \$	— \$	45	\$ 1,405	

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	Term loans - amortized cost by origination year							Revolving loans		
	2022	2021	2020	2019	2018	Prior	amortized cost	Total		
<u>December 31, 2022</u>										
Commercial and industrial:										
Pass	\$ 31,599	\$ 34,584	\$ 35,173	\$ 30,632	\$ 4,731	\$ 25,147	\$ 19,962	\$ 181,828		
Special mention	—	—	—	863	1,149	1,866	1,467	5,345		
Substandard	—	—	40	166	388	762	9	1,365		
Total commercial and industrial	\$ 31,599	\$ 34,584	\$ 35,213	\$ 31,661	\$ 6,268	\$ 27,775	\$ 21,438	\$ 188,538		
Construction and land:										
Pass	\$ 1,381	\$ 533	\$ 1,586	\$ 557	\$ 4,363	\$ 4,681	—	\$ 13,101		
Special mention	—	—	—	—	62	—	—	62		
Substandard	—	—	—	—	—	—	—	—		
Total construction and land	\$ 1,381	\$ 533	\$ 1,586	\$ 557	\$ 4,425	\$ 4,681	—	\$ 13,163		
Commercial real estate:										
Pass	\$ 409,014	\$ 392,449	\$ 159,744	\$ 201,561	\$ 110,143	\$ 355,795	\$ 992	\$ 1,629,698		
Special mention	—	—	3,591	17,210	7,919	29,561	—	58,281		
Substandard	—	—	—	5,184	241	11,312	—	16,737		
Total commercial real estate	\$ 409,014	\$ 392,449	\$ 163,335	\$ 223,955	\$ 118,303	\$ 396,668	\$ 992	\$ 1,704,716		
Residential:										
Pass	\$ 423	\$ 4,536	\$ 6,343	\$ 10,229	\$ 14,537	\$ 37,170	\$ 34,889	\$ 108,127		
Special mention	—	—	—	244	—	—	3	247		
Substandard	—	—	203	—	1,184	845	—	2,232		
Total residential	\$ 423	\$ 4,536	\$ 6,546	\$ 10,473	\$ 15,721	\$ 38,015	\$ 34,892	\$ 110,606		
Consumer:										
Pass	\$ 539	\$ 10	\$ 1,691	\$ 61	\$ 40	\$ 131	\$ 1,690	\$ 4,162		
Special mention	—	—	—	—	—	—	—	—		
Substandard	—	—	—	21	—	—	—	21		
Total consumer	\$ 539	\$ 10	\$ 1,691	\$ 82	\$ 40	\$ 131	\$ 1,690	\$ 4,183		
Total loans outstanding										
Risk ratings										
Pass	\$ 442,956	\$ 432,112	\$ 204,536	\$ 243,040	\$ 133,816	\$ 422,924	\$ 57,532	\$ 1,936,916		
Special mention	—	—	3,590	18,317	9,130	31,428	1,470	63,935		
Substandard	—	—	243	5,371	1,814	12,918	9	20,355		
Doubtful	—	—	—	—	—	—	—	—		
Total loans outstanding	\$ 442,956	\$ 432,112	\$ 208,369	\$ 266,728	\$ 144,760	\$ 467,270	\$ 59,011	\$ 2,021,206		

The following tables provide an aging of the Company's loans receivable as of the dates indicated.

	90 Days							Recorded investment >		
	30-59 Days		60-89 Days		or more		Total	PCD loans	Total loans receivable	90 days and accruing
	past due	past due	past due	past due	past due	Current				
<u>September 30, 2023</u>										
Commercial and industrial	\$ 685	\$ 1,036	\$ 788	\$ 2,509	\$ 168,229	\$ 205	\$ 170,943	\$ —		
Construction and land	72	—	366	438	7,966	—	8,404	—		
Commercial real estate	3,057	—	8,013	11,070	1,664,009	26,066	1,701,145	—		
Residential	15	—	298	313	86,790	496	87,599	—		
Consumer	—	—	—	—	639	—	639	—		
Total	\$ 3,829	\$ 1,036	\$ 9,465	\$ 14,330	\$ 1,927,633	\$ 26,767	\$ 1,968,730	\$ —		

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	90 Days										Recorded investment >	
	30–59 Days		60–89 Days		or more		Total		Total loans receivable		90 days and accruing	
	past due	past due	past due	past due	past due	Current	PCD loans	receivable	90 days and	accruing		
<u>December 31, 2022</u>												
Commercial and industrial	\$ 471	\$ 81	\$ 858	\$ 1,410	\$ 183,111	\$ 4,017	\$ 188,538	\$ —				
Construction and land	—	—	—	—	9,109	4,054	13,163	—				
Commercial real estate	1,064	2,213	7,075	10,352	1,674,327	20,037	1,704,716	934				
Residential	101	3	847	951	108,976	679	110,606	—				
Consumer	—	—	—	—	4,183	—	4,183	—				
Total	\$ 1,636	\$ 2,297	\$ 8,780	\$ 12,713	\$ 1,979,706	\$ 28,787	\$ 2,021,206	\$ 934				

Nonaccrual loans totaled \$14.3 million at both September 30, 2023 and December 31, 2022. Nonaccrual loans guaranteed by a government agency, which reduces the Company's credit exposure, were \$801,000 at September 30, 2023 compared to \$839,000 at December 31, 2022. At September 30, 2023, nonaccrual loans included \$2.3 million of loans 30-89 days past due and \$2.6 million of loans less than 30 days past due. At December 31, 2022, nonaccrual loans included \$2.5 million of loans 30-89 days past due and \$4.0 million of loans less than 30 days past due. At September 30, 2023, nonaccrual loans 30-89 days past due of \$2.3 million was comprised of six loans and the \$2.6 million of loans less than 30 days past due was comprised of 15 loans. All these loans were placed on nonaccrual due to concerns over the financial condition of the borrowers. There were no loans that were 90 days or more past due and still accruing at September 30, 2023 compared to one such loan at December 31, 2022, which had a balance of \$934,000 as of that date. Interest foregone on nonaccrual loans was approximately \$173,000 and \$593,000 for the three and nine months ended September 30, 2023 compared to \$230,000 and \$388,000 for the three and nine months ended September 30, 2022.

Purchased Credit Deteriorated Loans

In connection with the Company's acquisitions, the contractual amount and timing of undiscounted principal and interest payments and the estimated amount and timing of undiscounted expected principal and interest payments were used to estimate the fair value of PCD loans at the acquisition date. The difference between these two amounts represented the nonaccrable difference. On the acquisition date, the amount by which the undiscounted expected cash flows exceed the estimated fair value of the acquired loans is the "accrable yield". The accrable yield is then measured at each financial reporting date and represented the difference between the remaining undiscounted expected cash flows and the current carrying value of the loans. For PCD loans the accrable yield is accrued into interest income over the life of the estimated remaining cash flows. At each financial reporting date, the carrying value of each PCD loan is compared to an updated estimate of expected principal payment or recovery on each loan. To the extent that the loan carrying amount exceeds the updated expected principal payment or recovery, a provision for credit loss would be recorded as a charge to income and an allowance for credit losses for loans established.

	Term loans - amortized cost by origination year						Revolving loans		
	2023	2022	2021	2020	2019	Prior	amortized cost	Total	
<u>December 31, 2023</u>									
Commercial and industrial:									
Pass	\$ 26,055	\$ 25,039	\$ 19,294	\$ 22,831	\$ 26,008	\$ 17,357	\$ 17,754	\$ 154,338	
Special mention	—	—	—	1,323	932	1,926	1,831	6,012	
Substandard	—	—	—	156	320	1,039	1,024	2,539	
Total commercial and industrial	\$ 26,055	\$ 25,039	\$ 19,294	\$ 24,310	\$ 27,260	\$ 20,322	\$ 20,609	\$ 162,889	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 27	\$ 436	\$ —	\$ 463	

Construction and land:									
Pass	\$ 1,217	\$ 6,040	\$ —	\$ 1,177	\$ 109	\$ 650	\$ —	\$ 9,193	
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	366	—	—	—	366	
Total construction and land	\$ 1,217	\$ 6,040	\$ —	\$ 1,543	\$ 109	\$ 650	\$ —	\$ 9,559	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Commercial real estate:									
Pass	\$ 80,576	\$ 397,319	\$ 377,165	\$ 140,265	\$ 180,859	\$ 370,887	\$ 9,405	\$ 1,556,476	
Special mention	—	10,348	1,894	17,001	15,101	41,482	—	85,826	
Substandard	—	158	946	—	11,579	13,600	—	26,283	
Total commercial real estate	\$ 80,576	\$ 407,825	\$ 380,005	\$ 157,266	\$ 207,539	\$ 425,969	\$ 9,405	\$ 1,668,585	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Residential:									
Pass	\$ —	\$ —	\$ 2,432	\$ 4,319	\$ 7,986	\$ 36,814	\$ 32,420	\$ 83,971	
Special mention	—	—	—	—	437	—	—	437	
Substandard	—	—	—	—	—	1,594	—	1,594	
Total residential	\$ —	\$ —	\$ 2,432	\$ 4,319	\$ 8,423	\$ 38,408	\$ 32,420	\$ 86,002	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	172	\$ 3	\$ 175	
Consumer:									
Pass	\$ 65	\$ 67	\$ —	\$ 6	\$ 18	\$ 69	\$ 494	\$ 719	
Special mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	19	—	—	19	
Total consumer	\$ 65	\$ 67	\$ —	\$ 6	\$ 37	\$ 69	\$ 494	\$ 738	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ 5	
Total loans outstanding									
Risk ratings									
Pass	\$ 107,913	\$ 428,465	\$ 398,891	\$ 168,598	\$ 214,980	\$ 425,777	\$ 60,073	\$ 1,804,697	
Special mention	—	10,348	1,894	18,324	16,470	43,408	1,831	92,275	
Substandard	—	158	946	522	11,918	16,233	1,024	30,801	
Doubtful	—	—	—	—	—	—	—	—	
Total loans outstanding	\$ 107,913	\$ 438,971	\$ 401,731	\$ 187,444	\$ 243,368	\$ 485,418	\$ 62,928	\$ 1,927,773	
YTD gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ 27	\$ 608	\$ 8	\$ 643	

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NOTE 6 – ALLOWANCE FOR CREDIT LOSSES FOR LOANS

The following tables summarize the Company's allowance for credit losses for loans, reserve for unfunded commitments, and loan balances individually and collectively evaluated by type of loan as of or for the three and nine months ended September 30, 2023 and 2022:

	Commercial and industrial	Construction and land	Commercial real estate	Residential	Consumer	Total	Reserve for unfunded commitments
<u>Three months ended September 30, 2023</u>							
Allowance for credit losses							
Beginning balance	\$ 3,647	\$ 317	\$ 14,167	\$ 959	\$ 10	\$ 19,100	\$ 300

Charge-offs	(27)	—	—	—	—	—	(27)	—
Recoveries	—	—	—	1	2	3	—	—
Provision for (reversal of) credit losses	883	(60)	(131)	36	(4)	724	(50)	
Ending balance	<u>\$ 4,503</u>	<u>\$ 257</u>	<u>\$ 14,036</u>	<u>\$ 996</u>	<u>\$ 8</u>	<u>\$ 19,800</u>	<u>\$ 250</u>	
<u>Nine months ended September 30, 2023</u>								
Allowance for loan losses:								
Beginning balance	\$ 2,885	\$ 68	\$ 14,185	\$ 1,742	\$ 20	\$ 18,900	\$ 315	
Impact of CECL adoption	1,366	402	2	(302)	32	1,500	45	
Charge-offs	(309)	—	—	(175)	(3)	(487)	—	
Recoveries	80	—	2	1	5	88	—	
Provision for (reversal) of credit losses	481	(213)	(153)	(270)	(46)	(201)	(110)	
Ending balance	<u>\$ 4,503</u>	<u>\$ 257</u>	<u>\$ 14,036</u>	<u>\$ 996</u>	<u>\$ 8</u>	<u>\$ 19,800</u>	<u>\$ 250</u>	
<u>September 30, 2023</u>								
Allowance for credit losses:								
Loans individually evaluated	\$ 1,572	\$ —	\$ 309	\$ 2	\$ —	\$ 1,883		
Loans collectively evaluated	2,931	257	13,198	986	8	17,380		
PCD loans	—	—	529	8	—	537		
Loans receivable:								
Individually evaluated	\$ 1,943	\$ 366	\$ 10,448	\$ 1,564	\$ —	\$ 14,321		
Collectively evaluated	168,795	8,038	1,664,631	85,539	639	1,927,642		
PCD loans	205	—	26,066	496	—	26,767		
Total loans	<u>\$ 170,943</u>	<u>\$ 8,404</u>	<u>\$ 1,701,145</u>	<u>\$ 87,599</u>	<u>\$ 639</u>	<u>\$ 1,968,730</u>		

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	Commercial and industrial	Construction and land	Commercial real estate	Residential	Consumer	Total
<u>Three months ended September 30, 2022</u>						
Allowance for loan losses						
Beginning balance	\$ 2,871	\$ 74	\$ 13,830	\$ 1,007	\$ 18	\$ 17,800
Charge-offs	(1,095)	—	—	—	—	(1,095)
Recoveries	151	—	—	—	—	151
Provision for (reversal of) loan losses	1,029	(12)	13	162	2	1,194
Ending balance	<u>\$ 2,956</u>	<u>\$ 62</u>	<u>\$ 13,843</u>	<u>\$ 1,169</u>	<u>\$ 20</u>	<u>\$ 18,050</u>
<u>Nine months ended September 30, 2022</u>						
Allowance for loan losses						
Beginning balance	\$ 3,261	\$ 175	\$ 12,709	\$ 1,536	\$ 19	\$ 17,700

Charge-offs	(3,620)	—	(1)	(6)	(6)	(3,633)
Recoveries	159	—	—	—	—	159
Provision for (reversal of) loan losses	3,156	(113)	1,135	(361)	7	3,824
Ending balance	<u>\$ 2,956</u>	<u>\$ 62</u>	<u>\$ 13,843</u>	<u>\$ 1,169</u>	<u>\$ 20</u>	<u>\$ 18,050</u>

September 30, 2022						
Allowance for loan losses:						
Loans individually evaluated	\$ 725	\$ —	\$ 259	\$ 14	\$ —	\$ 998
Loans collectively evaluated	2,231	62	13,584	1,155	20	17,052
PCD loans	—	—	—	—	—	—
Loans receivable:						
Individually evaluated	\$ 2,620	\$ —	\$ 12,382	\$ 2,126	\$ —	\$ 17,128
Collectively evaluated	212,731	8,171	1,637,087	85,669	4,294	1,947,952
PCD loans	4,163	4,060	20,814	1,107	—	30,144
Total loans	<u>\$ 219,514</u>	<u>\$ 12,231</u>	<u>\$ 1,670,283</u>	<u>\$ 88,902</u>	<u>\$ 4,294</u>	<u>\$ 1,995,224</u>

The following tables provide an aging of the Company's loans receivable as of the dates indicated:

	90 Days							Recorded
	30–59 Days		60–89 Days		or more		Total	investment >
	past due	past due	past due	past due	past due	Current	PCD loans	Total loans receivable
								90 days and accruing
<u>March 31, 2024</u>								
Commercial and industrial	\$ 704	\$ 17	\$ 1,422	\$ 2,143	\$ 158,258	\$ 193	\$ 160,594	\$ —
Construction and land	—	—	366	366	9,230	20	9,616	—
Commercial real estate	2,228	2,881	9,286	14,395	1,592,569	25,126	1,632,090	—
Residential	767	13	283	1,063	82,409	396	83,868	—
Consumer	—	—	—	—	570	—	570	—
Total	<u>\$ 3,699</u>	<u>\$ 2,911</u>	<u>\$ 11,357</u>	<u>\$ 17,967</u>	<u>\$ 1,843,036</u>	<u>\$ 25,735</u>	<u>\$ 1,886,738</u>	<u>\$ —</u>

	90 Days							Recorded
	30–59 Days		60–89 Days		or more		Total	investment >
	past due	past due	past due	past due	past due	Current	PCD loans	Total loans receivable
								90 days and accruing
<u>December 31, 2023</u>								
Commercial and industrial	\$ 803	\$ 146	\$ 1,782	\$ 2,731	\$ 159,960	\$ 198	\$ 162,889	\$ —
Construction and land	97	—	366	463	9,071	25	9,559	—
Commercial real estate	2,908	1,702	7,793	12,403	1,631,129	25,053	1,668,585	—
Residential	55	—	—	55	85,500	447	86,002	—
Consumer	—	—	—	—	738	—	738	—
Total	<u>\$ 3,863</u>	<u>\$ 1,848</u>	<u>\$ 9,941</u>	<u>\$ 15,652</u>	<u>\$ 1,886,398</u>	<u>\$ 25,723</u>	<u>\$ 1,927,773</u>	<u>\$ —</u>

Nonaccrual loans totaled \$16.5 million and \$13.0 million at March 31, 2024 and December 31, 2023, respectively. Nonaccrual loans guaranteed by a government agency, which reduces the Company's credit exposure, were \$2.2 million at March 31, 2024 compared to \$740,000 at December 31, 2023. At March 31, 2024, nonaccrual loans included \$4.0 million of loans 30–89 days past due and \$1.1 million of loans less than 30 days past due. At December 31, 2023, nonaccrual loans included \$927,000 of loans 30–89 days past due and \$2.1 million of loans less than 30 days past due. At March 31, 2024, the \$4.0 million of nonaccrual loans 30–89 days past due was comprised of seven loans and the \$1.1 million of loans less than 30 days past due was comprised of 14 loans. All these loans were placed on nonaccrual due to concerns over the financial condition of the borrowers. There were no loans that were 90 days or more past due and still accruing at March 31, 2024 and December 31, 2023.

Interest foregone on nonaccrual loans was approximately \$483,000 for the three months ended March 31, 2024 compared to \$235,000 for the three months ended March 31, 2023. Interest income recognized on nonaccrual loans was approximately \$7,200 and \$65,000 for the

three months ended March 31, 2024 and 2023, respectively.

Pledged Loans

Our FHLB line of credit is secured under terms of a blanket collateral agreement by a pledge of certain qualifying loans with unpaid principal balances of \$1.0 billion and \$1.14 billion at March 31, 2024 and December 31, 2023, respectively. Our discount window advance line with the FRB of San Francisco is secured by a pledge of certain qualifying loans with unpaid principal balances of \$92.1 million at March 31, 2024. No loans were pledged to the FRB of San Francisco at December 31, 2023. For additional information, see Note 11, Other Borrowings.

For the three months ended September 30, 2023, the provision for credit losses was primarily due to a \$1.2 million increase in reserves for individually evaluated loans, which included the loan to the Trust discussed below, and an increase in qualitative reserves, partially offset by improvements in forecasted economic conditions, specifically, national gross domestic product and national unemployment, indicators utilized to estimate credit losses and, to a lesser extent, a decrease in outstanding loan balances and \$24,000 in net charge-offs during the third quarter of 2023.

During the quarter ended September 30, 2023, the Company determined that a certificate of deposit-secured line of credit loan made to a revocable living trust (the "Trust" or the "Borrower") with an outstanding balance of approximately \$1.0 million as of September 30, 2023 was impaired and placed on nonaccrual as a result of the sole trustee and beneficiary of the Trust filing for personal bankruptcy in July 2023. At June 30, 2023, the loan had an outstanding balance of \$5.0 million and was secured by a \$4.0 million certificate of deposit held at the Bank. An additional \$1.0 million in cash collateral securing the loan had previously been released by the Bank into a third-party escrow account at the request of the Borrower to be used as a refundable retainer in connection with a separate transaction by the Borrower. The loan matured on July 16, 2023, and the Bank received notification that the sole trustee and beneficiary of the Trust filed for personal bankruptcy on July 18, 2023. After receiving this notification, the Bank used the \$4.0 million certificate of deposit held at the Bank to offset amounts owed on the loan and contacted the third-party escrow agent for the return of the additional \$1.0 million of collateral. The Bank was advised by the escrow agent that the previously escrowed funds had been released by the escrow agent, which was done without the Bank's consent and contrary to the written escrow instructions. The Bank has initiated legal action against the Borrower, the Borrower's related parties and the escrow agent to recover the previously escrowed collateral. The results of the legal action and the Bank's ability to recover the previously escrowed collateral are currently uncertain. The loan was fully reserved for at September 30, 2023.

For the nine months ended September 30, 2023, the reversal of the allowance for credit losses was due to a decrease in the quantitative reserve primarily due to improvements in forecasted economic conditions, specifically, national gross domestic product and national unemployment indicators utilized to estimate credit losses over the next four quarters, as compared to those used in estimating the allowance for credit losses on loans at adoption, and to a lesser

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NOTE 5 – ALLOWANCE FOR CREDIT LOSSES FOR LOANS

The following tables summarize the Company's allowance for credit losses for loans, reserve for unfunded commitments, and loan balances individually and collectively evaluated by type of loan as of or for the three months ended March 31, 2024 and 2023:

	Commercial and industrial	Construction and land	Commercial real estate	Residential	Consumer	Total	Reserve for unfunded commitments
<u>Three months ended March 31, 2024</u>							
Allowance for credit losses							

Beginning balance	\$ 4,216	\$ 298	\$ 16,498	\$ 979	\$ 9	\$ 22,000	\$ 225
Charge-offs	(178)	—	(3,206)	—	(1)	(3,385)	—
Recoveries	13	—	—	—	—	13	—
Provision for (reversal of) credit losses	140	14	140	(32)	—	262	(10)
Ending balance	<u>\$ 4,191</u>	<u>\$ 312</u>	<u>\$ 13,432</u>	<u>\$ 947</u>	<u>\$ 8</u>	<u>\$ 18,890</u>	<u>\$ 215</u>

March 31, 2024

Allowance for credit losses:

Loans individually evaluated	\$ 1,290	\$ —	\$ 58	\$ 2	\$ —	\$ 1,350
Loans collectively evaluated	2,902	312	12,816	940	8	16,978
PCD loans	—	—	558	5	—	563
Loans receivable:						
Individually evaluated	\$ 1,667	\$ 366	\$ 18,608	\$ 1,463	\$ —	\$ 22,104
Collectively evaluated	158,734	9,230	1,594,041	82,009	570	1,844,584
PCD loans	193	20	19,441	396	—	20,050
Total loans	<u>\$ 160,594</u>	<u>\$ 9,616</u>	<u>\$ 1,632,090</u>	<u>\$ 83,868</u>	<u>\$ 570</u>	<u>\$ 1,886,738</u>

	Commercial	Construction	Commercial			Reserve for	
	and industrial	and land	real estate	Residential	Consumer	Total	unfunded commitments
<u>Three Months Ended March 31, 2023</u>							
Allowance for loan losses							
Beginning balance	\$ 2,885	\$ 68	\$ 14,185	\$ 1,742	\$ 20	\$ 18,900	\$ 315
Impact of CECL adoption	1,366	402	2	(302)	32	1,500	45
Charge-offs	(158)	—	—	(175)	(1)	(334)	—
Recoveries	16	—	—	—	3	19	—
Provision for (reversal of) loan losses	361	(156)	343	(199)	(34)	315	(40)
Ending balance	<u>\$ 4,470</u>	<u>\$ 314</u>	<u>\$ 14,530</u>	<u>\$ 1,066</u>	<u>\$ 20</u>	<u>\$ 20,400</u>	<u>\$ 320</u>
<u>March 31, 2023</u>							
Allowance for loan losses:							
Loans individually evaluated	\$ 561	\$ —	\$ 259	\$ 2	\$ —	\$ 822	
Loans collectively evaluated	3,670	311	13,796	1,051	20	18,848	
PCD loans	239	3	475	13	—	730	
Loans receivable:							
Individually evaluated	\$ 790	\$ —	\$ 11,329	\$ 1,738	\$ —	\$ 13,857	
Collectively evaluated	192,311	9,964	1,702,108	94,237	2,196	2,000,816	
PCD loans	4,472	301	24,490	616	—	29,879	
Total loans	<u>\$ 197,573</u>	<u>\$ 10,265</u>	<u>\$ 1,737,927</u>	<u>\$ 96,591</u>	<u>\$ 2,196</u>	<u>\$ 2,044,552</u>	

For the three months ended March 31, 2024, the provision for credit losses and related change in the allowance for credit losses on loans was mainly driven by a replenishment of the allowance due to net charge-offs during the period, partially offset by decreases in outstanding loan balances, leading to lower quantitative reserves. Net charges-offs

extent, a decrease totaled \$3.4 million during the first quarter of 2024, of which \$3.2 million was specifically reserved for at December 31, 2023. No changes were made to the qualitative risk factor conclusions during the first quarter of 2024. The quantitative reserve was impacted by improvement in outstanding loan balances, partially offset by an overall increase in reserves forecasted economic conditions, specifically, national unemployment levels and national gross domestic product, both of individually evaluated loans and replenishment of the reserve from \$399,000 in net charge-offs for the nine months ended September 30, 2023, which are key indicators utilized to estimate credit losses. The reserve for individually evaluated loans increased decreased during the nine three months ended September 30, 2023 March 31, 2024 primarily due to a \$1.0 million charge-off of \$3.2 million of reserve for the individually evaluated loan to the Trust discussed above, partially offset by a decrease in the specific reserve due to nine nonaccrual loans that collateral shortfalls were fully reserved for and charged-off during the nine months ended September 30, 2023, deemed uncollectable.

The following table summarizes the amortized cost basis of individually evaluated collateral-dependent loans, including nonaccrual loans, modified loans to borrowers experiencing financial difficulty, and accreting purchase credit deteriorated ("PCD") loans that have experienced post-acquisition declines in cash flows expected to be collected, by loan and collateral type at September 30, 2023 and December 31, 2022, as of the dates indicated.

	Retail and		Convalescent			A/R and			Allowance for		Retail and		Convalescent		
	Office	Multifamily	facility	Other	SFR 1-4	Equipment	Total	Credit/Loan Losses	Office	Multifamily	facility	Hotel	Other	SFR 1-	
<u>September</u>															
<u>30, 2023</u>															
<u>March 31,</u>															
<u>2024</u>															
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ 1,021	\$ —	\$ 923	\$ 1,944	\$ 1,572	\$ —	\$ —	\$ —	\$ —	\$ 1,022	\$ —
Construction and land	—	—	—	—	—	366	—	366	—	—	—	—	—	—	366
Commercial real estate	1,048	5,316	2,213	1,880	—	—	10,457	309	967	8,401	1,202	4,818	3,220	—	
Residential	—	—	—	—	1,554	—	1,554	2	—	—	—	—	—	—	1,463
Consumer	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 1,048	\$ 5,316	\$ 2,213	\$ 2,901	\$ 1,920	\$ 923	\$ 14,321	\$ 1,883	\$ 967	\$ 8,401	\$ 1,202	\$ 4,818	\$ 4,242	\$ 1,829	
<u>December</u>															
<u>31, 2022</u>															
<u>December</u>															
<u>31, 2023</u>															
Commercial and industrial	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 878	\$ 878	\$ 687	\$ —	\$ —	\$ —	\$ —	\$ 1,021	\$ —
Construction and land	—	—	—	—	—	—	—	—	—	—	—	—	—	—	366
Commercial real estate	389	5,351	3,577	1,889	—	—	11,206	259	224	5,305	2,213	135	1,165	—	
Residential	—	—	—	—	2,205	—	2,205	222	—	—	—	—	—	—	1,496
Consumer	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 389	\$ 5,351	\$ 3,577	\$ 1,889	\$ 2,205	\$ 878	\$ 14,289	\$ 1,168	\$ 224	\$ 5,305	\$ 2,213	\$ 135	\$ 2,186	\$ 1,862	

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The following table shows the amortized cost and allowance for credit losses for loans on nonaccrual status as of **September 30, 2023** and the amortized cost and allowance for loan losses for loans on nonaccrual status as of **December 31, 2022**, dates indicated:

	As of September 30, 2023						As of December 31, 2022						As of March 31, 2024					
	Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual		Nonaccrual	
	with no allowance for credit losses	with allowance for credit losses	Total nonaccrual	with no allowance for loan losses	with allowance for loan losses	Total nonaccrual	with no allowance for credit losses	with allowance for credit losses	Total nonaccrual	with no allowance for loan losses	with allowance for loan losses	Total nonaccrual	with no allowance for credit losses	with allowance for credit losses	Total nonaccrual	with no allowance for loan losses	with allowance for loan losses	Total nonaccrual
Commercial and industrial	\$ —	\$ 1,944	\$ 1,944	\$ —	\$ 878	\$ 878	\$ 103	\$ 1,564	\$ 1,667	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Construction and land	366	—	366	—	—	—	366	—	—	—	—	—	—	—	—	—	—	366
Commercial real estate	7,793	2,664	10,457	10,734	472	11,206	7,869	5,126	12,995	—	—	—	—	—	—	—	—	—
Residential	1,401	153	1,554	1,991	214	2,205	1,324	139	1,463	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total	\$ 9,560	\$ 4,761	\$ 14,321	\$ 12,725	\$ 1,564	\$ 14,289	\$ 9,662	\$ 6,829	\$ 16,491	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

Interest income recognized on nonaccrual loans was \$39,000 and \$120,000 for the three and nine months ended September 30, 2023, and \$52,000 and \$84,000 for the three and nine months ended September 30, 2022, respectively.

As part of the acquisition of **PEB**, Pacific Enterprise Bancorp ("PEB") in 2022, the Company acquired certain small business loans to borrowers qualified under The California Capital Access Program for Small Business, a state guaranteed loan program sponsored by the California Pollution Control Financing Authority ("CalCAP"). PEB ceased originating loans under this loan program in 2017. Under this loan program, the borrower, CalCAP and the participating lender contributed funds to a loss reserve account that is held in a demand deposit account at the participating lender. The borrower contributions to the loss reserve account are attributed to the participating lender. Losses on qualified loans are charged to this account after approval by CalCAP. Under the program, if a loan defaults, the participating lender has immediate coverage of 100% of the loss. The participating lender must return recoveries from the borrower, less expenses, to the credit loss reserve account. The funds in the loss reserve account are the property of CalCAP; however, in the event that the participating lender leaves the program any excess funds, after all loans have been repaid or unenrolled from the program by the

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participating lender and provided there are no pending claims for reimbursement, the remaining excess funds are distributed to CalCAP and the participating lender based on their respective contributions to the loss reserve account. Funds contributed by the participating lender to the loss reserve account are treated as a receivable from CalCAP and evaluated for impairment quarterly. As of **September 30, 2023** **March 31, 2024** and **December 31, 2023**, the Company had **\$23.2 million** **\$19.2 million** and **\$19.4 million**, respectively, of loans enrolled in this loan program. The Company had a loss reserve account of \$13.7 million as of **September 30, 2023** **both March 31, 2024 and December 31, 2023**.

In addition, as successor to PEB, the Company was approved by CalCAP, in partnership with the California Air Resources Board, to originate loans to California truckers in the On-Road Heavy-Duty Vehicle Air Quality Loan Program. Under this loan program, CalCAP solely contributes funds to a loss reserve account that is held in a demand deposit account at the participating lender. Losses are handled in the

same manner as described above. The funds are the property of CalCAP and are payable upon termination of the program. When the loss reserve account balance exceeds the total associated loan balance, the excess is to be remitted to CalCAP. The Company originated \$4.2 million \$1.1 million and \$481,000 of loans under this program during the nine three months ended September 30, 2023 March 31, 2024 and 2023, respectively. As of September 30, 2023 March 31, 2024, the Company had \$20.3 million \$15.6 million of loans enrolled in this program and a loss reserve account of \$5.1 million. As of December 31, 2023, the Company had \$17.7 million of loans enrolled in this program and a loss reserve account of \$6.2 million.

NOTE 76 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following at the dates indicated:

	September 30,	December 31,		March 31,	December 31,
	2023	2022	2024	2023	
Premises owned	\$ 11,233	\$ 11,120	\$ 11,258	\$ 11,233	
Leasehold improvements	2,459	2,259	3,082	3,082	
Furniture, fixtures and equipment	7,892	6,760	8,973	7,948	
Less accumulated depreciation and amortization	(8,118)	(6,861)	(8,958)	(8,529)	
Total premises and equipment, net	\$ 13,466	\$ 13,278	\$ 14,355	\$ 13,734	

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Depreciation and amortization included in occupancy and equipment expense totaled \$390,000 \$491,000 and \$1.3 million \$453,000 for the three and nine months ended September 30, 2023 March 31, 2024 and \$489,000 and \$1.5 million for the three and nine months ended September 30, 2022, 2023, respectively.

NOTE 87 – LEASES

The Company leased 20 branches under noncancelable operating leases as of September 30, 2023 March 31, 2024. These leases expire on various dates through 2030. The Company's leases often have an option to renew one or more times, at the Company's discretion, following the expiration of the initial term. If at lease inception, the Company considers the

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exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability.

The Company uses the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

The below maturity schedule represents the undiscounted lease payments for the five-year period and thereafter as of **September 30, 2023** **March 31, 2024**:

	For remainder of 2023	\$ 1,041	
	2024	4,222	
	For remainder of 2024		\$ 2,921
	2025	3,416	3,436
	2026	2,670	2,751
	2027	2,191	2,322
	2028		2,164
	Thereafter	3,964	2,041
	Total undiscounted cash flows	17,504	15,635
	Less: interest	(1,487)	(1,314)
	Present value of lease payments	\$ 16,017	\$14,321

The following table presents the weighted average lease term and discount rate at the dates indicated:

	September 30, 2023	September 30, 2022	March 31, 2024	December 31, 2023
Weighted-average remaining lease term	5.0 years	5.5 years	4.7 years	4.8 years
Weighted-average discount rate	3.4 %	3.1 %	3.6 %	3.4 %

Rental expense included in occupancy and equipment expense totaled \$1.0 million for both the three months ended March 31, 2024 and **\$3.0 million** 2023.

The following table presents certain information related to the operating lease costs included in occupancy and equipment expense on the consolidated statements of income for the three and nine months ended September 30, 2023 and \$934,000 and \$3.2 million for the three and nine months ended September 30, 2022, respectively, periods indicated:

	Three months ended			
	March 31,			
	2024	2023		
Operating lease cost	\$ 986	\$ 955		
Short-term lease cost	15	44		
Less: Sublease income	(12)	(22)		
Total operating lease cost, net	\$ 989	\$ 977		

NOTE 98 – GOODWILL AND INTANGIBLE ASSETS

Goodwill is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and the liabilities assumed as of the acquisition date. Goodwill and other intangible assets are assessed for impairment annually or whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Intangible assets with definite useful lives are

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amortized over their estimated useful lives to their estimated residual values. Core deposit intangible represents the estimated future benefit of deposits related to an acquisition and is booked separately from the related deposits and amortized over an estimated useful life of seven to ten years.

Goodwill

The Company's policy is to assess goodwill for impairment at the reporting unit level on an annual basis or between annual assessments if a triggering event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Impairment exists when a reporting unit's fair value is less than its carrying amount, including goodwill.

Changes in the Company's goodwill during the three months ended March 31, 2024 and year ended December 31, 2023 were as follows:

	March 31, 2024	December 31, 2023
Balance at beginning of period	\$ 38,838	\$ 38,838
Acquired goodwill	—	—
Impairment	—	—
Balance at end of period	<u>\$ 38,838</u>	<u>\$ 38,838</u>

Core Deposit Intangible

Changes in the Company's core deposit intangible during the three months ended March 31, 2024 and year ended December 31, 2023 were as follows:

	March 31, 2024	December 31, 2023
Balance at beginning of period	\$ 3,915	\$ 5,201
Additions	—	—
Less amortization	(305)	(1,286)
Balance at end of period	<u>\$ 3,610</u>	<u>\$ 3,915</u>

Estimated annual amortization expense at March 31, 2024 was as follows:

For remainder of 2024	\$ 917
2025	948
2026	455
2027	455
2028	455
Thereafter	<u>380</u>
Total	<u>\$ 3,610</u>

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Changes in the Company's goodwill during the nine months ended September 30, 2023 and year ended December 31, 2022 were as follows:

	At and for the nine months ended September 30, 2023	At and for the year ended December 31, 2022
Balance at beginning of period	\$ 38,838	\$ 38,838
Acquired goodwill	—	—
Impairment	—	—
Balance at end of period	<u>\$ 38,838</u>	<u>\$ 38,838</u>

Core Deposit Intangible

Changes in the Company's core deposit intangible during the nine months ended September 30, 2023 and year ended December 31, 2022 were as follows:

	At and for the nine months ended September 30, 2023	At and for the year ended December 31, 2022
Balance at beginning of period	\$ 5,201	\$ 6,489
Additions	—	756
Less amortization	(980)	(2,044)
Balance at end of period	<u>\$ 4,221</u>	<u>\$ 5,201</u>

Estimated annual amortization expense at September 30, 2023 was as follows:

For remainder of 2023	\$ 306
2024	1,222
2025	948
2026	455
2027	455
Thereafter	835
Total	<u>\$ 4,221</u>

NOTE 109 – INTEREST RECEIVABLE AND OTHER ASSETS

The Company's interest receivable and other assets at the dates indicated consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Tax assets, net	\$ 20,170	\$ 18,762	\$ 18,086	\$ 19,480
Accrued interest receivable	8,515	7,659	8,500	8,423
Investment in SBIC fund	5,161	4,389	3,940	3,969
Investment in Community Reinvestment Act fund	2,000	2,000	2,000	2,000
Prepaid assets	2,227	1,568	1,917	2,023
Servicing assets	1,493	2,092	1,073	1,269
Investment in Low Income Housing Tax Credit ("LIHTC") partnerships, net	2,848	2,675	3,689	3,480
Investment in statutory trusts	506	493	516	511
CalCAP reserve receivable	4,023	4,023	4,023	4,023
Other assets	627	1,871	2,786	2,200
Total	<u>\$ 47,570</u>	<u>\$ 45,532</u>	<u>\$ 46,530</u>	<u>\$ 47,378</u>

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NOTE 11.10 – DEPOSITS

The Company's deposits consisted of the following at the dates indicated:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Demand deposits	\$ 667,336	\$ 773,274	\$ 629,962	\$ 646,278
NOW accounts and savings	394,898	441,064		
NOW accounts			276,907	283,089
Savings			97,015	102,073
Money market	665,866	577,792	624,806	624,066
Time deposits	431,344	293,349	514,217	477,244
Total	\$ 2,159,444	\$ 2,085,479	\$ 2,142,907	\$ 2,132,750

Included in time deposits above are certificates brokered deposits of deposit over \$250 thousand totaling \$68.6 million \$41.5 million and \$57.8 million at September 30, 2023 \$43.6 million as of March 31, 2024 and December 31, 2022 December 31, 2023, respectively. At September 30, 2023 March 31, 2023, uninsured deposits totaled \$991.6 million, \$949.3 million, or 44.3% of total deposits, compared to \$1.1 billion \$969.2 million, or 45.5% of total deposits at December 31, 2022 December 31, 2023. The uninsured amounts are estimates based on the methodologies and assumptions used for United Business Bank's regulatory reporting requirements.

NOTE 12.11 – BORROWINGS

Other borrowings – The Bank has an approved secured borrowing facility with the Federal Home Loan Bank of San Francisco (the "FHLB") for up to 25% of total assets for a term not to exceed five years under a blanket lien of certain types of loans. At both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company had no FHLB advances outstanding. During the first quarter of 2024, the Bank was approved for discount window advances with the FRB of San Francisco secured by certain types of loans. At March 31, 2024 the Bank had no FRB of San Francisco advances outstanding.

The Bank has Federal Funds lines with four corresponding banks. Cumulative available commitments totaled \$65.0 million at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. There were no amounts outstanding under these facilities at both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

Junior subordinated deferrable interest debentures – In connection with its previous acquisitions, the Company assumed junior subordinated deferrable interest debentures, totaling \$8.5 \$8.6 million, net of fair value adjustments, with a weighted average interest rate of 8.25% 8.17% at September 30, 2023 March 31, 2024, compared to \$8.5 \$8.6 million, net of fair value adjustments, with a weighted average rate of 7.34% 8.23% at December 31, 2022 December 31, 2023. The junior subordinated deferrable interest debentures mature in 2034, subject to earlier redemption by the Company.

Subordinated debt – On August 10, 2020, the Company issued and sold \$65.0 million aggregate principal amount of 5.25% Fixed-to-Floating Rate Subordinated Notes due 2030 (the “Notes”) at a public offering price equal to 100% of the aggregate principal amount of the Notes. The Notes initially bear a fixed interest rate of 5.25% per year. Commencing on September 15, 2025, the interest rate on the Notes resets quarterly to the three-month Secured Overnight Financing rate plus a spread of 521 basis points (5.21%), payable quarterly in arrears. Interest on the Notes is payable semi-annually on March 15 and September 15 of each year through September 15, 2025 and quarterly thereafter on March 15, June 15, September 15 and December 15 of each year through the maturity date or earlier redemption date. The Company, at its option, may redeem the Notes, in whole or in part, on any interest payment date on or after September 15, 2025, without a premium. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company had outstanding Notes, net of cost to issue, totaling **\$63.8 million** **\$63.6 million** and **\$63.7 million** **\$63.9 million**, respectively.

NOTE 13 – INTEREST PAYABLE AND OTHER LIABILITIES

The Company's interest payable and other liabilities at the dates indicated consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Accrued expenses	\$ 7,047	\$ 8,598	\$ 4,696	\$ 7,419
Accounts payable	788	452	755	716
Reserve for unfunded commitments	250	315	215	225
Accrued interest payable	2,491	1,413	2,752	3,054
Other liabilities	3,820	5,755	3,967	3,177
Total	<u>\$ 14,396</u>	<u>\$ 16,533</u>	<u>\$ 12,385</u>	<u>\$ 14,591</u>

NOTE 14 – OTHER EXPENSES

The Company's other expenses for the periods indicated consisted of the following:

	Three months ended		Nine months ended		Three months ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Professional fees	\$ 628	\$ 453	\$ 1,520	\$ 2,335	\$ 587	\$ 447
Core deposit premium amortization	305	516	979	1,527	305	369
Marketing and promotions	258	235	658	769	123	146
Stationery and supplies	82	89	254	266	76	87
Insurance (including FDIC premiums)	367	235	1,002	704	359	201
Communication and postage	228	232	678	689	259	229
Loan default related expense	34	119	187	257	8	65
Director fees and expenses	84	83	249	282	88	82
Bank service charges	16	21	49	145	16	16
Courier expense	207	193	578	558	193	182

Other	119	151	397	454	114	177
Total	\$ 2,328	\$ 2,327	\$ 6,551	\$ 7,986	\$ 2,128	\$ 2,001

The Company expenses marketing and promotion costs as they are incurred. Advertising expense included in marketing and promotions totaled \$15,000 \$11,000 and \$36,000 \$5,000 for the three and nine months ended September 30, 2023, March 31, 2024 and \$12,000 and \$54,000 for the three and nine months ended September 30, 2022, 2023, respectively.

NOTE 15.14 – EQUITY INCENTIVE PLANS

Equity Incentive Plans

2017 Omnibus Equity Incentive Plan

The Company's shareholders approved the Company's 2017 Omnibus Equity Incentive Plan ("2017 Plan") in November 2017. The 2017 Plan provides for the awarding by the Company's Board of Directors of equity incentive awards

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to employees and non-employee directors. An equity incentive award under the 2017 Plan may be an option, stock appreciation right, restricted stock units, stock award, other stock-based award or performance award. Factors considered by the Board in awarding equity incentives to officers and employees include the performance of the Company, the employee's or officer's job performance, the importance of his or her position, and his or her contribution to the organization's goals for the award period. Generally, awards have a vesting period of no longer than ten years. Subject to adjustment as provided in the 2017 Plan, the maximum number of shares of common stock that may be delivered pursuant to awards granted under the 2017 Plan is 450,000. The 2017 Plan provides for annual restricted stock grant limits to officers, employees and directors. The annual stock grant limit per person for officers and employees is the lesser of 50,000 shares or a value of \$2.0 million, and per person for directors, the maximum is 25,000 shares. All unvested restricted shares

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outstanding vest in the event of a change in control of the Company. Awarded shares of restricted stock vest over (i) a one-year period following the date of grant, in the case of the non-employee directors, and (ii) a three-year or five-year period following the date of grant, with the initial vesting occurring on the one-year anniversary of the date of grant, in the case of the executive officers. As of September 30, 2023 March 31, 2024, a total of 44,236 19,765 shares were available for future issuance under the 2017 Plan.

2014 Omnibus Equity Incentive Plan

In 2014, the Company's shareholders approved the Company's 2014 Equity Incentive Plan (the "2014 Plan"). A total of 148,962 equity incentive awards were granted under the 2014 Plan. The awards are shares of restricted stock and have a vesting period of one to five years. No future equity awards will be made from the 2014 Plan.

The Company recognizes compensation expense for the restricted stock awards based on the fair value of the shares at the award date. Total compensation expense for unvested restricted stock awards under these plans was \$153,000 and \$585,000 for the three and nine months ended September 30, 2023 and \$232,000 and \$789,000 for the three and nine months ended September 30, 2022, respectively.

As of September 30, 2023, there was \$996,000 of total unrecognized compensation cost related to non-vested shares granted as restricted stock awards. The cost is expected to be recognized over the remaining weighted-average vesting period of approximately three years.

The Company has two forms of outstanding common stock: fully vested common stock and unvested restricted stock awards. Holders of restricted stock awards receive non-forfeitable dividends at the same rate as common stockholders and they both share equally in undistributed earnings. Under the two-class method, the difference in earnings per share is not significant for these participating securities.

The following table provides the restricted stock grant activity for the periods indicated:

	At and for the three and nine months ended September 30,				2024				2023			
	2023		2022		2024		2023					
	Weighted-average		Weighted-average		Weighted-average		Weighted-average					
	Shares	fair value	Shares	fair value	Shares	fair value	Shares	fair value	Shares	fair value	Shares	fair value
Non-vested at January 1,	97,877	\$ 16.80	139,275	\$ 16.29	81,365	\$ 18.27	97,877	\$ 16.80				
Granted	28,392	18.98	22,473	18.79	24,471	23.30	28,392	18.98				
Vested	(16,979)	19.06	(15,560)	18.34	(19,927)	18.99	(16,979)	19.06				
Forfeited	—	—	(532)	18.79	(505)	16.67	—	—				
Non-Vested, at March 31,	109,290	17.01	145,656	16.45								
Vested	(30,764)	12.18	(45,997)	16.29								
Forfeited	—	—	(1,322)	18.16								
Non-Vested, at June 30,	78,526	18.91	98,337	16.50								
Granted	13,457	16.67	10,618	20.98								
Vested	(10,618)	20.98	(11,078)	18.14								
Forfeited	—	—	—	—								
Non-Vested, at September 30,	81,365	\$ 18.27	97,877	\$ 16.80								
Non-vested, at March 31,					85,404	\$ 19.55	109,290	\$ 17.01				

NOTE 16.15 – FAIR VALUE MEASUREMENT

ASC Topic 820, "Fair Value Measurement," defines fair value, establishes a framework for measuring fair value including a three-level valuation hierarchy, and expands disclosures about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between

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market participants at the measurement date reflecting assumptions that a market participant would use when pricing an asset or liability. The hierarchy uses three levels of inputs to measure the fair value of assets and liabilities as follows:

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

Level 2 – Observable prices in active markets for similar assets and liabilities; prices for identical or similar assets or liabilities in markets that are not active; directly observable market inputs for substantially the full term of the asset and liability; market inputs that are not directly observable but are derived from or corroborated by observable market data.

Level 3 – Unobservable inputs for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

We use fair value to measure certain assets and liabilities on a recurring basis, primarily securities **available-for-sale**, AFS. For assets measured at the lower of cost or fair value, the fair value measurement criteria may or may not be met during a reporting period and such measurements are therefore considered “nonrecurring” for purposes of disclosing our fair value measurements. Fair value is used on a nonrecurring basis to adjust carrying values for individually evaluated loans and other real estate owned and to record impairment on certain assets, such as goodwill, core deposit intangible, and other long-lived assets.

In certain cases, the inputs used to measure fair value may fall into different levels of the hierarchy. In such cases, the lowest level of inputs that is significant to the measurement is used to determine the hierarchy for the entire asset or **liability**. **Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our quarterly valuation process.** There were no transfers between levels during the three and nine months ended September 30, 2023 and 2022.

The following assets are measured at fair value on a recurring basis as of the dates indicated:

	Total Estimated	Fair Value Measurements		
		Fair Value	Level 1	Level 2
September 30, 2023				
U.S. Government Agencies	\$ 1,501	\$ —	\$ 1,501	\$ —
Municipal securities	18,185	—	18,185	—
Mortgage-backed securities	28,426	—	28,426	—
Collateralized mortgage obligations	25,643	—	25,643	—
SBA securities	5,593	—	5,593	—
Corporate bonds	66,497	—	66,497	—
Equity securities	11,639	11,639	—	—
Total	\$ 157,484	\$ 11,639	\$ 145,845	\$ —

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	Total Estimated	Fair Value Measurements		
		Fair Value	Level 1	Level 2
December 31, 2022				
U.S. Government Agencies	\$ 1,505	\$ —	\$ 1,505	\$ —
Municipal securities	19,557	—	19,557	—
Mortgage-backed securities	33,010	—	33,010	—
Collateralized mortgage obligations	25,424	—	25,424	—
SBA securities	4,305	—	4,305	—
Corporate bonds	70,203	—	70,203	—
Equity securities	13,757	13,757	—	—
Total	\$ 167,761	\$ 13,757	\$ 154,004	\$ —

liability. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with our quarterly valuation process. There were no transfers between levels during the three months ended March 31, 2024 and 2023.

The following assets are measured at fair value on a recurring basis as of the dates indicated:

	Total Estimated	Fair Value Measurements			
		Fair Value	Level 1	Level 2	Level 3
March 31, 2024					
Municipal securities	\$ 21,852	\$ —	\$ 21,852	\$ —	
Mortgage-backed securities	36,890	—	36,890	—	
Collateralized mortgage obligations	35,593	—	35,593	—	
SBA securities	4,912	—	4,912	—	
Corporate bonds	68,672	—	68,672	—	
Equity securities	13,158	13,158	—	—	
Total	\$ 181,077	\$ 13,158	\$ 167,919	\$ —	
December 31, 2023					
Municipal securities	\$ 20,827	\$ —	\$ 20,827	\$ —	
Mortgage-backed securities	37,601	—	37,601	—	
Collateralized mortgage obligations	32,976	—	32,976	—	
SBA securities	5,252	—	5,252	—	
Corporate bonds	66,496	—	66,496	—	
Equity securities	12,585	12,585	—	—	
Total	\$ 175,737	\$ 12,585	\$ 163,152	\$ —	

The following assets are measured at fair value on a nonrecurring basis as of the dates indicated:

	Total Estimated	Fair Value Measurements			Total Estimated	Fair Value Measurements			
		Fair Value	Level 1	Level 2	Level 3	Fair Value	Level 1	Level 2	Level 3
September 30, 2023									
March 31, 2024									
Individually evaluated loans (1)	\$ 14,321	—	—	\$ 14,321	\$ 22,104	\$ —	\$ —	\$ 22,104	
OREO	—	—	—	—	—	—	—	—	
Total	\$ 14,321	\$ —	\$ —	\$ 14,321	\$ 22,104	\$ —	\$ —	\$ 22,104	
December 31, 2022									
Performing impaired loans (1)	\$ 759	\$ —	\$ —	\$ 759	—	—	—	—	
Nonperforming impaired loans	15,223	—	—	15,223	—	—	—	—	
OREO	21	—	—	21	—	—	—	—	
December 31, 2023									
Individually evaluated loans (1)	—	—	—	—	\$ 12,977	\$ —	\$ —	\$ 12,977	
Total	\$ 16,003	\$ —	\$ —	\$ 16,003	\$ 12,977	\$ —	\$ —	\$ 12,977	

(1) For each quarter the loan was outstanding in 2023, with the adoption of CECL, one performing modified loan to a borrower experiencing financial difficulty was individually evaluated in determining the estimated allowance for credit losses.

The Company does not record loans at fair value on a recurring basis. However, from time to time, certain loans have individual risk characteristics not consistent with a pool of loans and are individually evaluated for credit reserves. Loans for which it is probable that payment of interest and principal will not be made in accordance with the original contractual terms of the loan agreement are typically individually evaluated. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of

similar debt, enterprise and liquidation value and discounted cash flows. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. When the

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fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the individually evaluated loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is less than the appraised value or the appraised value contains a significant assumption and there is no observable market price, the Company records the individually evaluated loan as nonrecurring Level 3.

The Company records foreclosed assets, or **OREO**, other real estate owned ("OREO"), at fair value on a nonrecurring basis based on the collateral value of the property. When the fair value of the collateral is based on an observable market price or a current appraised value which uses substantially observable data, the Company records the OREO as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is less than the appraised value or the appraised value contains a significant assumption, and there is no observable market price, the Company records the OREO as nonrecurring Level 3. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Management also incorporates assumptions regarding

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market trends or other relevant factors and selling and commission costs ranging from 5% to **7% 10%**. Such adjustments and assumptions are typically significant and result in a Level 3 classification of the inputs for determining fair value. The Company had no OREO at both March 31, 2024 and December 31, 2023.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Company's financial instruments at the dates indicated are presented below:

	Carrying amount	Fair value	Fair value measurements				
			Level 1	Level 2	Level 3		
March 31, 2024							
Financial assets:							
Cash and cash equivalents	\$ 348,332	\$ 348,332	\$ 348,332	\$ —	\$ —		
Time deposits in banks	996	996	996	—	—		
Investment securities AFS	167,919	167,919	—	167,919	—		
Equity securities	13,158	13,158	13,158	—	—		
Investment in FHLB and FRB Stock	20,943	20,943	—	20,943	—		
Loans held for sale	1,684	1,684	—	1,684	—		
Loans, net	1,867,840	1,772,016	—	—	1,772,016		
Accrued interest receivable	8,500	8,500	—	8,500	—		
Financial liabilities:							
Deposits	2,142,907	2,145,841	—	2,145,841	—		

Junior subordinated deferrable interest debentures, net	8,585	8,696	—	—	8,696
Subordinated debt, net	63,609	63,609	—	63,609	—
Accrued interest payable	2,752	2,752	—	2,752	—
Off-balance sheet liabilities:					
Undisbursed loan commitments, lines of credit, standby letters of credit	73,791	73,576	—	—	73,576

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NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Company's financial instruments at the dates indicated are presented below:

	Carrying amount	Fair value	Fair value measurements			Carrying amount	Fair value	Fair value measurements		
			Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
<u>September 30,</u> <u>2023</u>										
<u>December 31,</u> <u>2023</u>										
Financial assets:										
Cash and cash equivalents	\$ 301,934	\$ 301,934	\$301,934	\$ —	\$ —	\$ 307,539	\$ 307,539	\$307,539	\$ —	\$ —
Time deposits in banks	1,743	1,743	1,743	—	—	1,245	1,245	1,245	—	—
Investment securities available-for-sale	145,845	145,845	—	145,845	—					
Investment securities AFS						163,152	163,152	—	163,152	—
Equity securities	11,639	11,639	11,639	—	—	12,585	12,585	12,585	—	—
Investment in FHLB and FRB Stock	20,934	20,934	—	20,934	—	20,939	20,939	—	20,939	—
Loans held for sale	1,274	1,274	—	1,274	—	—	—	—	—	—
Loans, net	1,949,004	1,847,702	—	—	1,847,702	1,905,829	1,810,426	—	—	1,810,426
Accrued interest receivable	8,515	8,515	—	8,515	—	8,423	8,423	—	8,423	—
Financial liabilities:										

Deposits	2,159,444	2,161,763	—	2,161,763	—	2,132,750	2,135,923	—	2,135,923	—
Junior subordinated deferrable interest debentures, net	8,544	8,558	—	—	8,558	8,565	8,631	—	—	8,631
Subordinated debt, net	63,839	63,839	—	63,839	—	63,881	63,881	—	63,881	—
Accrued interest payable	2,491	2,491	—	2,491	—	3,054	3,054	—	3,054	—
Off-balance sheet liabilities:										
Undisbursed loan commitments, lines of credit, standby letters of credit	79,569	79,319	—	—	79,319	77,377	77,152	—	—	77,152

	Carrying amount	Fair value	Fair value measurements				
			Level 1	Level 2	Level 3		
December 31, 2022							
Financial assets:							
Cash and cash equivalents	\$ 176,815	\$ 176,815	\$ 176,815	\$ —	\$ —		
Time deposits in banks	2,241	2,241	2,241	—	—		
Investment securities available-for-sale	154,004	154,004	—	154,004	—		
Equity securities	13,757	13,757	13,757	—	—		
Investment in FHLB and FRB Stock	20,281	20,281	—	20,281	—		
Loans held for sale	2,380	2,380	—	2,380	—		
Loans, net	2,002,224	1,940,480	—	—	1,940,480		
Accrued interest receivable	7,659	7,659	—	7,659	—		
Financial liabilities:							
Deposits	2,085,479	2,087,265	—	2,087,265	—		
Junior subordinated deferrable interest debentures, net	8,484	7,739	—	—	7,739		
Subordinated debt, net	63,711	63,711	—	63,711	—		
Accrued interest payable	1,413	1,413	—	1,413	—		
Off-balance sheet liabilities:							
Undisbursed loan commitments, lines of credit, standby letters of credit	97,542	97,227	—	—	97,227		

NOTE 18.17 – COMMITMENTS AND CONTINGENCIES

Lending and Letter of Credit Commitments

We operate in a highly regulated environment. From time to time, we are a party to various claims and litigation matters incidental to the conduct of our business. We are not presently party to any legal proceedings where we believe the resolution would have a material adverse effect on our business, financial condition, or results of operations.

Nevertheless, given the nature, scope and complexity of the extensive legal and regulatory landscape applicable to our business (including laws and regulations governing consumer protection, fair lending, fair labor, privacy, information security and anti-money laundering and anti-terrorism laws), we, like all banking organizations, are subject to heightened legal and regulatory compliance and litigation risk.

In the normal course of business, the Company enters into various commitments to extend credit which are not reflected in the financial statements. These commitments consist of the undisbursed balance on home equity and unsecured personal lines of credit, commercial lines of credit, including commercial real estate secured lines of credit, and of undisbursed funds on construction and development loans. The Company also issues standby letter of credit commitments, primarily for the third-party performance obligations of clients.

The following table presents a summary of commitments described above as of the dates indicated:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Commitments to extend credit	\$ 78,723	\$ 96,774	\$ 73,139	\$ 76,531
Standby letters of credit	846	768	652	846
Total commitments	\$ 79,569	\$ 97,542	\$ 73,791	\$ 77,377

Commitments generally have fixed expiration dates or other termination clauses. The actual liquidity needs or the credit risk that the Company will experience will likely be lower than the contractual amount of commitments to extend credit because a significant portion of these commitments are expected to expire without being drawn upon. The commitments are generally variable rate and include unfunded home equity lines of credit, commercial real estate construction loans where disbursement is made over the course of construction, commercial revolving lines of credit, and

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unsecured personal lines of credit. The Company's outstanding loan commitments are made using the same underwriting standards as comparable outstanding loans. The reserve associated with these commitments included in interest payable and other liabilities on the consolidated balance sheets was \$250,000 \$215,000 at September 30, 2023 March 31, 2024 and \$315,000 \$225,000 at December 31, 2022 December 31, 2023.

Commercial Real Estate Concentrations

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, in management's judgment, a concentration of loans existed in commercial real estate related loans. The Company's commercial real estate loans are secured by owner-occupied and non-owner occupied commercial real estate and multifamily properties. Although management believes that loans within these concentrations have no more than the normal risk of collectability, a decline in the performance of the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on collectability.

Other Assets

The Company has commitments to fund investments in LIHTC partnerships and an SBIC fund. At **September 30, 2023** **March 31, 2024**, the remaining commitments to the LIHTC partnerships and the SBIC fund were approximately **\$1.5 million** **\$5.4 million** and \$122,000, respectively. At **December 31, 2022** **December 31, 2023**, the remaining commitments to the LIHTC partnerships and the SBIC fund were approximately **\$2.1 million** **\$5.7 million** and \$122,000, respectively.

Deposits

At **September 30, 2023** **March 31, 2024**, approximately **\$227.6 million** **\$236.1 million**, or **10.5%** **11.0%**, of the Company's deposits were derived from its top ten depositors. At **December 31, 2022** **December 31, 2023**, approximately **\$215.1 million** **\$246.0 million**, or **11.0%** **11.5%**, of the Company's deposits were

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derived from its top ten depositors. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, approximately **\$991.6 million** **\$949.3 million**, or **45.9%** **44.3%** and **\$1.1 billion** **\$969.2 million**, or **53.3%** **45.4%**, of our total deposits were uninsured, respectively. The uninsured amounts are estimates based on the methodologies and assumptions used for United Business Bank's regulatory reporting requirements.

Local Agency Deposits and Other Advances

In the normal course of business, the Company accepts deposits from local agencies. The Company is required to provide collateral for certain local agency deposits in the states of California, Colorado, New Mexico and Washington. At **September 30, 2023** As of both **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the FHLB issued letters of credit on behalf of the Company totaling **\$42.6 million** and **\$40.6 million**, respectively, as collateral for local agency deposits.

NOTE 19 **18** – **SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the filing of this Quarterly Report on Form 10-Q and determined that there have been no events that have occurred that would require adjustments to our disclosures in the condensed consolidated financial statements.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about, among other things,

expectations of the business environment in which we operate, projections of future performance or financial items, perceived opportunities in the market, potential future credit experience, and statements regarding our mission and vision. These forward-looking statements are based upon current management expectations and may, therefore, involve risks and uncertainties. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors including, but not limited to:

- potential adverse impacts to economic conditions in general and in California, Nevada, Colorado, New Mexico and Washington specifically, other markets where the Company has lending relationships, or other aspects of the Company's business operations or financial markets, including, without limitation, as a result of employment levels, labor shortages and the effects of inflation, a potential recession, or slowed economic growth caused by increasing political instability from acts of war, as well as supply chain disruptions;
- changes in the interest rate environment, including the recent increases in the Board of Governors of the Federal Reserve System ("Federal Reserve") benchmark rate and duration at which such increased interest rate levels are maintained, which could adversely affect our revenues and expenses, the values of our assets and obligations, and the availability and cost of capital and liquidity;
- the impact of continuing high inflation and the current and future monetary policies of the Federal Reserve in response thereto;
- the effects of any federal government shutdown;
- **expected revenues, cost savings, synergies and other benefits from our recent acquisition of Pacific Enterprise Bancorp ("PEB") might not be realized within the expected time frames or at all and costs or difficulties relating to integration matters, including but not limited to client and employee retention, might be greater than expected;**
- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for credit losses and provision for credit losses;
- changes in the levels of general interest rates and the relative differences between short and long-term interest rates and loan and deposit interest rates;
- the possibility that unexpected outflows of uninsured deposits may require us to sell investment securities at a loss;
- our net interest margin and funding sources;
- fluctuations in the demand for loans and the number of unsold homes, land and other properties;
- fluctuations in real estate values in our market areas;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- results of examinations of us by regulatory authorities and the possibility that any such regulatory authority may, among other things, limit our business activities, require us to change our business mix, increase our allowance for credit losses, write-down asset values or increase our capital levels, affect our ability to borrow funds or maintain or increase deposits;
- risks related to our acquisition strategy, including our ability to identify future suitable acquisition candidates, exposure to potential asset and credit quality risks and unknown or contingent liabilities, the need for capital to finance such transactions, our ability to obtain required regulatory approvals and possible failures in realizing the anticipated benefits from acquisitions;
- challenges arising from attempts to expand into new geographic markets, products, or services;
- future goodwill impairment due to changes in our business, market conditions, or other factors;

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- the impact of bank failures or adverse developments at other banks and related negative press about the banking industry in general on investor and depositor sentiment;
- review of the Company's accounting, accounting policies and internal control over financial reporting;
- risks and uncertainties related to the recent restatement of certain of our historical consolidated financial statements;

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- the subsequent discovery of additional adjustments to the Company's previously issued financial statements;

- legislative or regulatory changes that adversely affect our business, including changes in banking, securities and tax laws, in regulatory policies and principles, or the interpretation of regulatory capital or other rules, and other governmental initiatives affecting the financial services industry;
- our ability to attract and retain deposits;
- our ability to control operating costs and expenses;
- the use of estimates in determining the fair value of certain of our assets and liabilities, which estimates may prove to be incorrect and result in significant changes in valuation;
- difficulties in reducing risk associated with the loans and securities on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- the effectiveness of our risk management framework;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or on the third-party vendors who perform several of our critical processing functions, which could expose us to litigation or reputational harm;
- an inability to keep pace with the rate of technological advances;
- risks associated with dependence on our Chief Executive Officer and other members of our senior management team and our ability to attract, motivate and retain qualified personnel;
- costs and effects of litigation, including settlements and judgments;
- our ability to implement our business strategies and manage our growth;
- liquidity issues, including our ability to borrow funds or raise additional capital, if necessary or desired;
- the loss of our large loan and deposit relationships;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common stock;
- the quality and composition of our securities portfolio and the impact of any adverse changes in the securities markets;
- the inability of key third-party providers to perform their obligations to us;
- changes in accounting principles, policies or guidelines and practices, as may be adopted by the financial institution regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board;
- the effects of climate change, severe weather events, natural disasters, pandemics, epidemics and other public health crises, acts of war or terrorism, civil unrest and other external events on our business;
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and
- risks described in other reports filed with or furnished to the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K/A 10-K for the year ended December 31, 2022 December 31, 2023 ("20222023 Annual Report") and this Form 10-Q.

In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this report might not occur, and you should not put undue reliance on any forward-looking statements. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to us. We do not undertake and specifically disclaim any obligation to revise any forward-looking statements included in this report or the reasons why actual results could differ from those contained in such statements, whether as a result of new information or to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such

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statements. These risks could cause our actual results for the remainder of 20232024 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of us and could negatively affect our consolidated financial condition and consolidated results of operations as well as our stock price performance.

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Executive Overview

General. BayCom is a bank holding company headquartered in Walnut Creek, California. BayCom's wholly owned banking subsidiary, United Business Bank, provides a broad range of financial services to businesses and business owners as well as individuals through its network of 35 full-service branches, with 17 locations in California, one in Nevada, two in Washington, five in New Mexico and 11 in Colorado. The Company's business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Accordingly, the information set forth in this report, including the consolidated financial statements and related data, relate primarily to the Bank.

Our principal objective is to continue to increase shareholder value and generate consistent earnings growth by expanding our commercial banking franchise through both strategic acquisitions and organic growth. Since 2010, we have expanded our geographic footprint through 10 strategic acquisitions. We believe our strategy of selectively acquiring and integrating community banks has provided us with economies of scale and improved our overall franchise efficiency. Looking forward, we expect to continue to pursue strategic acquisitions and believe our targeted market areas present us with many and varied acquisition opportunities. We are also focused on continuing to grow organically and believe the metropolitan and community markets in which we operate currently provide meaningful opportunities to expand our commercial client base and increase both interest-earning assets and market share. We believe our geographic footprint, which now includes the San Francisco Bay area, the metropolitan markets of Los Angeles, California, Las Vegas, Nevada, Seattle, Washington, and Denver, Colorado, and community markets including Albuquerque, New Mexico, and Custer, Delta, and Grand counties, Colorado, provides us with access to low cost, stable core deposits that we can use to fund commercial loan growth. We strive to provide an enhanced banking experience for our clients by providing them with a comprehensive suite of sophisticated banking products and services tailored to meet their needs, while delivering the high-quality, relationship-based client service of a community bank. At September 30, 2023 March 31, 2024, on a consolidated basis, the Company had approximately \$2.6 billion in total assets, \$2.0 billion \$1.9 billion in total loans, \$2.2 billion \$2.1 billion in total deposits and \$307.3 million \$314.2 million in shareholders' equity.

We continue to focus on growing our commercial loan portfolios through acquisitions as well as organic growth. At September 30, 2023 March 31, 2024, our \$2.0 billion total loan portfolio included \$426.6 \$370.8 million, or 21.7 19.7% of acquired loans (all of which were recorded to their estimated fair values at the time of acquisition), and the remaining \$1.5 billion, or 78.3% 80.3%, consisted of loans we originated.

The profitability of our operations depends primarily on our net interest income after provision for credit losses, which is the difference between interest earned on interest earning assets and interest paid on interest bearing liabilities less provision for credit losses. Our net income is also affected by other factors, including the provision for credit losses on loans, noninterest income and noninterest expense.

On February 1, 2022, the Company completed its acquisition of PEB, which was headquartered in Irvine, California. Under the terms of the merger agreement, PEB merged with and into BayCom (the "Merger"), with BayCom as the surviving corporation in the Merger. Immediately following the Merger, Pacific Enterprise Bank, a wholly-owned subsidiary of PEB, merged with and into United Business Bank, a wholly-owned subsidiary of BayCom (the "Bank Merger"), with the Bank as the surviving bank in the Bank Merger. For additional information, see "Note 3 – Acquisitions" contained in the Notes to Condensed Consolidated Financial Statements included in "Item 1. Financial Information" of Part I of this report.

Set forth below is a discussion of the primary factors affecting our results of operations:

Net interest income. Net interest income represents interest income less interest expense. We generate interest income from interest and fees received on interest earning assets, including loans and investment securities and dividends on Federal Home Loan Bank of San Francisco ("FHLB") and Federal Reserve Bank of San Francisco ("FRB") stock we own. We incur interest expense from interest paid on interest bearing liabilities, including interest bearing deposits and

borrowings. To evaluate net interest income, we measure and monitor: (i) yields on our loans and other interest earning assets; (ii) the costs of our deposits and other funding sources; (iii) our net interest margin; and (iv) the regulatory risk weighting associated with our assets. Net interest margin is calculated as the annualized net interest income divided by average interest earning assets. Because noninterest bearing sources of funds, such as noninterest bearing deposits and shareholders' equity, also fund interest earning assets, net interest margin reflects the benefit of these noninterest bearing sources.

Changes in market interest rates, the slope of the yield curve, and interest we earn on interest earning assets or pay on interest bearing liabilities, as well as the volume and types of interest earning assets, interest bearing and noninterest bearing liabilities and shareholders' equity, usually have the largest impact on changes in our net interest spread, net interest margin and net interest income during a reporting period. Since ~~March 2022~~ January 1, 2023 through the quarter ended ~~September 30, 2023~~ March 31, 2024, in response to inflation, the Federal Open Market Committee ("FOMC") of the Board of Governors of the Federal Reserve System ("Federal Reserve") has increased the target range for the federal funds rate ~~by 525 basis points, including 100 basis points during the first nine months to a~~

range of 5.25% to 5.50%. The increase in the average yield on interest-earning assets during the three ~~and nine~~ months ended ~~September 30, 2023~~ March 31, 2024 reflects the lagging benefit of variable rate interest-earning assets beginning to reprice higher. We believe our balance sheet is structured to enhance our net interest margin if the FOMC continues to raise the targeted federal funds rate.

Noninterest income. Noninterest income consists of, among other things: (i) service charges on loans and deposits; (ii) gain on sale of loans; and (iii) gain (loss) on equity securities; and (iv) other noninterest income. Gain on sale of loans includes income (or losses) from the sale of the guaranteed portion of Small Business Administration ("SBA") loans, capitalized loan servicing rights and other related income.

Provision for credit losses. We established an allowance for credit losses by charging amounts to provision for credit losses at a level required to reflect estimated credit losses in the loan and available-for sale investment securities portfolios. For loans, management considers many factors including historical experience, types and amounts of the portfolio and adverse situations that may affect borrowers' ability to repay, among other factors. See "Critical Accounting Policies and Estimates - Allowance for Credit Losses" for a description of the manner in which the provision for credit losses is established.

For investments, the Company evaluates investment available-for-sale debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis is due to credit-related factors or noncredit-related factors. Such situations may result from either a decline in the financial condition of the issuing entity or in the case of fixed interest rate investments, from rising interest rates. In making this assessment, management considers the length of time and the extent to which fair value is less than amortized cost, the nature of the security, the underlying collateral, and the financial condition and prospects of the issuer, among other factors. This assessment also includes a determination of whether the Company intends to sell the security, or if it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses. If this assessment indicates a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses for available-for-sale securities is recorded for the credit loss, limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses for available-for-sale securities is recognized in other comprehensive income. Changes in the allowance for credit losses for available-for-sale securities are recorded as provision for (or reversal of) credit loss. Losses are charged against the allowance for credit losses for available-for-sale securities, with a corresponding adjustment to the security's amortized cost basis, when management believes the uncollectibility of an available-for-sale security is confirmed or when either criteria regarding intent or requirement to sell is met.

Noninterest expense. Noninterest expense includes, among other things: (i) salaries and related benefits; (ii) occupancy and equipment expense; (iii) data processing; (iv) Federal Deposit Insurance Corporation ("FDIC") and state assessments; (v) outside and professional services; and (vi) other general and administrative expenses, including amortization of intangible assets. Salaries and related benefits include compensation, employee benefits and employment tax expenses for our personnel. Occupancy and equipment expense includes depreciation expense on our owned properties and equipment, lease expense on our leased properties and other occupancy-related expenses. Data processing expense

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includes fees paid to our third-party data processing system provider and other data service providers. FDIC and state assessments expense represents the assessments that we pay to the FDIC for deposit insurance and other regulatory costs to various states. Outside and professional fees include legal, accounting, consulting and other outsourcing arrangements. Amortization of intangibles represents the amortization of our core deposit intangible from various acquisitions. Other general and administrative expenses include expenses associated with travel, meals, training, supplies and postage. Noninterest expenses generally increase as we grow our business. Noninterest expenses have increased significantly over the past few years as we have grown through acquisitions and organically, and as we have built out our operational infrastructure.

Critical Accounting Policies and Estimates

Our consolidated accounting and reporting policies conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practices within the Banking industry. To prepare financial statements are prepared in accordance with GAAP. In doing so, we have to make estimates and assumptions. Our critical accounting estimates are those estimates that involve a significant level of uncertainty at the time the estimate was made, and changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, that would have a material impact on our financial condition or results of operations. Accordingly, actual results could differ materially from our estimates. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We have reviewed our critical accounting estimates with the audit committee of our Board of Directors. Our critical accounting estimates are described in detail in the Critical Accounting Estimates section of our 2022 Annual Report. There have been no significant changes to our critical accounting estimates since December 31, 2022, except for the following:

On January 1, 2023, the Company adopted ASU 2016-03 *Financial Instruments — Credit Losses (ASC 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized costs, including loan receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require increases or decreases in credit losses be presented as an allowance rather than as a write-down on available for sale debt securities, based on management's intent to sell the security or likelihood the Company will be required to sell the security, before recovery of the amortized cost basis.

Allowance for credit loan losses for investment securities available-for-sale. The Company evaluates investment securities available-for-sale in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Impairment may result from either a decline in the financial condition of the issuing entity or in the case of fixed interest rate investments, from rising interest rates. In making this assessment, management considers the length of time and the extent to which fair value is less than amortized cost, the nature of the security, the underlying collateral, and the financial condition and prospects of the issuer, among other factors. This assessment also includes a determination of whether the Company intends to sell the security, or it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis less any current-period credit losses.

Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Changes in the allowance for available-for-sale securities are recorded as

provision for (or reversal of) credit loss. However, if the uncollectibility of an available-for-sale security is confirmed or if the Company intends to sell an impaired available-for-sale debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis.

Allowance for credit losses for loans. The allowance for credit losses ("ACL") for loans is the combination of the allowance for credit losses for loans and the reserve for unfunded loan commitments. The allowance for credit losses for loans is reported as a reduction of the amortized cost basis of loans, while the reserve for unfunded loan commitments is included within "Interest payable and other liabilities" on the consolidated balance sheets. The

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amortized cost basis of loans does not include accrued interest receivable, which is included in "Interest receivable and other assets" on the consolidated balance sheets. The "Provision for credit losses" on the consolidated statements of income (loss) is a combination of the provision for credit losses for loans, the provision for unfunded loan commitments, and the provision for investment securities available-for-sale.

Under the CECL methodology, expected credit losses reflect expected losses over the remaining contractual life of an asset, considering the effect of prepayments and available information about the collectability of cash flows, including information about relevant historical experience, current conditions, and reasonable and supportable forecasts of future events and circumstances. Thus, the CECL methodology incorporates a broad range of information in developing credit loss estimates. The CECL methodology could result in significant changes to both the timing and amounts of provision for credit losses and the allowance as compared to historical periods. Loans that are deemed to be uncollectable are charged off and deducted from the allowance. The provision for credit losses and recoveries on loans previously charged off are added to the allowance. Regardless of the determination that a charge-off is appropriate for financial accounting purposes, the Company manages its loan portfolio by continually monitoring, where possible, a borrower's ability to pay through the collection of financial information, delinquency status, borrower discussion and the encouragement to repay in accordance with the original contract or modified terms, if appropriate.

The allowance for credit losses for loans is comprised of an individually evaluated component for loans that no longer share similar risk characteristics with other loans and a pooled loans component for loans that share similar risk characteristics.

A loan with an outstanding balance greater than \$100,000 is individually evaluated for expected credit loss when it is probable that we will be unable to collect all amounts due according to the original contractual terms of the loan agreement. We select loans for individual assessment on an ongoing basis using certain criteria such as payment performance, borrower reported and forecasted financial results, and other external factors when appropriate. Loans that do not share the same risk characteristics as pooled loans are evaluated individually for credit loss and generally include all nonaccrual loans, collateral dependent loans, and certain troubled debt restructured loans. We measure the current expected credit loss of an individually evaluated loan based upon the fair value of the underlying collateral, adjusted for costs to sell when applicable, or if the loan is not collateral-dependent we utilize the present value of expected future cash flows, discounted at the effective interest rate. A loan for which the terms have been modified resulting in a concession, and where the borrower is experiencing financial difficulties, is considered a modified loan to a borrower experiencing financial difficulty. The ACL on modified loans to borrowers experiencing financial difficulty is measured using the same method as individually evaluated loans. When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan. To the extent a loan balance exceeds the estimated collectable value, a reserve or charge-off is recorded depending upon either the certainty of the estimate of loss or the fair value of the loan's collateral if the loan is collateral-dependent.

Our CECL methodology for the pooled loans component includes both quantitative and qualitative loss factors which are applied to our population of loans and assessed at a pool level. The quantitative CECL model estimates credit losses by applying pool-specific probability of default ("PD") and loss given default ("LGD") rates to the expected exposure at default ("EAD") over the contractual life of loans. The qualitative component considers internal and external risk factors that may not be adequately assessed in the quantitative model. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments and curtailments, when appropriate. The pooled loans' contractual loan terms exclude extensions, renewals, and modifications. To estimate future prepayments by loan pool, we use our actual

historical loan prepayment experience over a trailing time period, adjusted for forecasted economic conditions, to estimate future prepayments by loan pool. To estimate curtailment by loan pool we use our actual historical loan curtailment experience over a trailing time period, adjusted for forecasted economic conditions. Where observations in either case may be insufficient, the global rate, which is simply the aggregate performance of all loan segments of the Bank, is used.

The ACL model utilizes a discounted cash flow ("DCF") method to measure the expected credit losses on loans collectively evaluated that are sub-segmented by loan pools with similar credit risk characteristics, which generally interim

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correspond to federal regulatory reporting codes (i.e., Call codes), financial statements in conformity with PCD assets pooled separately by similar loan pools to evaluate GAAP, management makes estimates, assumptions and measure the allowance for credit loss:

- Loans secured by real estate:
 - 1-4 family residential construction loans and other construction loans and all land development and other land loans
 - Secured by farmland and finance agricultural production and other loans to farmers
 - Revolving, open-end loans secured by 1-4 family residential properties extended under lines of credit and closed-end loans secured by 1-4 family residential properties, secured by junior liens
 - Closed-end loans secured by 1-4 family residential properties, secured by first liens
 - Commercial real estate loans secured by owner-occupied non-farm nonresidential properties
 - Commercial real estate loans secured by other non-farm nonresidential properties and
 - Secured by multifamily (5 or more units) residential properties
- Commercial and industrial loans
- Loans to individuals for household, family and other personal expenditures (i.e., consumer loans)
- Paycheck Protection Program loans (which are fully government guaranteed)

In determining the PD for each pooled segment, the Bank utilized regression analyses to identify certain economic drivers that were considered highly correlated to historical Bank or peer loan default experience. The regression models developed correlate macroeconomic variables to historical credit performance judgments based on call report data over a 64 quarter (16-year) period which captures a full economic cycle from 2004 to 2019. We elected to exclude historical data from 2020 - 2021 to assess available information. These estimates, assumptions and judgments affect the quantitative expected credit losses because we believe that period is an outlier and did not represent normal economic behavior considering the Covid-19 pandemic lockdown with changes in macroeconomic variables and the significant levels of government relief programs in place during that period. For all segments, the Company's actual loss history was not statistically relevant, thus the loss history of peers, defined as commercial financial institutions with asset size of one to five billion, domiciled in California, with similar concentrations of lending were utilized to determine loss rates. The peers utilized amounts reported in the ACL are segment specific. Additionally, management chose the national unemployment rate financial statements and U.S. gross domestic product as the primary economic forecast drivers for all segments. A third party provides LGD estimates for each segment based on a banking industry Frye-Jacobs Risk Index approach.

In its loss forecasting framework, the Company incorporates forward-looking information through the use of macroeconomic scenarios applied over the forecasted life of the assets. The quantitative CECL model applies the projected rates based on the economic forecasts for the four quarter (one-year) reasonable accompanying notes; and supportable forecast horizon to EAD to estimate defaulted loans. The economic data is updated quarterly, which is based on Federal Reserve Economic Data ("FRED") forecasts. Historical LGD rates are applied to estimated defaulted loans to determine estimated credit losses. For periods beyond the forecast horizon, the economic factors revert to historical averages on a straight-line basis over an eight-quarter (two-year) period. Subsequent to the reversion period for the remaining contractual life of loans and leases, the PD, LGD, and prepayment rates are based on historical experience during a full economic cycle.

Management considers whether adjustments to the quantitative portion information available as of the ACL are needed for differences in segment-specific risk characteristics or to reflect date of the extent to which it expects current conditions and reasonable and supportable forecasts of economic conditions to financial statements. As this information changes, actual results could differ from the conditions that existed

during the historical period included estimates, assumptions and judgments reflected in the development of PD and LGD. Qualitative internal and external risk factors include, but are not limited financial statements. In particular, management has identified several accounting policies that, due to the following:

- Changes in the nature and volume of the loan portfolio
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans
- Changes in lending policies and procedures, including changes in underwriting standards and collection
- Changes in economic and business conditions, and developments that affect the collectability of the portfolio
- Changes in the experience, ability, and depth of credit management and lending staff
- Changes in the quality of our systematic loan review processes
- Changes in the value of underlying collateral, where applicable

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- Changes in concentration of credit
- The effect of other external factors such as legal estimates, assumptions and regulatory requirements on the level of estimated credit losses judgments inherent in the portfolio

PCD assets are assets acquired at a discount that is due, in part, to credit quality deterioration since origination which may be determined through observation of missed payments, downgrade in risk rating, deterioration of a borrower's financial trends or other observable factors including subjectivity utilized by management. PCD assets are initially recorded at fair value, by taking the sum of the present value of expected future cash flows These critical accounting policies and an allowance for credit losses, at acquisition. The allowance for credit losses for PCD assets is recorded through a gross-up of reserves on the consolidated balance sheets, while the allowance for acquired non-PCD assets, such as loans, is recorded through the provision for credit losses on the consolidated statements of income, consistent with originated loans. Subsequent to acquisition, estimates include determining the allowance for credit losses for PCD loans will generally follow and related provision. The following is a discussion of the same forward-looking estimation, provision, critical accounting policies and charge-off process significant estimates that require us to make complex and subjective judgments. There have been no material changes in the Company's critical accounting policies and estimates as non-PCD acquired previously disclosed in the Company's 2023 Form 10-K. For a detailed discussion, refer to "Management's Discussion and originated loans."

The estimated credit losses associated Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" in the 2023 Form 10-K filed with unfunded lending commitments are calculated using the same models and methodologies noted above and incorporate utilization assumptions at the estimated time of default. While the provision for credit losses associated with unfunded commitments is included in "provision for credit losses" SEC on the consolidated statement of income, the reserve for unfunded commitments is maintained on the consolidated balance sheet in "Interest payable and other liabilities" March 15, 2024.

Comparison of Financial Condition at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023

Total assets. Total assets increased \$61.1 million \$8.7 million, or 2.4% 0.3%, to \$2.6 billion at September 30, 2023 March 31, 2024, from December 31, 2022 December 31, 2023. The increase primarily was due to cash and cash equivalents increasing \$125.1 million \$40.8 million, or 70.8% 13.3% and investment securities available-for-sale increasing \$4.8 million, or 2.9%, partially offset by decreases in loans receivable, net, of \$53.2 million \$38.0 million or 2.7% and investment securities available-for-sale of \$8.2 million or 5.3% 2.0%. In addition, interest receivable and other assets increased \$2.0 million decreased \$848,000 or 4.5% 1.8%, equity securities decreased \$2.1 million increased \$573,000 or 15.4% 4.6%, and loans held for sale decreased \$1.1 million or 46.5% increased \$1.7 million.

Cash and cash equivalents. Cash and cash equivalents increased \$125.1 million \$40.8 million, or 70.8% 13.3%, to \$301.9 million \$348.3 million, at September 30, 2023 March 31, 2024, from \$176.8 million \$307.5 million at December 31, 2022 December 31, 2023.

The increase primarily was due to a **\$121.7 million** **\$38.3 million** increase in federal funds sold and interest bearing balances in banks **during the nine months ended September 30, 2023, consistent due to repayment on loans coupled with management's strategy to increase liquidity following the recent turmoil decline in the banking industry resulting from several recent high profile bank failures.** loan demand.

Investment securities available-for-sale. Investment securities available-for-sale **decreased \$8.2 million** **increased \$4.8 million**, or **5.3% 2.9%**, to **\$145.8 million** **\$167.9 million** at **September 30, 2023** **March 31, 2024** from **\$154.0 million** **\$163.2 million** at **December 31, 2022** **December 31, 2024**. The **decrease increase** primarily was due to the **purchase of \$7.1 million of investment securities and unrealized losses** **gains** on investment securities available-for-sale of **\$8.0 million** **\$696,000** as a result of fair value adjustments, and partially offset by the routine amortization and repayment of investment principal balances and securities called and matured of **\$6.3 million**, partially offset **\$3.0 million** during the three months ended March 31, 2024.

The following table sets forth certain information regarding contractual maturities and the weighted average yields of our available for sale investment securities as of March 31, 2024. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average yields were calculated by multiplying each carrying value by its yield and dividing the sum of these results by the **purchase of \$6.4 million of investment securities during the nine months ended September 30, 2023** total carrying values. Yields on tax-exempt investments are not calculated on a fully tax equivalent basis.

	Amount Due or Repricing Within:										
	One Year or Less		Over One to Five Years		Over Five to Ten Years		Over Ten Years		Total		
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	
	(Dollars in thousands)										
Municipal securities	\$ 2,503	2.34 %	\$ 7,462	1.47 %	\$ 10,919	2.94 %	\$ 2,196	3.90 %	\$ 23,080	2.49 %	
Mortgage-backed securities	1,379	2.51	3,366	3.19	10,352	2.46	25,402	3.98	40,499	3.47	
Collateralized mortgage obligations	6	2.50	2,175	4.00	2,501	2.56	33,105	4.07	37,787	3.96	
SBA securities	—	—	282	6.88	2,199	5.02	2,473	6.57	4,954	5.90	
Corporate bonds	992	9.55	3,000	5.00	76,650	4.44	749	3.37	81,391	4.51	
Total	<u>\$ 4,880</u>	<u>3.86 %</u>	<u>\$ 16,285</u>	<u>2.91 %</u>	<u>\$ 102,621</u>	<u>4.05 %</u>	<u>\$ 63,925</u>	<u>4.11 %</u>	<u>\$ 187,711</u>	<u>3.97 %</u>	

Equity securities. Equity securities **decreased \$2.1 million**, **increased \$573,000**, or **15.4% 0.6%**, to **\$11.6 million** **\$13.2 million** at **September 30, 2023** **March 31, 2024** from **\$13.8 million** **\$12.6 million** at **December 31, 2022** **December 31, 2023**, primarily due to a **\$2.1 million** **\$573,000** mark-to-market **downward** **upward** adjustment recorded during the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

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Loans receivable, net. We originate a wide variety of loans with a focus on commercial real estate ("CRE") loans and commercial and industrial loans. Loans receivable, net decreased **\$53.2 million** **\$38.0 million**, or **2.7% 2.0%**, to **\$1.9 billion** at **September 30, 2023** **March 31, 2024** from **December 31, 2022** **December 31, 2023**. The decrease was due to **\$180.0 million** **\$72.4 million** of loan repayments, **including \$6.7 million in Paycheck Protection Program ("PPP") loans, and \$7.2 million in loan sales**, partially offset by **\$135.0 million** **\$32.0 million** of new loan originations.

The following table provides information about our loan portfolio by type of loan, with purchase credit deteriorated ("PCD") loans presented as a separate balance, at the dates presented.

	March 31,		December 31,		% Change	
	2024		2023			
	(Dollars in thousands)					
Commercial and industrial (1)	\$ 160,401	\$ 162,691			(1.4)%	
Real estate:						
Residential	83,472	85,555			(2.4)	
Multifamily residential	240,995	246,840			(2.4)	
Owner occupied CRE	483,218	497,360			(2.8)	
Non-owner occupied CRE	882,751	899,332			(1.8)	
Construction and land	9,596	9,534			0.7	
Total real estate	1,700,032	1,738,621			(2.2)	
Consumer	570	738			(22.8)	
PCD loans	25,735	25,723			0.0	
Total Loans	1,886,738	1,927,773			(2.1)	
Net deferred loan fees	(8)	56			(114.0)	
Allowance for credit losses	(18,890)	(22,000)			(14.1)	
Loans, net	\$ 1,867,840	\$ 1,905,829			(2.0)%	

(1) Includes \$2.9 million and \$3.8 million of Paycheck Protection Program ("PPP") loans as of March 31, 2024 and December 31, 2023, respectively.

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	September 30,		December 31,		% Change	
	2023		2022			
	(Dollars in thousands)					
Commercial and industrial (1)	\$ 170,738	\$ 184,521			(7.5)%	
Real estate:						
Residential	87,103	109,927			(20.8)	
Multifamily residential	250,649	234,868			6.7	
Owner occupied CRE	514,546	641,815			(19.8)	
Non-owner occupied CRE	909,884	807,996			12.6	
Construction and land	8,404	9,109			(7.7)	
Total real estate	1,770,586	1,803,715			(1.8)	
Consumer	639	4,183			(84.7)	
PCD loans	26,767	28,787			(7.0)	
Total Loans	1,968,730	2,021,206			(2.6)	
Net deferred loan fees	74	(82)			(190.7)	
Allowance for credit losses (2)	(19,800)	(18,900)			4.8	
Loans, net	\$ 1,949,004	\$ 2,002,224			(2.7)%	

(1) Includes \$4.3 million and \$11.1 million of PPP loans as of September 30, 2023 and December 31, 2022, respectively.

(2) Allowance for credit losses at September 30, 2023 is estimated under CECL whereas at December 31, 2022, the allowance for loan losses is estimated under the incurred loss methodology.

The following table shows as of **September 30, 2023** **March 31, 2024**, the geographic distribution of our loan portfolio by type of loan in dollar amounts and percentages:

San Francisco Bay										Total in State of										San Francisco Bay										Total in State of														
Area (1)					Other California (2)					California					All Other States (3)					Total					Area (1)					Other California (2)					California					All Other States (3)				
%		%		%		%		%		%		%		%		%		%		%		%		%		%		%		%		%		%										
Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in		Total in										
Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category	Amount	Category									
(Dollars in thousands)																				(Dollars in thousands)																								
September																																												
30, 2023																																												
March	31																																											
2024																																												
Commercial		\$ 36,516	8.5 %	\$ 81,042	9.4 %	\$ 117,558	9.1 %	\$ 53,385	7.9 %	\$ 170,943	8.7 %	\$ 36,615	8.8 %	\$ 70,790	8.8 %	\$ 107,405	8.8 %	\$ 5																										
Real estate:																																												
Residential		14,416	3.3	43,130	5.0	57,546	4.4	30,053	4.5	87,599	4.4	12,909	3.1	43,022	5.3	55,931	4.6	2																										
Multifamily																																												
residential		48,751	11.3	109,778	12.7	158,529	12.2	94,843	14.1	253,372	12.9	43,948	10.5	105,954	13.1	149,902	12.2	9																										
Owner occupied																																												
CRE		168,796	39.2	308,752	35.7	477,548	36.9	48,930	7.3	526,478	26.7	167,446	40.2	284,518	35.2	451,964	36.9	4																										
Non-owner occupied																																												
CRE		162,524	37.7	314,151	36.4	476,675	36.8	444,620	66.0	921,295	46.8	156,019	37.4	296,754	36.7	452,773	37.0	44																										
Construction and land		—	—	6,839	0.8	6,839	0.5	1,565	0.2	8,404	0.4	—	—	7,210	0.9	7,210	0.6																											

Total	real														
estate	394,487		782,650		1,177,137		620,011		1,797,148		380,322		737,458		1,117,780
Consumer	4	0.0 %	1	— %	5	— %	634	0.1 %	639	0.0 %	18	— %	1	— %	19
Total loans	\$431,007		\$863,693		\$1,294,700		\$674,030		\$1,968,730		\$416,955		\$808,249		\$1,225,204
December 31,															
2022															
December 31,															
2023															
Commercial															
and industrial	\$ 54,056	7.8 %	\$ 92,546	10.1 %	\$ 146,602	9.1 %	\$ 41,936	10.2 %	\$ 188,538	9.3 %	\$ 35,954	8.5 %	\$ 75,549	9.0 %	\$ 111,503
Real estate:															
Residential	17,112	2.5	52,081	5.7	\$ 69,193	4.3	41,413	10.1	110,606	5.5	13,876	3.3	43,157	5.1	\$ 57,033
Multifamily															
residential	58,533	8.4	108,198	11.8	166,731	10.4	70,974	17.3	237,705	11.8	46,129	10.9	109,214	13.0	155,343
Owner															
occupied															
CRE	242,755	35.0	363,210	39.7	605,965	37.6	52,191	12.7	658,156	32.6	168,977	40.1	292,880	34.9	461,857
Non-owner															
occupied															
CRE	321,523	46.3	289,528	31.6	611,051	37.9	197,804	48.1	808,855	40.0	156,411	37.1	312,362	37.2	468,773
Construction															
and land	—	—	8,678	0.9	8,678	0.5	4,485	1.1	13,163	0.7	—	—	7,217	0.9	7,217
Total	real	—	—	8,678	0.9	8,678	0.5	4,485	1.1	13,163	0.7	—	—	7,217	0.6
estate	639,923		821,695		1,461,618		366,867		1,828,485		395,393		764,830		1,150,223
Consumer	391	0.1 %	1,672	0.2 %	2,063	0.1 %	2,120	0.5 %	4,183	0.2 %	4	— %	1	— %	5
Total loans	\$694,370		\$915,913		\$1,610,283		\$410,923		\$2,021,206		\$421,351		\$840,380		\$1,261,731

(1) Includes Alameda, Contra Costa, Solano, Sonoma, Marin, San Francisco, San Mateo and Santa Clara counties.

(2) Includes loans located in Sacramento and Northern California counties totaling \$98.0 million at September 30, 2023, \$94.7 million and loans located in Los Angeles and Orange counties totaling \$524.5 million \$488.9 million at September 30, 2023 March 31, 2024. At December 31, 2022 December 31, 2023, loans in Sacramento and Northern California counties and loans in Los Angeles and Orange counties totaled \$102.1 million \$95.6 million and \$539.6 million \$506.6 million, respectively.

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(3) Includes loans located primarily in the states of Colorado, New Mexico and Washington. At **September 30, 2023** **March 31, 2024**, loans in Colorado, New Mexico and Washington totaled **\$87.9 million** **\$80.4 million**, **\$45.3 million** **\$47.9 million** and **\$104.1 million** **\$102.6 million**, respectively. At **December 31, 2022** **December 31, 2023**, loans in Colorado, New Mexico and Washington totaled **\$97.2 million** **\$87.1 million**, **\$51.3 million** **\$43.9 million** and **\$87.4 million** **\$103.8 million**, respectively.

Acquired loans. As of March 31, 2024, acquired non-PCD loans totaled \$173.3 million with a remaining net premium of \$2.1 million, compared to \$187.7 million with a remaining net premium of \$2.1 million as of December 31, 2023. The net premium for acquired non-PCD loans includes a credit discount based on estimated losses in the acquired loans, partially offset by any premium based on market interest rates on the date of acquisition.

As of March 31, 2024 acquired PCD loans totaled \$27.1 million with a remaining net non-credit discount of \$1.7 million, compared to \$27.5 million with a remaining net non-credit discount of \$1.8 million as of December 31, 2023.

Nonperforming assets and loans. Nonperforming assets generally consists of nonaccrual loans, accruing loans that are 90 days or more past due and other real estate owned ("OREO"). Nonperforming loans generally consist of nonaccrual loans and accruing loans that are 90 days or more past due. Nonperforming assets decreased \$923,000, or 6.1%, to \$14.3 million, or 0.56% of total assets at September 30, 2023 from \$15.2 million, or 0.61% of total assets at December 31, 2022. The decrease in nonperforming assets was primarily due to the renewal of one accruing loan 90 days or more past due and in the process of collection totaling \$934,000 at December 31, 2022, the charge-off of six nonaccrual loans totaling \$356,000 during the nine months ended September 30, 2023, and the payoff during the current quarter of one \$774,000 performing (accruing) modified loan to a borrower experiencing financial difficulty, partially offset by three new nonaccrual real estate loans totaling \$500,000 and one new commercial nonaccrual loan totaling \$1.0 million during the current quarter of 2023. There were no accruing loans 90 days or more past due or OREO other real estate owned ("OREO") at September 30, 2023, compared to \$934,000 of accruing loans 90 days or more past due both March 31, 2024 and \$21,000 of OREO at December 31, 2022 December 31, 2023.

Nonperforming loans, consisting solely of non-accrual loans, totaled \$14.3 million \$16.5 million, or 0.73% 0.87% of total loans, at September 30, 2023 March 31, 2024, compared to \$13.0 million, or 0.67% of which \$801,000 total loans, at December 31, 2023. The increase in nonperforming loans was primarily due to six new loans placed on non-accrual during the current quarter totaling \$7.3 million, partially offset by partial charge-offs of two non-accrual loans totaling \$2.9 million, charge-offs of five non-accrual loans totaling \$435,000 and, to a lesser extent, pay-offs of five non-accrual loans totaling \$305,000. At March 31, 2024, nonperforming loans totaling \$2.2 million were guaranteed by governmental agencies, compared to \$15.2 million, or 0.75% \$740,000 at December 31, 2023. At

[Table of total loans, at December 31, 2022, of which \\$839,000 were guaranteed by governmental agencies. At September 30, 2023](#) [Contents](#)

March 31, 2024 and December 31, 2023, there were no performing (accruing) modified loans to borrowers experiencing financial difficulty. Not included in nonperforming loans at December 31, 2022, was \$759,000 of performing (accruing) modified loans to borrowers experiencing financial difficulty.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, nonaccrual loans included \$2.3 million \$4.0 million and \$2.5 million \$927,000 of loans 30-89 days past due, and \$2.6 million \$1.1 million and \$4.0 million \$2.1 million of loans less than 30 days past due, respectively. At September 30, 2023 March 31, 2024, the \$2.6 million \$1.1 million of nonaccrual loans less than 30 days past due was comprised of 1514 loans, all of which were placed on nonaccrual due to concerns over the financial condition of the borrowers.

During the quarter ended September 30, 2023, the Company determined that a certificate of deposit-secured line of credit loan made to a revocable living trust (the "Trust" or the "Borrower") with an outstanding balance of approximately \$1.0 million as of September 30, 2023 was impaired and placed on nonaccrual as a result of the sole trustee and beneficiary of the Trust filing for personal bankruptcy in July 2023. At June 30, 2023, the loan had an outstanding balance of \$5.0 million and was secured by a \$4.0 million certificate of deposit held at the Bank. An additional \$1.0 million in cash collateral securing the loan had previously been released by the Bank into a third-party escrow account at the request of the Borrower to be used as a refundable retainer in connection with a separate transaction by the Borrower. The loan matured on July 16, 2023, and the Bank received notification that the sole trustee and beneficiary of the Trust filed for personal bankruptcy on July 18, 2023. After receiving this notification, the Bank used the \$4.0 million certificate of deposit held at the Bank to offset amounts owed on the loan and contacted the third-party escrow agent for the return of the additional \$1.0 million of collateral. The Bank was advised by the escrow agent that the previously escrowed funds had been released by the escrow agent, which was done without the Bank's consent and contrary to the written escrow instructions. The Bank has initiated legal action against the Borrower, the Borrower's related parties and the escrow agent to recover the previously escrowed collateral. The results of the legal action and the Bank's ability to recover the previously escrowed collateral are currently uncertain. The loan was fully reserved for at September 30, 2023.

In general, loans are placed on nonaccrual status after being contractually delinquent for more than 90 days, or earlier, if management believes full collection of future principal and interest on a timely basis is unlikely. When a loan is placed on nonaccrual status, all interest accrued but not received is charged against interest income. When the ability to fully collect nonaccrual loan principal is in doubt, cash payments received are applied against the principal balance of the loan until such time as full collection of the remaining recorded balance is expected. Interest received on such loans is recognized as interest income when received. A nonaccrual loan is restored to an accrual basis when principal and interest payments are paid current, and full payment of principal and interest is probable. Loans that are well secured and in the process of collection will remain on accrual status.

Loans may be acquired at a premium or discount to par value, in which case the premium is amortized (subtracted from) or accreted (added to) interest income over the remaining life of the loan. Generally, as time goes on, the effects of

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loan discount accretion and loan premium amortization decrease as the purchased loans mature or pay off early. Upon the early pay off of a loan, any remaining (unaccreted) discount or (unamortized) premium is immediately taken into interest income; as loan payoffs may vary significantly from quarter to quarter, so may the impact of discount accretion and premium amortization on interest income.

Troubled Loan Modifications. Modified loans to borrowers experiencing financial difficulty. Occasionally, the Company offers modifications of loans to borrowers experiencing financial difficulty by providing principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions or any combination of these. When principal forgiveness is provided, the amount of the forgiveness is charged-off against the allowance for credit losses for loans. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is charged off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses for loans is adjusted by the same amount.

Loan modifications to borrowers experiencing financial difficulty as of September 30, 2023 March 31, 2024 totaled \$5.2 million \$3.0 million, of which none were accruing and performing according to their modified terms, compared to \$6.3 million \$4.3 million, of which \$759,000 none were accruing and performing according to their modified terms, at December 31, 2022 December 31, 2023. Modified loans that are accruing and performing according to their modified terms are not considered nonperforming loans as they continue to accrue interest despite their modified status. The related allowance for credit losses on individually evaluated modified loans totaled \$342,000 \$42,000 and \$393,000 \$1.3 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

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The following table provides information regarding nonperforming loans, nonperforming assets and modified loans as of the dates indicated:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Loans accounted for on a nonaccrual basis:				
Commercial and industrial	\$ 1,944	\$ 869	\$ 1,667	\$ 2,072
Real estate:				
Residential	1,554	2,213	1,463	1,496

Multifamily residential	5,315	5,351	8,075	5,305
Owner occupied CRE	5,023	5,491	4,687	3,573
Non-owner occupied CRE	119	365	233	165
Construction and land	366	—	366	366
Total real estate	12,377	13,420	14,824	10,905
Consumer	—	—	—	—
Total nonaccrual loans	14,321	14,289	16,491	12,977
Accruing loans 90 days or more past due	—	934	—	—
Total nonperforming loans	14,321	15,223	16,491	12,977
Real estate owned	—	21	—	—
Total nonperforming assets (1)	\$ 14,321	\$ 15,244	\$ 16,491	\$ 12,977
Modified loans to borrowers experiencing financial difficulty – performing	—	759	\$ —	\$ —
PCD loans	\$ 26,767	\$ 28,787	\$ 25,735	\$ 25,723
Nonperforming assets to total assets (1)	0.56 %	0.61 %	0.64 %	0.51 %
Nonperforming loans to total loans (1)	0.73 %	0.75 %	0.87 %	0.67 %

(1) Performing modified loans to borrowers experiencing financial difficulty are neither included in nonperforming loans above nor are they included in the numerators used to calculate these ratios.

Interest foregone on nonaccrual loans was approximately \$173,000 \$483,000 and \$593,000 \$235,000 for the three and nine months ended September 30, 2023, March 31, 2024 and \$230,000 and \$388,000 for the three and nine month ended September 30, 2022, 2023, respectively, none of which was included in interest income. Interest income recognized on nonaccrual loans was approximately \$7,200 and \$65,000 for the three months ended March 31, 2024 and 2023, respectively.

Allowance for credit losses for loans and unfunded commitments. The allowance for credit losses for loans is maintained to cover losses that determined by us on a quarterly basis, although we are estimated engaged in accordance with GAAP. It is our estimate monitoring the appropriate level of credit losses inherent in our

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loan portfolio at each balance sheet date. Our methodology for analyzing the allowance on a more frequent basis. We assess the allowance for credit losses for loans consists of general and specific components. For the general component, we stratify the loan portfolio into homogeneous groups of loans that possess similar loss potential characteristics and apply a loss ratio to these groups of loans to estimate the credit losses in the loan portfolio. We use both historical loss ratios and qualitative loss factors assigned to major loan collateral types to establish general component loss allocations. Qualitative loss factors are based on management's judgment of company, market, industry or business specific data three categories: (i) originated loans, (ii) acquired non-PCD loans, and external economic indicators, which may not yet be reflected in the historical loss ratios, and that could impact our loan portfolio. Management and the Board of Directors set and adjust qualitative loss factors by regularly reviewing changes in underlying loan composition and the seasonality of specific portfolios. Management and the Board of Directors also consider credit quality and trends relating to delinquency, nonperforming and classified loans within our loan portfolio when evaluating qualitative loss factors. Additionally, management and the Board of Directors adjust qualitative factors to account for the potential impact of external economic factors, including the unemployment rate, vacancy rates, capitalization rates, commodity prices and other pertinent economic data specific to our primary market area and lending portfolios.

For the specific component, the (iii) acquired PCD loans. The allowance for credit losses for loans is established for individually evaluated loans. Management evaluates reflects management's estimate of current information and events regarding a borrower's ability to repay its obligations and considers a loan to be impaired when the ultimate collectability of amounts due, according to the contractual terms of expected credit losses inherent in the loan agreement, is in doubt. If an individually evaluated loan is collateral-dependent, the fair value portfolios. The computation includes elements of the collateral, less the estimated cost to sell, is used to determine the amount judgment

and high levels of impairment. If an individually evaluated loan is not collateral-dependent, the impairment amount is determined using the negative difference, if any, between the estimated discounted cash flows and the loan amount due. For individually evaluated loans, the amount of the impairment can be adjusted, based on current data, until such time as the actual basis is established by acquisition of the collateral or until the basis is collected. Impairment losses are reflected in the allowance for credit losses for loans through a charge to the provision for credit losses. Subsequent recoveries are credited to the allowance for credit losses for loans. Cash receipts for accruing loans are applied to principal and interest under the contractual terms of the loan agreement. Cash receipts on nonaccrual loans for which the accrual of interest has been discontinued are applied first to principal.

Estimated credit losses for unfunded loan commitments are calculated using the same models and methodologies noted above and incorporate utilization assumptions at the estimated time of default. While the provision for credit losses for unfunded loan commitments is included in "provision for (reversal of) credit losses" on the consolidated statement of income, the reserve for unfunded loan commitments is maintained on the consolidated balance sheet in interest payable and other liabilities subjectivity.

The Company adopted the CECL standard as of December 15, 2022, which resulted in a one-time adjustment to the allowance for credit losses for loans of \$1.5 million (which included the reclassification of the net credit discount on acquired PCD loans totaling \$845,000) and an allowance for unfunded credit commitments of \$45,000, as well as an after-tax decrease to opening retained earnings of \$491,000 on January 1, 2023.

At September 30, 2023 March 31, 2024, the Company's allowance for credit losses for loans was \$19.8 million under the CECL framework, \$18.9 million, or 1.01% 1.00% of total loans, compared to an allowance for loan losses of \$18.9 million under the allowance for loan losses incurred loss framework, \$22.0 million, or 0.94% 1.14% of total loans, at December 31, 2022 December 31, 2023. In addition to Based on the CECL adjustment on January 1, 2023, a \$201,000 reversal current conditions of the loan portfolio, management believes that the \$18.9 million allowance for credit losses for loans was recorded for the nine months ended September 30, 2023, compared at March 31, 2024 is adequate to \$7,000 provision for loan losses for the nine months ended September 30, 2022. The reversal of the allowance for absorb expected credit losses for loans primarily resulted from \$399,000 inherent in net charge-offs for the nine months ended September 30, 2023, coupled with improvements in forecasted Company's loan portfolio. No assurance can be given, however, that adverse economic conditions specifically, national gross domestic product and national unemployment, indicators utilized to estimate creditor other circumstances will not result in increased losses and, to a lesser extent, a decrease in outstanding loan balances, partially offset by an overall increase in reserves for individually evaluated loans, and increase in qualitative reserves, the portfolio.

We recorded net charge-offs of \$24,000 \$3.4 million and \$399,000 \$315,000 for the three and nine months ended September 30, 2023, March 31, 2024 and \$944,000 and \$3.5 million for the three and nine months ended September 30, 2022, 2023, respectively. The calculation of the allowance for credit losses for loans at September 30, 2023 March 31, 2024 and the allowance for loan losses at December 31, 2022 December 31, 2023, excludes the balance of PPP loans held in portfolio as of those dates as PPP loans are fully guaranteed by the SBA. The increase in activity in net charge-offs during the first quarter of 2024 involved partial charge-offs of two non-accrual loans totaling \$2.9 million, as well as complete write-offs of five non-accrual loans totaling \$435,000. At December 31, 2023, \$3.2 million of the nonaccrual loan charge-offs were specifically reserved for. These actions were taken due to collateral shortfalls deemed uncollectable.

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In accordance with acquisition accounting, loans acquired from acquisitions were recorded at their estimated fair value, which resulted in a net discount to the loans' contractual amounts. Credit discounts are included in the determination of fair value and as a result, no allowance for credit losses for loans is recorded for acquired loans at the acquisition date. However, the allowance for credit loss includes an estimate for credit deterioration of acquired loans that occurs after the date of acquisition, which is included in the credit loss provision in the period that the deterioration occurred. The discount recorded on the acquired loans is not reflected in the allowance for credit losses for loans or related allowance coverage ratios. As of September 30, 2023, acquired loans net of their discount totaled \$224.4 million and the remaining net discount on these acquired loans was \$419,000, compared to \$257.4 million of acquired loans and \$522,000 of net discounts at December 31, 2022. The net discount includes a credit discount based on estimated losses in the acquired loans partially offset by a premium, if any, based on market interest rates on the date of acquisition.

The following table presents certain credit ratios at the dates and for the periods indicated and each component of the ratio's calculations:

	Three months ended March 31,			
			2024	2023
	At and for the nine months ended September 30,			
	2023	2022		
Allowance for credit losses on loans as a percentage of total loans outstanding at period end	1.01 %	0.90 %	1.00 %	1.00 %
Allowance for credit losses on loans	\$ 19,800	\$ 18,050	\$ 18,890	\$ 20,400
Total loans outstanding	1,968,804	1,994,966	1,886,730	2,044,536
Nonaccrual loans as a percentage of total loans outstanding at period end	0.73 %	0.82 %	0.87 %	0.64 %
Total nonaccrual loans	\$ 14,321	\$ 16,369	\$ 16,491	\$ 13,090
Total loans outstanding	1,968,804	1,994,966	1,886,730	2,044,536
Allowance for credit losses on loans as a percentage of nonaccrual loans at period end	138.26 %	110.27 %	114.55 %	155.84 %
Allowance for credit losses on loans	\$ 19,800	\$ 18,050	\$ 18,890	\$ 20,400
Total nonaccrual loans	14,321	16,369	16,491	13,090
Net charge-offs/(recoveries) during period to average loans outstanding:				
Commercial and industrial:	0.12 %	1.21 %	0.10 %	0.07 %
Net charge-offs	\$ 229	\$ 3,461	\$ 165	\$ 142
Average loans outstanding	190,582	285,935	162,978	199,807
Construction and land:	— %	— %	— %	— %
Net charge-offs	\$ —	\$ —	\$ —	\$ —
Average loans outstanding	12,491	18,206	9,588	17,887
Commercial estate:	— %	— %	— %	— %
Net (recoveries)/charge-offs	\$ (2)	\$ 1		
Net charge-offs			\$ 3,206	\$ —
Average loans outstanding	1,719,547	1,577,751	1,652,506	1,714,792
Residential:	0.19 %	0.01 %	— %	0.18 %
Net charge-offs	\$ 174	\$ 6	\$ —	\$ 175
Average loans outstanding	93,087	89,228	85,130	98,237
Consumer:	(0.06)%	0.29 %	0.13 %	(0.09)%
Net (recoveries)/charge-offs	\$ (1)	\$ 6		
Net charge-offs/(recoveries)			\$ 1	\$ (2)
Average loans outstanding	1,729	2,085	769	2,223
Total loans:	0.02 %	0.18 %	0.18 %	0.02 %
Total net charge-offs	\$ 400	\$ 3,474	\$ 3,372	\$ 315
Total average loans outstanding	2,017,436	1,973,205	1,910,971	2,032,945

As of **September 30, 2023** **March 31, 2024**, the Company individually evaluated **\$14.3 million** **\$20.2 million** in loans, inclusive of **\$9.6 million** **\$16.5 million** of nonperforming loans. Of these individually evaluated loans, **\$4.8 million** **\$6.8 million** had a specific allowance of **\$1.9 million** **\$1.4 million** as of **September 30, 2023** **March 31, 2024**. As of **December 31, 2022** **December 31, 2023**, the Company individually evaluated **\$15.0 million** **\$13.0 million** in loans, inclusive all of **\$14.3 million** of nonperforming loans and **\$759,000** of performing (accruing)

modified loans to borrowers experiencing financial difficulty, which were on nonaccrual status. Of these individually evaluated loans, \$1.4 million \$9.7 million had a specific allowance of \$1.2 million \$4.4 million as of December 31, 2022 December 31, 2023.

Management considers the allowance for credit losses for loans at September 30, 2023 March 31, 2024 to be adequate to cover losses inherent in the loan portfolio based on the assessment of the above-mentioned factors affecting the loan portfolio.

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While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proven incorrect in the future, or that the actual amount of future losses will not exceed the amount of the established allowance for credit losses for loans or that any increased allowance for credit losses for loans that may be required will not adversely impact our financial condition and results of operations. A further decline in national and local economic conditions as a result of unemployment due to employment levels, labor shortages, and the effects of inflation, a potential recession, or slowed economic growth caused by increasing political instability from acts of war, as well as supply chain disruptions, among other factors, or otherwise, could result in a material increase in the allowance for credit losses for loans and may adversely affect the Company's financial condition and results of operations. In addition, the determination of the amount of our allowance for credit losses for loans is subject to review by bank regulators, as part of the routine examination process, which may result in additions to our provision for credit losses based upon their judgment of information available to them at the time of their examination.

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Deposits. Deposits are our primary source of funding and consist of core deposits from the communities served by our branch and office locations. We offer a variety of deposit accounts with a competitive range of interest rates and terms to both consumers and businesses. Deposits include interest bearing and noninterest bearing demand accounts, savings, money market, certificates of deposit and individual retirement accounts. These accounts earn interest at rates established by management based on competitive market factors, management's desire to increase certain product types or maturities, and in keeping with our asset/liability, liquidity and profitability objectives. Competitive products, competitive pricing and high touch client service are important to attracting and retaining these deposits.

Total deposits increased \$74.0 million \$10.2 million, or 3.5% 0.5%, to \$2.2 billion \$2.1 billion at September 30, 2023 March 31, 2024 from December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2024, noninterest bearing demand deposits totaled \$667.3 million \$630.0 million, or 30.9% 29.4% of total deposits, compared to \$773.3 million \$646.3 million, or 37.1% 30.3% of total deposits, at December 31, 2022 December 31, 2023. At September 30, 2023 March 31, 2023, uninsured deposits totaled \$991.6 million, \$949.3 million, or 44.3% of total deposits, compared to \$1.1 billion \$969.2 million, or 45.5% of total deposits at December 31, 2022 December 31, 2023. Estimated uninsured deposits, excluding collateralized public deposits and affiliate deposits, were approximately 41.4% and 42.1% of total deposits at March 31, 2024 and December 31, 2023, respectively. The uninsured amounts are estimates based on the methodologies and assumptions used for United Business Bank's regulatory reporting requirements.

We consider our deposit base to be seasoned, stable and well-diversified, and we do not have any significant industry concentrations among our non-insured deposits. We also offer an insured cash sweep product (ICS) that allows customers to insure deposits above FDIC insurance limits. At September 30, 2023 March 31, 2024, our average deposit account size (excluding public funds), calculated by dividing period-end deposits by the population of accounts with balances, was approximately \$59,000 \$58,000. See Note 18¹⁷ of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q for information regarding our top ten depositors.

The following table sets forth the dollar amount of deposits in the various types of deposit programs offered at the dates indicated.

	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
(Dollars in thousands)												
Noninterest bearing demand deposits	\$ 667,336	\$ 773,274	(13.7)%	\$ 629,962	\$ 646,278	(2.5)%						
NOW accounts and savings	394,898	441,064	(10.5)									
NOW accounts				276,907	283,089	(2.2)						
Saving				97,015	102,073	(5.0)						
Money market	665,866	577,792	15.2	624,806	624,066	0.1						
Time deposits	431,344	293,349	47.0	514,217	477,244	7.7						
Total	<u>\$ 2,159,444</u>	<u>\$ 2,085,479</u>	<u>3.5 %</u>	<u>\$2,142,907</u>	<u>\$2,132,750</u>	<u>0.5 %</u>						

Borrowings. Although deposits are our primary source of funds, we may from time to time utilize borrowings as a cost-effective source of funds when they can be invested at a positive interest rate spread, for additional capacity to fund loan demand, or to meet our asset/liability management goals. We are a member of and may obtain advances from the FHLB of San Francisco, which is part of the Federal Home Loan Bank System. The eleven regional Federal Home Loan Banks provide a central credit facility for their member institutions. These advances are provided upon the security of certain of our mortgage loans and mortgage-backed securities. These advances may be made pursuant to several different credit programs, each of which has its own interest rate, range of maturities and call features.

At September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had the ability to borrow up to \$597.6 million \$508.2 million and \$473.6 million \$576.9 million, respectively, from the FHLB of San Francisco. At both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, there were no FHLB advances outstanding.

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[Table During the first quarter of Contents 2024, the Bank was approved for discount window advances with the FRB of San Francisco secured by certain types of loans. At March 31, 2024, we had the ability to borrow up to \\$46.7 million from the FRB of San Francisco, with no FRB of San Francisco advances outstanding at that date.](#)

We may also utilize Fed Funds purchased from correspondent banks as a source of short-term funding. At both September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, we had a total of \$65.0 million in federal funds line available from third-party financial institutions and no balances outstanding at these dates.

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At both **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company had outstanding junior subordinated deferrable interest debentures, net of fair value adjustments, assumed in connection with its previous acquisitions totaling **\$8.5 million** **\$8.6 million**.

At **September 30, 2023** **March 31, 2024**, the Company had outstanding subordinated debt, net of costs to issue, totaling **\$63.8 million** **\$63.6 million** compared to **\$63.7 million** **\$63.9 million** at **December 31, 2022** **December 31, 2023**.

We are required to provide collateral for certain local agency deposits. At **September 30, 2023** **both March 31, 2024** and **December 31, 2022** **December 31, 2023**, the FHLB of San Francisco had issued **a** letters of credit on behalf of the Bank totaling **\$42.6 million** and **\$40.6 million**, **respectively**, as collateral for local agency deposits.

Shareholders' equity. Shareholders' equity decreased **\$9.9 million** **increased \$1.4 million**, to **\$307.3 million** **\$314.2 million** at **September 30, 2023** **March 31, 2024** from **\$317.1 million** **\$312.9 million** at **December 31, 2022** **December 31, 2023**. The **decrease** **increase** in shareholders' equity primarily was due to the repurchase **\$5.9 million** of **\$21.7 million** of Company common stock, cash dividends paid or accrued payable totaling **\$3.6 million**, net income earned and a **\$5.7 million** increase **\$484,000** decrease in accumulated other comprehensive loss, net of taxes, partially offset by **\$21.0 million** the repurchase of **net income earned** **\$4.0 million** of Company common stock and cash dividends paid or accrued payable totaling **\$1.2 million**, during the first **nine** **three** months of 2023. In addition, shareholder's equity was negatively impacted by the adoption of CECL in the first quarter of 2023, which as of January 1, 2023, resulted in an after-tax decrease to opening retained earnings of **\$491,000** **2024**. During the three months ended **September 30, 2023** **March 31, 2024**, the Company repurchased a total of **239,649** **198,120** shares of its common stock at a total cost of **\$4.5 million** **\$4.0 million**, or **\$18.86** **\$20.20** per share. During share, leaving 161,632 shares available for future purchases under the **nine** months ended September 30, 2023, the Company repurchased a total of 1,206,481 shares of its common current stock at a total cost of **\$21.7 million**, or **\$17.96** per share. **repurchase plan.** For additional information see Part II, Item 2, "Unregistered Sales of Equity Securities and Use of Proceeds, and Issuer Purchases of Equity Securities. **Proceeds.**"

Comparison of Results of Operations for the Three and Nine Months Ended **September 30, 2023** **March 31, 2024** and **2022** **2023**

Earnings summary. Net income was **\$6.6 million** **\$5.9 million** for the three months ended **September 30, 2023** **March 31, 2024**, compared to **\$7.0 million** **\$7.2 million** for the three months ended **September 30, 2022** **March 31, 2023**, a decrease of **\$340,000** **\$1.3 million** or **4.9%** **18.3%**. The decrease was the result of a **\$728,000** **\$2.9 million** decrease in noninterest net interest income, and a **\$423,000** increase in noninterest expense, partially offset by a **\$520,000** **\$501,000** increase in noninterest income, a **\$458,000** decrease in provision for credit losses, a **\$84,000** increase in net interest income noninterest expenses, and a **\$207,000** **\$554,000** decrease in provision for income taxes. Diluted earnings per share were **\$0.56** **\$0.51** for the three months ended **September 30, 2023** **March 31, 2024**, compared to **\$0.52** **\$0.57** for the three months ended **September 30, 2022** **March 31, 2023**.

Net income was **\$21.0 million** for the nine months ended September 30, 2023, compared to **\$16.1 million** for the nine months ended **September 30, 2022**, an increase of **\$4.9 million** or **30.6%**. The increase was primarily the result of a **\$4.1 million** increase in net interest income, a **\$4.1 million** decrease in provision for credit losses, reflecting a **\$311,000** reversal of the allowance for credit losses for the nine months ended September 30, 2023, compared to a **\$3.8 million** provision for credit losses for the same period in 2022, partially offset by a **\$891,000** decrease in noninterest income and a **\$2.4 million** increase in provision for income taxes.

Our efficiency ratio, which is calculated by dividing noninterest expense by the sum of net interest income before provision for credit losses and noninterest income, was **62.42%** **65.68%** and **63.07%** **61.63%** for the three and nine months ended September 30, 2023, compared to **59.38%** **March 31, 2024** and **65.78%** for the three and nine months ended September 30, 2022, **2023**, respectively. The **higher** **deterioration** in the efficiency ratio during the three months ended **September 30, 2023** **March 31, 2024** compared to the same period in **2022** **2023** was primarily due to lower noninterest income and higher noninterest expenses. The improvement in the efficiency ratio during the nine months ended September 30, 2023 compared to the same period in 2022 was due to higher revenues, while total noninterest expenses remained relatively unchanged. **overall revenues.**

Interest income. Interest income for the three months ended **September 30, 2023** **March 31, 2024** was **\$32.8 million** **\$31.7 million**, compared to **\$27.1 million** **\$30.1 million** for the three months ended **September 30, 2022** **March 31, 2023**, an increase of **\$5.7 million** **\$1.6 million** or **21.0%** **5.6%**. The increase in

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interest income between periods reflects increases in interest income in all interest-earning asset categories, with the largest increases from loans, and fed funds sold and interest bearing balances in banks, except loans. Increased yields earned on interest-earning assets, along with an increase in the average balance of fed funds sold and interest bearing balances in banks, were the primary drivers for the increase in interest income, partially offset by a decrease in the average balance of loans.

Interest income on loans, including fees, increased \$3.2 million, decreased \$998,000, or 13.4% 3.8%, to \$27.2 million \$25.3 million for the three months ended September 30, 2023 March 31, 2024, compared to \$24.0 million \$26.3 million for the three months ended September 30, 2022 March 31, 2023, due to a 69 \$121.5 million decrease in the average balance of loans, partially offset by an eight basis point increase in the average loan yield, partially offset by a \$24.2 million decrease in the yield. The average balance of loans, loans was \$1.9 billion for the first quarter of 2024, compared to \$2.0 billion for the first quarter of 2023. The average yield on loans, including the accretion of the net discount and deferred PPP loan fees recognized for the three months ended September 30, 2023 March 31, 2024, was 5.42% 5.32%, compared to 4.73% 5.24% for the three months ended September 30, 2022 March 31, 2023. The increase in the average yield on loans from the first quarter of 2023 was due to the impact of increased rates on variable rate loans as well as new loans being originated at higher market interest rates.

Interest income on loans for three months ended September 30, 2023 March 31, 2024 and 2022 2023 included \$372,000 \$98,000 and \$63,000, \$97,000 respectively, in accretion of the net discount on acquired loans and revenue from PCD loans in excess of discounts. The remaining net discount on acquired loans was \$419,000 \$392,000 and \$480,000 \$371,000 at September 30, 2023 March 31, 2024 and September 30, 2022, 2023, respectively. Interest income on loans for three months ended September 30, 2023, included minimal fees earned related to PPP loans, compared to \$161,000 in fees earned related to PPP loans during the three months ended September 30, 2022. As of September 30, 2023, there was a minimal amount of unrecognized PPP deferred fees and costs. Interest income on loans for the three months ended September 30, 2023 March 31, 2024 and 2022 2023, included \$142,000 \$176,000 and \$195,000, \$269,000, respectively, in fees related to prepayment penalties.

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Interest income on investment securities increased \$149,000, \$316,000, or 9.6% 19.3%, to \$1.7 million \$2.0 million for the three months ended September 30, 2023 March 31, 2024, compared to \$1.6 million for the three months ended September 30, 2022 March 31, 2023, due to a 74.72 basis point increase in the average yield earned on investment securities, partially offset by a \$20.1 million \$3.3 million decrease in the average balance of investment securities. The average yield on investment securities was 4.01% 4.24% for the three months ended September 30, 2023 March 31, 2024 compared to 3.27% 3.52% for the three months ended September 30, 2022 March 31, 2023. In addition, during the first quarter of 2024, we received \$416,000 in cash dividends on our FRB and FHLB stock, up 25.3% from \$332,000 received in the first quarter of 2023.

Interest income on federal funds sold and interest-bearing balances in banks increased \$2.2 million \$2.3 million, or 173.8% 125.0%, to \$3.5 million \$4.1 million for the three months ended September 30, 2023 March 31, 2024, compared to \$1.3 million \$1.8 million for the three months ended September 30, 2022 March 31, 2023. The increase was due to a 320.92 basis point increase in the average yield earned on federal funds sold and, to a lesser extent, a \$25.0 million \$139.3 million increase in the average balance of federal funds sold and interest-bearing balances in banks. The average yield on federal funds sold and interest-bearing balances in banks was 5.38% 5.48% for the three months ended September 30, 2023 March 31, 2024 compared to 2.18% 4.56% for the three months ended September 30, 2022. In addition, during the third quarter of 2023, we received \$376,000 in cash dividends on our FRB and FHLB stock, up 31.9% from \$285,000 in the third quarter of 2022.

Interest income for the nine months ended September 30, 2023 was \$94.1 million, compared to \$77.6 million for the nine months ended September 30, 2022, an increase of \$10.2 million or 14.6%. The increase in interest income between periods reflects increases in interest income in all interest-earning asset categories, with the largest increases from loans, and federal funds sold and interest bearing

balances in banks. Increased yields earned on interest-earning assets, along with an increase in the average balance of loans, were the primary drivers for the increase in interest income.

Interest income on loans, including fees, increased \$10.2 million, or 14.6%, to \$80.2 million for the nine months ended September 30, 2023, compared to \$69.9 million for the nine months ended September 30, 2022. The increase was primarily due to a 57 basis point increase in the average loan yield and, to a lesser extent, a \$46.2 million increase in the average balance of loans. The average yield on loans, including the accretion of the net discount and deferred PPP loan fees recognized for the nine months ended September 30, 2023, was 5.31%, compared to 4.74% for the same period in 2022. Interest income on loans for nine months ended September 30, 2023 and 2022 included \$474,000 and \$1.5 million, respectively, in accretion of the net discount on acquired loans and revenue from PCD loans in excess of discounts. Interest income on loans for nine months ended September 30, 2023 and 2022 included \$92,000 and \$1.7 million in fees earned related to PPP loans, respectively. Interest income on loans for the nine months ended September 30, 2023 and 2022, included \$458,000 and \$916,000, respectively, in fees related to prepayment penalties.

Interest income on investment securities increased \$554,000, or 12.4%, to \$5.0 million for the nine months ended September 30, 2023, compared to \$4.5 million for the nine months ended September 30, 2022, due to a 76 basis point increase in the average yield earned on investment securities, partially offset by a \$17.0 million decrease in the average

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balance of investment securities. The average yield on investment securities available-for-sale was 3.97% for the nine months ended September 30, 2023 compared to 3.21% for the nine months ended September 30, 2022.

Interest income on federal funds sold and interest-bearing balances in banks increased \$5.6 million, or 243.5%, to \$7.9 million for the nine months ended September 30, 2023, compared to \$2.3 million for the nine months ended September 30, 2022, due to a 418 basis point increase in the average yield earned on federal funds sold and interest-bearing balances in banks, partially offset by a \$129.8 million decrease in the average balance of federal funds sold and interest-bearing balances in banks. The average yield on federal funds sold and interest-bearing balances in banks was 5.09% for the nine months ended September 30, 2023 compared to 0.91% for the nine months ended September 30, 2022 March 31, 2023.

Interest expense. Interest expense increased \$5.6 million \$4.5 million, or 232.5% 94.6%, to \$8.0 million \$9.3 million for the three months ended September 30, 2023 March 31, 2024, compared to \$2.4 million \$4.8 million for the three months ended September 30, 2022 March 31, 2023, reflecting higher funding costs primarily related to increased market rates of interest payable on our money market and time deposits. The average rate paid on interest-bearing liabilities for three months ended September 30, 2023 March 31, 2024 was 2.04% 2.40% compared to 0.66% 1.35% for three months ended September 30, 2022 March 31, 2023. Total average interest-bearing liabilities increased \$116.0 million \$126.2 million, or 8.05% 1.05%, to \$1.6 billion for the three months ended September 30, 2023 March 31, 2024, compared to \$1.4 billion for the three months ended September 30, 2022 March 31, 2023.

Interest expense on deposits increased \$5.5 million \$4.5 million, or 398.1% 122.4%, to \$6.9 million \$8.2 million for the three months ended September 30, 2023 March 31, 2024 compared to \$1.4 million \$3.7 million for the three months ended September 30, 2022 March 31, 2023. The increase primarily was due driven by higher rates paid on money market accounts and time deposits and, to a lesser extent, an increase in the average cost balance of deposits, specifically, time deposits. Specifically, rates on money market accounts and time deposits increased by 103 basis points and 159 basis points, respectively, during the three months ended March 31, 2024, compared to the same period in 2023. The average balance of time deposits also increased, rising by \$163.5 million, or 50.3%, to \$488.7 million during the three months ended March 31, 2024, compared to \$325.3 million during the same period in 2023.

The average rate paid on interest bearing all interest-bearing deposits increased by 145 112 basis points to 1.85% 2.22% for the three months ended September 30, 2023 March 31, 2024, compared to 0.40% 1.10% for the three months ended September 30, 2022 March 31, 2023. The overall average cost of deposits for the three months ended September 30, 2023 and 2022 was 1.27% and 0.25%, respectively. The average balance of interest-bearing deposits totaled \$1.5 billion for the three months ended September 30, 2023 March 31, 2024, compared to \$1.4 billion for the three months ended September 30, 2022 March 31, 2023. The increase primarily was due to an increase in the overall average balance cost of time deposits partially offset by slight decreases in the average balances of savings, NOW and money

market accounts. The average balance of noninterest bearing deposits decreased \$127.1 million, or 15.8%, to \$674.8 million for the three months ended September 30, 2023 March 31, 2024 and 2023 was 1.55% and 0.71%, respectively. Meanwhile, the average balance of noninterest-bearing deposits decreased \$102.3 million, or 13.8%, to \$639.7 million for the three months ended March 31, 2024 compared to \$801.9 million \$742.0 million for the same period in 2022.

Interest expense on borrowings increased \$88,000, \$11,000, or 8.44% 1.00%, to \$1.1 million for the three months ended September 30, 2023 March 31, 2024, compared to \$1.0 million for the three months ended September 30, 2022 March 31, 2023, due to a 401 basis point increase in the average rate paid on junior subordinated debentures. The average cost of total borrowings increased to 6.09% 6.18% for the three months ended September 30, 2023 March 31, 2024, compared to 5.64% 6.05% for the three months ended September 30, 2022 March 31, 2023. The average balance of borrowings increased \$341,000 decreased \$654,000 to \$72.4 million \$72.3 million during the three months ended September 30, 2023 March 31, 2024, compared to \$72.1 million \$72.9 million during the three months ended September 30, 2022.

Interest expense increased \$12.5 million, or 170.6%, to \$19.8 million for the nine months ended September 30, 2023 compared to \$7.3 million for the nine months ended September 30, 2022, reflecting higher funding costs related to increased rates of interest payable on our deposits and junior subordinated debentures. The average rate paid on interest bearing liabilities for nine months ended September 30, 2023 was 1.75% compared to 0.64% for nine months ended September 30, 2022. Total average interest-bearing liabilities decreased \$14.6 million, or 0.96%, to \$1.5 billion for the nine months ended September 30, 2023, compared to \$1.5 billion for the nine months ended September 30, 2022.

Interest expense on deposits increased \$12.2 million, or 282.6%, to \$16.5 million for the nine months ended September 30, 2023 compared to \$4.3 million for the nine months ended September 30, 2022. The increase primarily was due to an increase in the average cost of deposits, specifically money market accounts and time deposits. The average rate paid on interest bearing deposits increased by 113 basis points to 1.53% for the nine months ended September 30, 2023, compared to 0.40% for the nine months ended September 30, 2022. The overall average cost of deposits for the nine months ended September 30, 2023 and 2022 was 1.03% and 0.26%, respectively. The average balance of interest-bearing deposits totaled \$1.4 billion for the nine months ended September 30, 2023, relatively unchanged compared to the same period in 2022, with decreases in the average balances of savings, NOW and money market accounts being offset by an increase in the average balance of time deposits. The average balance of noninterest bearing deposits decreased \$85.4 million, or 10.9%, to \$697.9 million for the nine months ended September 30, 2023 compared to \$783.3 million for the same period in 2022.

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Interest expense on borrowings increased \$303,000, or 95.3%, to \$3.3 million for the nine months ended September 30, 2023, compared to \$3.0 million for the nine months ended September 30, 2022, due to a 472 basis point increase in the average rate paid on junior subordinated debentures. The average cost of total borrowings increased to 6.10% for the nine months ended September 30, 2023, compared to 5.58% for the nine months ended September 30, 2022. The average balance of borrowings increased \$518,000 to \$72.6 million during the nine months ended September 30, 2023, compared to \$72.0 million during the nine months ended September 30, 2022 March 31, 2023.

Net interest income and net interest margin. Net interest income increased \$84,000, decreased \$2.9 million, or 0.3% 11.3%, to \$24.8 million \$22.4 million for the three months ended September 30, 2023 March 31, 2024, compared to \$24.7 million \$25.3 million for the three months ended September 30, 2022 March 31, 2023. The increase decrease in net interest income primarily was due to an increase in interest expense on deposits and a decrease in interest income on loans, partially offset by increases in interest income on loans, federal funds sold and interest-bearing balances in banks, and, to a lesser extent, interest income on investment securities including and dividends on Federal Reserve Bank ("FRB") and Federal Home Loan Bank ("FHLB") stock, partially offset by higher funding costs related to our deposits and junior subordinated debentures due to higher market rates. FHLB stock.

The average yield (annualized) on interest earning assets for the three months ended September 30, 2023 March 31, 2024 increased to 5.34% 5.28%, a 96 basis point increase from 4.38% 5.07% for the three months ended September 30, 2022 March 31, 2023, while the average cost of interest bearing liabilities was 2.04% and 0.66% increased 105 basis points to 2.40% for the three months ended September 30, 2023 and 2022, respectively. The average yield (annualized) on interest earning assets March 31, 2024, compared to 1.35% for the

nine three months ended September 30, 2023 increased 109 basis points to 5.21%, from 4.12% for the nine months ended September 30, 2022, while the average cost of interest bearing liabilities for the nine months ended September 30, 2023 increased to 1.75%, or 111 basis points, from 0.64% for the nine months ended September 30, 2022 March 31, 2023. The increases in average yields on interest-earning assets and average rates paid on interest-bearing liabilities during the three and nine months ended September 30, 2023, compare to the same periods in 2022, were due to increases in the target range for federal funds since March 2022, including a 100 basis point increase during the first nine months of 2023, to a range of 5.25% to 5.50%.

The annualized net interest margin for the three and nine months ended September 30, 2023 was 4.03% and 4.12%, compared to 3.99% and 3.73% for the three and nine months ended September 30, 2022, respectively. The increase in net interest margin reflects the increased net interest income resulting from an improved mix of interest-earning assets, including increased balances of higher yielding loans and investment securities available for sale, and a lower average balance of interest earning assets. The average yield on PPP loans for the three and nine months ended September 30, 2023 was 1.00% and 3.11%, including the recognition of deferred fees, resulting in a negative impact of eight basis points and five basis points to the net interest margin during the three and nine months ended September 30, 2023, respectively, compared to an average yield of 2.28% and 3.93%, including the recognition of deferred fees, resulting in a positive impact of three basis points and 10 basis points during three and nine months ended September 30, 2022, respectively. The impact of PPP loans on net interest margin will change during any period based on the volume of prepayments or amounts forgiven by the SBA as certain criteria are met but will cease completely after the maturity of the loans. Accretion of acquisition accounting discounts on loans and the recognition of revenue from acquired loans in excess of discounts increased net interest margin eight basis points during the three months ended September 30, 2023 and increased net interest margin by four basis points during the nine months ended September 30, 2023 compared to one and eight basis points during the three and nine months ended September 30, 2022, respectively.

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average rates paid on interest-bearing liabilities during the three months ended March 31, 2024, compare to the same periods in 2023, were due to higher market interest rates generally.

The annualized net interest margin was 3.72% and 4.26%, for the three months ended March 31, 2024 and 2023, respectively. Net interest margin in the first quarter of 2024 as compared to the first quarter of 2023 was negatively impacted by increasing funding costs, due to shifts towards higher yielding deposits, which outpaced, on a percentage basis, increasing yields on interest-earning assets.

Average Balances, Interest and Average Yields/Cost. The following table presents, for the periods indicated, information about (i) average balances, the total dollar amount of interest income from interest earning assets and the resultant average yields; (ii) average balances, the total dollar amount of interest expense on interest bearing liabilities and the resultant average costs; (iii) net interest income; (iv) the interest rate spread; and (v) the net interest margin. Nonaccrual loans have been included in the table as loans carrying a zero yield.

Yields have been calculated on a pre-tax basis. Loan yields include the effect of amortization or accretion of deferred loan fees/costs and purchase accounting premiums/discounts to interest and fees on loans.

	Three months ended September 30,						
	2023			2022			
	Average		Annualized	Average		Average	
	Balance(1)	Interest	Yield/Cost	Balance(1)	Interest	Balance(1)	Interest
(Dollars in thousands)							
Interest earning assets							
Fed Funds sold and interest bearing balances in banks	\$ 259,595	\$ 3,521	5.38 %	\$ 234,627	\$ 1,287	2.18 %	
Investments securities	168,636	1,704	4.01 %	188,739	1,555	3.27 %	
FHLB Stock	11,446	232	8.05 %	10,679	160	5.93 %	
FRB Stock	9,625	144	5.94 %	9,592	125	5.19 %	
Total loans	1,991,553	27,229	5.42 %	2,015,790	24,010	4.73 %	
Total interest earning assets	2,440,855	32,830	5.34 %	2,459,427	27,137	4.38 %	
Noninterest earning assets	141,999			135,399			
Total average assets	\$ 2,582,854			\$ 2,594,826			
Interest bearing liabilities							
Savings	\$ 108,157	36	0.13 %	\$ 126,923	44	0.14 %	
NOW accounts	295,383	68	0.09 %	335,037	80	0.10 %	
Money market	622,992	2,818	1.79 %	645,340	750	0.46 %	
Time deposits	458,643	3,986	3.45 %	262,234	513	0.78 %	
Total interest bearing deposit accounts	1,485,175	6,908	1.85 %	1,369,534	1,387	0.40 %	
Subordinated debt, net	63,812	896	5.56 %	63,644	896	5.58 %	
Junior subordinated debentures, net	8,533	217	10.09 %	8,452	129	6.08 %	
Other borrowings	91	—	—	—	—	—	
Total interest bearing liabilities	1,557,611	8,021	2.04 %	1,441,630	2,412	0.66 %	
Noninterest bearing deposits	674,776			801,871			
Other noninterest bearing liabilities	40,319			28,941			
Noninterest bearing liabilities	715,095			830,812			
Total average liabilities	2,272,706			2,272,442			
Average equity	310,147			322,384			
Total average liabilities and equity	\$ 2,582,853			\$ 2,594,826			
Net interest income		\$ 24,809			\$ 24,725		
Interest rate spread (2)			3.30 %			3.72 %	
Net interest margin (3)			4.03 %			3.99 %	
Ratio of average interest earning assets to average interest bearing liabilities			156.70 %			170.60 %	

(1) Average balances are computed using average daily balances.

(2) Interest rate spread is calculated as the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.

(3) Net interest margin is calculated as net interest income divided by total average interest earning assets.

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Nine months ended September 30,						Three months ended March 31,					
2023			2022			2024			2023		
(Dollars in thousands)											
Annualized			Annualized			Annualized					
Average	Average	Average	Average	Average	Average	Average	Average	Average	Balance (1)	Interest	Yield/Cost
Balance (1)	Interest	Yield/Cost	Balance(1)	Interest	Yield/Cost	Balance (1)	Interest	Yield/Cost	Balance (1)	Interest	Yield/Cost
(Dollars in thousands)											
Annualized			Annualized			Annualized					
Average	Average	Average	Average	Average	Average	Average	Average	Average	Balance (1)	Interest	Yield/Cost
Balance (1)	Interest	Yield/Cost	Balance(1)	Interest	Yield/Cost	Balance (1)	Interest	Yield/Cost	Balance (1)	Interest	Yield/Cost

Statement of Condition												
(Dollars in thousands)												
Interest earning assets												
Fed Funds sold and interest-bearing balances in banks												
\$ 207,788	\$ 7,910	5.09 %	\$ 337,565	\$ 2,303	0.91 %	\$ 302,120	\$ 4,115	5.48 %	\$ 162,796	\$ 1,829	4.56 %	
Investments securities												
169,804	5,037	3.97 %	186,799	4,483	3.21 %	185,704	1,956	4.24 %	188,974	1,640	3.52 %	
FHLB Stock	11,060	616	7.45 %	10,418	467	5.99 %	11,313	272	9.68 %	10,679	188	7.16 %
FRB Stock	9,613	432	6.01 %	8,998	387	5.75 %	9,633	144	6.01 %	9,606	144	6.08 %
Total loans	2,017,017	80,151	5.31 %	1,970,850	69,921	4.74 %	1,910,971	25,257	5.32 %	2,032,442	26,255	5.24 %
Total interest earning assets	2,415,282	94,146	5.21 %	2,514,630	77,561	4.12 %	2,419,741	31,744	5.28 %	2,404,497	30,056	5.07 %
Noninterest earning assets												
143,883			140,575			131,293			128,432			
Total average assets	\$ 2,559,165		\$ 2,655,205			\$ 2,551,034			\$ 2,532,929			
Interest bearing liabilities												
Savings	\$ 113,336	113	0.13 %	\$ 125,829	130	0.14 %	\$ 97,519	31	0.13 %	\$ 119,597	40	0.14 %
NOW accounts	303,266	210	0.09 %	346,230	246	0.09 %	284,005	64	0.09 %	316,307	74	0.10 %
Money market	614,471	6,934	1.51 %	694,599	2,321	0.45 %	621,509	3,397	2.20 %	603,784	1,737	1.17 %
Time deposits	406,933	9,232	3.03 %	286,500	1,613	0.75 %	488,745	4,735	3.90 %	325,286	1,849	2.31 %
Total interest bearing deposit accounts	1,438,006	16,489	1.53 %	1,453,158	4,310	0.40 %	1,491,778	8,227	2.22 %	1,364,974	3,700	1.10 %
Subordinated debt, net	63,770	2,687	5.63 %	63,601	2,687	5.65 %	63,715	893	5.64 %	63,728	896	5.70 %
Junior subordinated debentures, net	8,512	623	9.78 %	8,431	319	5.06 %	8,572	217	10.20 %	8,491	193	9.22 %
Other borrowings	269	—	— %	—	—	— %	—	—	— %	722	10	— %
Total interest bearing liabilities	1,510,557	19,799	1.75 %	1,525,190	7,316	0.64 %	1,564,065	9,337	2.40 %	1,437,915	4,799	1.35 %
Noninterest bearing deposits	697,858			783,293			639,737			742,037		
Other noninterest bearing liabilities	36,840			29,158			31,222			34,101		
Noninterest bearing liabilities	734,698			812,451			670,959			776,138		
Total average liabilities	2,245,255			2,337,641			2,235,024			2,214,053		

Average equity	313,912	317,564	316,010	318,876
Total average liabilities and equity	\$ 2,559,167	\$ 2,655,205	\$ 2,551,034	\$ 2,532,929
Net interest income	\$ 74,347	\$ 70,245	\$ 22,407	\$ 25,257
Interest rate spread				
(2)	3.46 %	3.48 %	2.88 %	3.72 %
Net interest margin				
(3)	4.12 %	3.73 %	3.72 %	4.26 %
Ratio of average interest earning assets to average interest bearing liabilities	159.89 %	164.87 %	154.71 %	167.22 %

- (1) Average balances are computed using average daily balances.
- (2) Interest rate spread is calculated as the average rate earned on interest earning assets minus the average rate paid on interest bearing liabilities.
- (3) Net interest margin is calculated as net interest income divided by total average interest earning assets.

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Rate/Volume Analysis. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest earning assets and interest bearing liabilities, as well as changes in weighted average interest rates. The following table sets forth the effects of changing rates and volumes on our net interest income during the periods shown. Information is provided with respect to (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume). Changes applicable to both volume and rate have been allocated to volume.

Interest earning assets									
Fed funds sold and interest bearing balances in banks	\$ 2,097	\$ 137	\$ 2,234	\$ 6,492	\$ (885)	\$ 5,607	\$ 742	\$ 1,544	\$ 2,286
Investments securities	315	(166)	149	962	(408)	554	344	(28)	316
FHLB stock and FRB stock	80	11	91	139	55	194	73	11	84
Total loans	3,508	(289)	3,219	8,592	1,638	10,230	550	(1,548)	(998)
Total interest income	6,000	(307)	5,693	16,185	400	16,585	1,709	(21)	1,688
Interest bearing liabilities									
Savings	(1)	(7)	(8)	(4)	(13)	(17)	(2)	(7)	(9)
NOW accounts	(3)	(9)	(12)	(5)	(31)	(36)	(2)	(8)	(10)
Money market accounts	2,094	(26)	2,068	4,881	(268)	4,613	1,610	50	1,660
Time deposits	3,089	384	3,473	6,941	678	7,619	1,969	917	2,886
Total deposit accounts	5,179	342	5,521	11,813	366	12,179	3,575	952	4,527
Subordinated debt, net	—	—	—	—	—	—	(3)	—	(3)
Junior subordinated debentures, net	87	1	88	301	3	304	22	2	24
Other borrowings	—	—	—	—	—	—	(10)	—	(10)
Total interest expense	5,266	343	5,609	12,114	369	12,483	3,584	954	4,538
Net interest income	\$ 734	\$ (650)	\$ 84	\$ 4,071	\$ 31	\$ 4,102	\$ (1,875)	\$ (975)	\$ (2,850)

Provision for credit losses. We recorded a \$674,000 \$262,000 and a \$315,000 provision for credit losses and a \$311,000 reversal of the allowance for credit losses loans for the three and nine months ended September 30, 2023, compared to a \$1.2 million March 31, 2024 and a \$3.8 million provision for loan losses for the three and nine months ended September 30, 2022, 2023, respectively. The provision for credit losses for loans in the third first quarter of 2023 2024 was primarily mainly driven by a replenishment of the allowance due to \$1.2 million increase in reserves for individually evaluated loans, which included the loan to the Trust discussed above which was placed on nonaccrual net charge-offs during the quarter, and an increase in qualitative reserves, period, partially offset by improvements decreases in outstanding loan balances, leading to lower quantitative reserves. Net charge-offs totaled \$3.4 million during the first quarter of 2024, of which \$3.2 million was specifically reserved for at December 31, 2023. No changes were made to the qualitative risk factor conclusions during the first quarter of 2024. The quantitative reserve was impacted by improvement in forecasted economic conditions, specifically, national unemployment and national gross domestic product, and national unemployment, both of which are key indicators utilized to estimate credit losses and, to a lesser extent, a decrease in outstanding loan balances and \$24,000 in net charge-offs during the third quarter of 2023. The reversal of the allowance for credit losses primarily resulted from \$399,000 in net charge-offs for the nine months ended September 30, 2023, coupled with improvements in forecasted economic conditions, specifically, national gross domestic product and national unemployment, indicators utilized to estimate credit losses and, to a lesser extent, a decrease in outstanding loan balances, partially offset by an overall increase in reserves for individually evaluated loans, and increase in qualitative reserves. losses.

Noninterest income. Noninterest income decreased \$728,000, increased \$501,000, or 30.6% 32.1%, to \$1.7 million \$2.1 million for the three months ended September 30, 2023 March 31, 2024 compared to \$2.4 million \$1.6 million for the three months ended September 30, 2022 March 31, 2023. The decrease increase was primarily due to a \$1.3 million decrease \$1.5 million increase in gain on sale of loans due to a decrease in the volume of and premiums observed on SBA loans (guaranteed portion) sold and a \$57,000 decrease in loan servicing fees and other fees, equity securities, partially offset by a \$288,000 increase \$519,000 decrease in income from our investment in a Small Business Investment Company ("SBIC") fund, a \$156,000 increase in service charges and other fees, a \$88,000 decrease in loss on equity securities and a \$47,000 increase in other income and fees.

Noninterest income decreased \$891,000, or 17.2%, to \$4.3 million for the nine months ended September 30, 2023 compared to \$5.2 million for the nine months ended September 30, 2022. The decrease was primarily due to a \$1.7 million

bargain purchase gain in 2022 with no similar activity in 2023, a \$2.2 million decrease in gain on sale of loans due to a decrease in the volume of premiums observed on SBA loans (guaranteed portion) sold and a \$236,000 decrease in loan servicing fees and other fees, partially offset by a \$1.9 million improvement in fair value adjustments on equity securities, a \$784,000 increase in income on an investment in a Small Business Investment Company ("SBIC") fund and a \$575,000 increase \$412,000 decrease in service charges and other fees, gain on sale of loans.

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The following table presents the key components of noninterest income for the periods indicated:

	Three months ended September 30,					
	2023		2022 (As Restated)		\$ Change	% Change
	(Dollars in thousands)					
Gain on sale of loans	\$ 28	\$ 1,278	\$ (1,250)		(97.8)%	
Loss on equity securities	(274)	(362)	88		(24.3)%	
Service charges and other fees	973	817	156		19.1 %	
Loan servicing and other loan fees	431	488	(57)		(11.7)%	
Income on investment in SBIC fund	225	(63)	288		457.1 %	
Other income and fees	271	224	47		21.0 %	
Total noninterest income	\$ 1,654	\$ 2,382	\$ (728)		(30.6)%	

	Nine months ended September 30,						Three months ended March 31,					
	2023		2022 (As Restated)		\$ Change	% Change	2024		2023 (As Restated)		\$ Change	% Change
	(Dollars in thousands)											
Gain on sale of loans	\$ 508	\$ 2,714	\$ (2,206)	(81.3)%	\$ —		\$ 412	\$ (412)	(100.0)%			
Loss on equity securities	(2,087)	(3,971)	1,884	(47.4)%								
Gain (loss) on equity securities					573		(896)	1,469	(164.0)%			
Service charges and other fees	2,740	2,165	575	26.6 %	839		885	(46)	(5.2)%			
Loan servicing and other loan fees	1,434	1,670	(236)	(14.1)%	392		410	(18)	(4.4)%			
Income on investment in SBIC fund	939	155	784	505.8 %								
Bargain purchase gain	—	1,665	(1,665)	N/M %								

(Loss) income on investment in SBIC fund					(30)	489	(519)	106.1 %
Other income and fees	769	796	(27)	(3.4)%	288	261	27	10.3 %
Total noninterest income	\$ 4,303	\$ 5,194	\$ (891)	(17.2)%	\$ 2,062	\$ 1,561	\$ 501	32.1 %

N/M - Not meaningful

Noninterest expense. Noninterest expense increased \$423,000, decreased \$458,000, or 2.6% 2.8%, to \$16.1 million for the three months ended March 31, 2024 compared to \$16.5 million for the three months ended September 30, 2023 compared to \$16.1 million for the three months ended September 30, 2022 March 31, 2023. The increase decrease primarily was due to a \$212,000 \$1.0 million decrease in salaries and employee benefits as a result of a \$675,000 decrease in bonus accrual, a decrease in full-time equivalent employees, and a reduction in deferred loan origination expenses, partially offset by wage increases during 2024. This decrease was partially offset by a \$288,000 increase in data processing expense due to annual price increases that became effective decline in pricing credits offered and expenses relating to enhancements to the third quarter of 2023 and increased data project expense, Bank's network, a \$120,000 \$127,000 increase in salaries and employee benefits other expense due to wage increases increased FDIC insurance costs and an increase in full-time equivalent employees, professional fees, and a \$90,000 \$127,000 increase in occupancy and equipment expense due to higher depreciation and property maintenance expense.

Noninterest expense was \$49.6 million for both the nine months ended September 30, 2023 and the nine months ended September 30, 2022. The changes in noninterest expense included a \$1.4 million decrease in other noninterest expenses due primarily to \$3.1 million in total PEB acquisition-related expenses in 2022 with no similar expenses in 2023, a \$647,000 decrease in data processing expense due to \$1.1 million in PEB acquisition-related expenses incurred in 2022 with none in 2023 and vendor data processing invoice credits in 2023, partially offset by increased data processing volume and prices, and data processing project expense in 2023 and a \$254,000 decrease in occupancy and equipment expense due to \$375,000 of PEB acquisition-related expenses incurred in 2022 partially offset by increased depreciation and property maintenance expense, offset by a \$2.3 million increase in salaries and employee benefits expense due to wage increase and an increase in full-time equivalent employees.

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The following table details the components of noninterest expense for the periods indicated:

	Three months ended September 30,					
	2023		2022		\$ Change	% Change
	(Dollars in thousands)					
Salaries and related benefits	\$ 10,284	\$ 10,164	\$ 120		\$ 120	1.2 %
Occupancy and equipment	2,133	2,043	90		90	4.4 %
Data processing	1,774	1,562	212		212	13.6 %
Other	2,328	2,327	1		1	0.0 %
Total noninterest expense	\$ 16,519	\$ 16,096	\$ 423		\$ 423	2.6 %

Nine months ended September 30,			Three months ended March 31,		
2023	2022	\$ Change	2024	2023	\$ Change

	(Dollars in thousands)									
Salaries and employee benefits	\$ 32,065	\$ 29,751	\$ 2,314	7.8 %	\$ 10,036	\$ 11,036	\$ (1,000)	(9.1)%		
Occupancy and equipment	6,134	6,388	(254)	(4.0)%	2,154	2,027	127	6.3 %		
Data processing	4,855	5,502	(647)	(11.8)%	1,753	1,465	288	19.7 %		
Other	6,551	7,986	(1,435)	(18.0)%	2,128	2,001	127	6.3 %		
Total noninterest expense	\$ 49,605	\$ 49,627	\$ (22)	(0.0)%	\$ 16,071	\$ 16,529	\$ (458)	(2.8)%		

Income taxes. The provision for income taxes decreased \$207,000, \$554,000, or 7.3% 19.6%, to \$2.6 million \$2.3 million the three months ended September 30, 2023 March 31, 2024 compared to \$2.8 million for the three months ended September 30, 2022 March 31, 2023 due to lower taxable income. For the nine months ended September 30, 2022, the provision for income taxes increased \$2.4 million, or 41.6%, to \$8.3 million, compared to \$5.9 million for the nine months ended September 30, 2022 due to higher taxable income. The Company's effective tax rate was 28.5% 27.9% and 28.4% 28.2% for three and nine months ended September 30, 2023 compared to 29.0% March 31, 2024 and 28.3% for the three and nine months ended September 30, 2022, 2023, respectively. The effective tax rate was lower for the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022, 2023, due to slightly lower permanent higher low income housing tax differences. The effective tax rate during the nine months ended September 30, 2022, was positively impacted by the credits non-taxable bargain purchase gain in the first quarter of 2022.

Liquidity and Capital Resources

Planning for our normal business liquidity needs, both expected and unexpected, is done on a daily and short-term basis through the cash management function. On a longer-term basis, it is accomplished through the budget and strategic planning functions, with support from internal asset/liability management software model projections.

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run off that may occur in the normal course of business. We rely on a number of different sources in order to meet our potential liquidity demands. Our primary sources of funds are deposits, escrow and custodial deposits, principal and interest payments on loans and proceeds from sale of loans. During the three months ended September 30, 2023 March 31, 2024, the Bank sold \$300,000 in no loans and of loan participation interests and received \$58.6 million \$72.4 million in principal loan repayments. While maturities and scheduled amortization of loans are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition.

Deposits increased \$61.1 million \$15.1 million to \$2.2 billion \$2.1 billion and liquid assets, in the form of cash and cash equivalents, time deposit in banks and investment securities, increased \$116.5 million \$165.0 million to \$449.5 million \$517.2 million at September 30, 2023 March 31, 2024 from December 31, 2022 December.

31, 2023. Management believes that our securities portfolio is of high quality and the securities would therefore be marketable. Securities purchased during the three and nine months ended September 30, 2023 March 31, 2024, totaled \$3.9 million and \$6.4 million, respectively. \$7.1 million and securities repayments, maturities and sales in those periods during the period were \$3.4 million and \$6.3 million, respectively. \$3.0 million. Certificates of deposit scheduled to mature in one year or less at September 30, 2023 March 31, 2024, totaled \$349.9 million \$266.5 million. It is management's policy to manage deposit rates that are competitive with other local financial institutions. Based on this management strategy, we believe that most of our maturing certificates of deposit will remain with us.

In addition to these primary sources of funds, management has several secondary sources available to meet potential funding requirements. As of September 30, 2023 March 31, 2024, the Bank had an available borrowing capacity of \$597.6 million \$508.2 million with the FHLB of San Francisco, with no borrowings outstanding at that date or at December 31, 2022 December 31, 2023. During the first quarter of 2024, the Bank was approved for discount window advances with the FRB of San Francisco secured by certain types of loans. At March 31, 2024, we had the ability to borrow up to \$46.7 million, from the FRB of San Francisco, with no borrowings outstanding at that date. The Bank also

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had, as of that date, federal funds lines with available commitments totaling \$65.0 million with four correspondent banks. There were no amounts outstanding under these facilities at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. Subject to market conditions, we expect to utilize these borrowing facilities from time to time in the future to fund loan originations and deposit withdrawals, to satisfy other financial commitments, repay maturing debt and to take advantage of investment opportunities to the extent feasible.

Liquidity management is both a daily and long-term function of the Company's management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer-term basis, a strategy is maintained of investing in various lending products and investment securities, including U.S. Government obligations and U.S. agency securities. We use our sources of funds primarily to meet our ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. Loan commitments and letters of credit were \$79.6 73.8 million, including \$1.5 million \$48,000 of undisbursed construction and development loan commitments, at September 30, 2023 March 31, 2024. For information regarding our commitments, see "Note 18 17 – Commitments and Contingencies" of the Notes to Condensed Consolidated Financial Statements included in "Item 1. Financial Information" of Part I of this report.

Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities for the nine three months ended September 30, 2023 March 31, 2024 was \$22.4 million \$5.1 million, compared to \$23.8 million \$8.2 million provided by operating activities for the nine three months ended September 30, 2022 March 31, 2023. During the nine three months ended September 30, 2023 March 31, 2024, net cash provided by investing activities was \$52.9 million \$31.0 million, which consisted primarily of net change decrease in loans receivable, compared to \$82.6 million \$21.0 million of cash provided by used in investing activities for the nine three months ended September 30, 2022 March 31, 2023. Net cash provided by financing activities for the nine three months ended September 30, 2023 March 31, 2024 was \$49.8 million \$4.7 million, which was comprised primarily of net change increase in deposits, compared to \$261.4 million used in \$33.6 million provided by financing activities during the nine three months ended September 30, 2022 March 31, 2023. Management believes our capital sources are adequate to meet all reasonably foreseeable short-term and long-term cash requirements. There has not been a material change in our liquidity and capital resources since the information disclosed in our 2022 2023 Annual Report other than set forth above. We are not aware of any reasonably likely material changes in the mix and relative cost of such resources.

BayCom Corp is a separate legal entity from the Bank and must provide for its own liquidity. At September 30, 2023 March 31, 2024, BayCom Corp had liquid assets of \$13.9 million \$18.8 million. In addition to its operating expenses, BayCom Corp is responsible for paying to its shareholders any dividends that have been declared, funding stock repurchases, and making payments on its junior subordinated debentures and subordinated notes. BayCom Corp can receive dividends and other capital distributions from the Bank, although there are regulatory restrictions on the ability of the Bank to pay dividends and make other capital distributions.

On August 18, 2023 March 6, 2024, the Company announced that its Board of Directors declared a quarterly cash dividend of \$0.10 per share on the Company's outstanding common stock, payable on October 13, 2023 April 12, 2024 to shareholders of record as of the close

of business on **September 15, 2023** **March 16, 2024**. The Company expects to continue to pay quarterly cash dividends on its common stock, subject to the Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Assuming continued payment of the cash dividend at this rate of \$0.10 per share, our average total dividend paid each quarter would be approximately \$1.2 million based on the number of our outstanding shares at **September 30, 2023** **March 31, 2024**. The dividends we pay if any, may be limited as more fully discussed under "Business – Supervision and Regulation – BayCom Corp – Dividends" and "– Regulatory Capital Requirements" contained in "Part I. Item 1. Business" of the **2022** **2023** Annual Report.

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From time to time, our Board of Directors has authorized stock repurchase programs. In general, stock repurchases allow us to proactively manage our capital position and return excess capital to shareholders. Stock repurchases also provide us with shares of common stock necessary to satisfy obligations related to stock compensation awards. In August 2023, our Board of Directors announced a new stock repurchase program, to commence following completion of the existing stock repurchase program (which was completed during the quarter ended September 30, 2023), for the repurchase of up to 588,000 shares, or approximately 5.0% of the Company's outstanding common stock, over a one year period. Purchases under the Company's stock repurchase programs may be made through open market purchases, privately negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. The repurchase programs may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other

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factors deemed appropriate. The Company's stock repurchase programs do not obligate the Company to purchase any particular number of shares. As of **September 30, 2023** **March 31, 2024**, there remained **482,311** **161,632** shares available for repurchase under the Company's existing stock repurchase program. For additional information on the Company's stock repurchases, see "Item 2. Unregistered Sales of Equity Securities and Use of Proceeds, and Issuer Purchases of Equity Securities" **Proceeds** contained in Part II of this report.

Regulatory Capital

The Bank, as a state-chartered, federally insured commercial bank, and member of the Board of Governors of the Federal Reserve System, is subject to capital requirements established by the Federal Reserve. The Federal Reserve requires the Bank to maintain levels of capital adequacy that generally parallel the FDIC requirements. The capital adequacy requirements are quantitative measures established by regulation that require the Bank to maintain minimum amounts and ratios of capital. The FDIC requires the Bank to maintain minimum ratios of Total Capital, Tier 1 Capital, and Common Equity Tier 1 Capital to risk-weighted assets as well as Tier 1 Leverage Capital to average assets. Consistent with our goal to operate a sound and profitable organization, our policy is for the Bank to maintain "Well Capitalized" status under the Federal Reserve regulations. Based on capital levels at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Bank was considered Well Capitalized at both of those dates.

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The table below shows the capital ratios under the Basel III capital framework as of the dates indicated:

					At March 31, 2024		At December 31, 2023	
			Amount	Ratio	Amount	Ratio	Amount	Ratio
	At September 30, 2023		At December 31, 2022		(Dollars in thousands)			
	Amount	Ratio	Amount	Ratio	(Dollars in thousands)			
			(As Restated)	(As Restated)	(Dollars in thousands)			
<u>Leverage Ratio</u>								
BayCom Corp	\$ 279,103	11.30 %	\$ 283,431	11.79 %	\$284,598	11.66 %	\$282,402	11.56 %
Minimum requirement for "Well Capitalized"	123,478	5.00 %	120,193	5.00 %	122,037	5.00 %	122,135	5.00 %
Minimum regulatory requirement	98,782	4.00 %	96,154	4.00 %	97,629	4.00 %	97,708	4.00 %
United Business Bank	336,437	13.26 %	336,667	13.64 %	335,964	13.41 %	328,303	13.08 %
Minimum requirement for "Well Capitalized"	126,900	5.00 %	123,402	5.00 %	125,244	5.00 %	125,479	5.00 %
Minimum regulatory requirement	101,520	4.00 %	98,722	4.00 %	100,195	4.00 %	100,383	4.00 %
<u>Common Equity Tier 1 Ratio</u>								
BayCom Corp	279,103	14.12 %	283,431	13.68 %	284,598	14.17 %	282,402	14.41 %
Minimum requirement for "Well Capitalized"	128,512	6.50 %	134,648	6.50 %	130,572	6.50 %	127,400	6.50 %
Minimum regulatory requirement	88,970	4.50 %	93,218	4.50 %	90,396	4.50 %	8,820	4.50 %
United Business Bank	336,437	17.20 %	336,667	16.42 %	335,964	16.91 %	328,303	16.94 %
Minimum requirement for "Well Capitalized"	127,118	6.50 %	133,242	6.50 %	129,136	6.50 %	125,987	6.50 %
Minimum regulatory requirement	88,005	4.50 %	92,245	4.50 %	89,402	4.50 %	87,222	4.50 %
<u>Tier 1 Risk-Based Capital Ratio</u>								
BayCom Corp	288,588	14.60 %	292,916	14.14 %	294,083	14.64 %	291,887	14.89 %
Minimum requirement for "Well Capitalized"	158,169	8.00 %	165,721	8.00 %	160,704	8.00 %	156,800	8.00 %
Minimum regulatory requirement	118,627	6.00 %	124,291	6.00 %	120,528	6.00 %	117,600	6.00 %

United Business Bank	336,437	17.20 %	336,667	16.42 %	335,964	16.91 %	328,303	16.94 %
Minimum requirement for "Well Capitalized"	156,453	8.00 %	163,991	8.00 %	158,936	8.00 %	155,062	8.00 %
Minimum regulatory requirement	117,340	6.00 %	122,993	6.00 %	119,202	6.00 %	116,296	6.00 %
<u>Total Risk-Based Capital Ratio</u>								
BayCom Corp	373,638	18.90 %	377,131	18.21 %	377,873	18.81 %	379,112	19.34 %
Minimum requirement for "Well Capitalized"	197,711	10.00 %	207,151	10.00 %	200,880	10.00 %	196,000	10.00 %
Minimum regulatory requirement	158,169	8.00 %	165,721	8.00 %	160,704	8.00 %	156,800	8.00 %
United Business Bank	356,487	18.23 %	355,882	17.36 %	355,069	17.87 %	350,528	18.08 %
Minimum requirement for "Well Capitalized"	195,567	10.00 %	204,988	10.00 %	198,670	10.00 %	193,827	10.00 %
Minimum regulatory requirement	156,453	8.00 %	163,991	8.00 %	158,936	8.00 %	155,062	8.00 %

In addition to the minimum capital ratios, the Bank must maintain a capital conservation buffer consisting of additional Common Equity Tier 1 capital greater than 2.5% above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained income that could be utilized for such actions. At **September 30, 2023** **March 31, 2024**, the Bank's Common Equity Tier 1 capital exceeded the required capital conservation buffer.

For a bank holding company with less than \$3.0 billion in assets, the capital guidelines apply on a bank only basis and the Federal Reserve expects the holding company's subsidiary bank(s) to be Well Capitalized under the prompt corrective action regulations. If the Company were subject to regulatory guidelines for bank holding companies with \$3.0 billion or more in assets, at September 30, 2023, the Company would have exceeded all regulatory capital requirements.

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For additional information, see "Item 1. Business — Supervision and Regulation — United Business Bank — Capital Requirements" and Note 19, "Regulatory Matters" in the Notes to the Consolidated Financial Statements, included in "Item 8. Financial Statements and Supplementary Data" in the **2022** **2023** Annual Report.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to interest rate risk through our lending and deposit gathering activities. Our results of operations are highly dependent upon our ability to manage interest rate risk. We consider interest rate risk to be a significant market risk that could have a material effect on our financial condition and results of operations. Interest rate risk is measured and assessed on a quarterly basis. For information regarding the Company's market risk, see "Management Discussion and Analysis of Financial Condition and Results of Operations — Quantitative and Qualitative Disclosures About Market and Interest Rate Risk," in the Company's 2022 2023 Annual Report. In our opinion, there has not been a material change in our interest rate risk exposure since the information disclosed in our 2022 2023 Annual Report.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation of the **Company's** disclosure controls and procedures as defined in Rule 13a-15(e) under 13a 15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), was carried out as of **September 30, 2023** **March 31, 2024** under the supervision and with the participation of the Company's **Chief Executive Officer ("CEO")**, **Chief Financial Officer ("CFO")** **principal executive officer, principal financial officer** and several other members of the Company's senior management. In designing and evaluating the Company's disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

The Company's **CEO** **principal executive officer** and **CFO** **principal financial officer** concluded that **as of March 31, 2024**, based on their evaluation, **at September 30, 2023**, the Company's disclosure controls and procedures were **not** effective in ensuring that information we are required to disclose in the reports we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) accumulated and communicated to BayCom Corp's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure, specified in the SEC's rules and forms. **This conclusion was due to a material weakness in the Company's internal control over financial reporting, which was described in Part II, Item 9A of the Company's Annual Report on Form 10-K/A for the year ended December 31, 2022, and continued to exist as of September 30, 2023.**

Notwithstanding the material weaknesses described below, management, based upon the work performed during the restatement and revision process, has concluded that the Company's condensed consolidated financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q are fairly stated in all material respects in accordance with accounting principles generally accepted in the United States ("GAAP") for each of the periods presented herein.

Previously Disclosed Material Weakness in Internal Control Over Financial Reporting

The Company disclosed in Part II, Item 9A – Controls and Procedures in its Annual Report on Form 10-K/A ("Item 9A") for the year ended December 31, 2022, that it had identified an error related to the accounting for unrealized losses on preferred equity securities that resulted in material misstatements of noninterest income and accumulated other comprehensive income.

At the time of its purchase of the preferred equity securities for investment purposes, the Company inappropriately accounted for them as available for sale debt securities under ASC Topic 320 – *Investments-Debt Securities*. As such, the changes in the fair value of these securities were not recorded as part of net income but rather as

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a component of shareholders' equity (in accumulated other comprehensive income, net of tax). However, as a result of subsequent research and third-party consultation, the Company determined that the securities should instead have been accounted for under ASC Topic 321 – *Investments-Equity Securities*. The result of this change in classification of the preferred equity securities is that the change in the fair value of the securities for the prior periods should have been recorded in noninterest income on the consolidated statements of income. The Company determined that this error constituted a "material weakness" in its internal control over financial reporting.

Remediation Plan and Status

In response to the identified material weakness, our management, with the oversight of the audit committee of our board of directors, has dedicated additional resources, including additional employee training and engagement of third-party expertise, toward improving our internal control over financial reporting. We have redesigned and enhanced control activities related to investment security classification and review at the acquisition date. With the purchase of securities towards the end of the third quarter of 2023, we began the process of testing the redesigned and enhanced controls, including independent testing by internal audit.

We believe that with sufficient operation and testing of the redesigned and enhanced controls, these measures will remediate the material weakness we have identified and strengthen our internal control over financial reporting. We are committed to improving our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures. We may also take additional measures to address control deficiencies or modify certain of the remediation measures described above. This material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

(b) Changes in Internal Controls

Except for the enhancements discussed above, there **There** were no changes made to our in the Company's internal control over financial reporting that occurred during the three months ended **September 30, 2023****March 31, 2024**, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Periodically, there have been various claims and lawsuits involving the Company, such as claims to enforce liens, condemnation proceedings on properties in which the Company holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Company's business. The Company is not a party to any pending legal proceedings that it believes would have a material adverse effect on the financial condition or operations of the Company.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the [2022](#)[2023](#) Annual Report.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

(a) Not applicable.

(b) Not applicable.

(c) **Stock Repurchases.** The following table sets forth information with respect to our repurchases of our outstanding common shares during the three months ended [September 30, 2023](#)[March 31, 2024](#):

	Total number of shares purchased as part of publicly announced plans or programs				Total number of shares purchased as part of publicly announced plans or programs			
	Total number of shares purchased	Average price per share	Maximum number of shares that may yet be purchased under the plans or programs		Total number of shares purchased	Average price per share	Maximum number of shares that may yet be purchased under the plans or programs (1)	
July 1, 2023 -								
July 31, 2023	84,140	\$ 17.66	84,140		49,820			
August 1, 2023 - August 31, 2023 ⁽¹⁾	37,214	19.62	37,214		600,606			
September 1, 2023 -	118,295	19.48						
September 30, 2023			118,295		482,311			
January 1, 2024 - January 31, 2024								359,752
February 1, 2024 - February 29, 2024					53,659	20.14	53,659	306,093
March 1, 2024 - March 31, 2024					144,461	20.23	144,461	161,632
	<u>239,649</u>	<u>\$ 18.86</u>	<u>239,649</u>		<u>198,120</u>	<u>\$ 20.20</u>	<u>198,120</u>	

(1) In August 2023, the Company's Board of Directors approved the Company's eighth stock repurchase program, which commenced following completion of the seventh stock repurchase program [during](#) [in](#) September 2023, [for](#) [authorizing](#) the [repurchase](#) [purchase](#) of up to 588,000 shares, or approximately 5.0%, of the Company's outstanding common stock over a one-year period. Purchases under the Company's stock repurchase programs may be made through open market purchases, privately negotiated transactions, or otherwise in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. The repurchase programs may be suspended, terminated, or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. The Company's stock repurchase programs do not obligate the Company to purchase any specific number of shares.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

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Table of Contents**Item 5. Other Information**

(a) Not applicable.

(b) Not applicable.

(c) Trading Plans. During the three months ended **September 30, 2023** **March 31, 2024**, no director or officer (as defined in Rule 16a-1(f) under the Exchange Act) of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

Item 6. Exhibits

- 3.1 [Articles of Incorporation of BayCom Corp\(1\)](#)
- 3.2 [Amended and Restated Bylaws of BayCom Corp\(2\)](#)
- 10.1 [Amended and Restated Executive Supplemental Compensation Agreement by and between United Business Bank and George J. Guarini, dated June 20, 2023\(3\)](#)
- 10.2 [Amendment No. 1 to Amended and Restated Joint Beneficiary Agreement by and between United Business Bank and George J. Guarini, dated June 20, 2023\(3\)](#)
- 10.3 [Amendment No. 1 to Joint Beneficiary Agreement by and between United Business Bank and Keary Colwell, dated June 20, 2023\(3\)](#)
- 10.4 [Amendment No. 1 to Joint Beneficiary Agreement by and between United Business Bank and Janet King, dated June 20, 2023\(3\)](#)
- 31.1 [Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32 [Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024** formatted in Extensible Business Reporting Language (XBRL): (1) Condensed Consolidated Balance Sheets; (2) Condensed Consolidated Statements of Income; (3) Condensed Consolidated Statements of Comprehensive Income; (4) Condensed Consolidated Statements of Changes in Stockholders' Equity; (5) Condensed Consolidated Statements of Cash Flows; and (6) Notes to Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document).

- (1) Incorporated herein by reference to the Registration Statement on Form S-1 filed with the SEC on April 11, 2018 (File No. 333-224236).
- (2) Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed with the SEC on June 17, 2020 (File No. 001-38483).
- (3) Incorporated herein by reference to the Registrant's Current Report on Form 8-K filed with the SEC on June 23, 2023 (File No. 001-38483).

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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 hereunto duly authorized.

BAYCOM CORP

Registrant

Date: **November 13, 2023** May 10, 2024

By: /s/ George J. Guarini

George J. Guarini
President and Chief Executive Officer
(Principal Executive Officer)

Date: **November 13, 2023** May 10, 2024

By: /s/ Kearly L. Colwell

Kearly L. Colwell
Senior Executive Vice President, Chief Financial Officer and
Secretary
(Principal Financial and Accounting Officer)

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Exhibit 31.1

Rule 13a-14(a) Certification

I, George Guarini, certify that:

1. I have reviewed this quarterly report on Form 10-Q of BayCom Corp.
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 we 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 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

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 registrant's board of directors:

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.

Date: November 13, 2023 May 10, 2024

/s/ George Guarini

George Guarini

Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a)Certification

I, Keary Colwell, certify that:

1 I have reviewed this quarterly report on Form 10-Q of BayCom Corp.

2. Based on my knowledge, this quarterly 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 instruments 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

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

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 registrant's board of directors:

- 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.

Date: November 13, 2023 May 10, 2024

/s/ Keary Colwell

Keary Colwell
Senior Executive Vice President,
Chief Financial Officer and Secretary

Exhibit 32

Section 1350 Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 each of the undersigned hereby certifies in his or her capacity as an officer of BayCom Corp ("the Company") that the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2023 March 31, 2024, fully complies with the requirements of Section 13(a) of the Securities and Exchange Act of 1934, as amended, and that the information contained in such report fairly represents, in all material respects, the financial statements included in such report.

Date: November 13, 2023 May 10, 2024

/s/ George Guarini

George Guarini
Chief Executive Officer

Date: November 13, 2023 May 10, 2024

/s/ Keary Colwell

Keary Colwell Senior Executive Vice President,
Chief Financial Officer and Secretary

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