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

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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 001-41684

SOUTHERN CALIFORNIA BANCORP
(Exact name of registrant as specified in its charter)

California	**84-3288397**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
12265 El Camino Real, Suite 210 **San Diego, California**	**92130**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (844) 265-7622

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	**BCAL**	**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. T 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). T 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	T	Smaller reporting company	T
		Emerging growth company	T

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. T

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **£** Yes T No

As of April 30, 2024, the registrant had 18,529,850 outstanding shares of common stock.

SOUTHERN CALIFORNIA BANCORP

FORM 10-Q QUARTERLY REPORT
MARCH 31, 2024

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Cautionary Note Regarding Forward-Looking Statements

In this quarterly report on Form 10-Q, the words “we,” “us,” “our,” “BCAL,” or the “Company” refer to Southern California Bancorp, and Bank of Southern California, N.A. collectively and on a consolidated basis. The words “Southern California Bancorp,” “SCB”, “Bancorp,” or the “holding company” refer to Southern California Bancorp on a stand-alone basis. References to the “Bank” refer to Bank of Southern California, N.A.

The statements in this quarterly report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and other matters that are not historical facts. Examples of forward-looking statements include, among others, statements regarding expectations, plans or objectives for future operations, products or services, loan recoveries and the proposed merger (the “Merger”) of the Company and California BanCorp (“CBC”), as well as forecasts relating to financial and operating results or other measures of economic performance. Forward-looking statements reflect management’s current view about future events and involve risks and uncertainties that may cause actual results to differ from those expressed in the forward-looking statement or historical results. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and often include the words or phrases such as “aim,” “can,” “may,” “could,” “predict,” “should,” “will,” “would,” “believe,” “anticipate,” “estimate,” “expect,” “hope,” “intend,” “plan,” “potential,” “project,” “will likely result,” “continue,” “seek,” “shall,” “possible,” “projection,” “optimistic,” and “outlook,” and variations of these words and similar expressions.

We have made the forward-looking statements in this quarterly report based on assumptions and estimates that we believe to be reasonable in light of the information available to us at this time. However, these forward-looking statements are subject to significant risks and uncertainties, and could be affected by many factors. Factors that could have a material adverse effect on our business, consolidated financial condition, consolidated results of operations and future growth prospects include, but are not limited to, the following:

- recent volatility and uncertainty facing the banking industry following the recent failures of financial institutions;
- challenges related to increasing interest rates and the impact on our consolidated financial condition and consolidated results of operations;
- our ability to manage our liquidity;
- business and economic conditions nationally, regionally and in our target markets, particularly in Southern California, which is the principal area in which we operate;
- the lack of soundness of other financial institutions;
- disruptions to the credit and financial markets, either nationally, regionally or locally;
- our dependence on the Bank for dividends;
- concentration of our loan portfolio in commercial loans, which loans may be dependent on the borrower’s cash flows for repayment and, to some extent, the local and regional economy;
- concentration of our loan portfolio in loans secured by real estate and changes in the prices, values and sales volumes of commercial and residential real estate;
- risks related to construction and land development lending, which involves estimates that may prove to be inaccurate and collateral that may be difficult to sell following foreclosure;
- risks related to Small Business Administration (“SBA”) lending, including the risk that we could lose our designation as an SBA Preferred Lender;
- concentration of our business activities within the geographic area of Southern California;
- credit risks in our loan portfolio, the adequacy of our reserves for credit losses and the appropriateness of our methodology for calculating such allowance for credit losses;
- the impacts of pandemics, natural disasters, including earthquakes, floods, droughts, and fires, particularly in Southern California;

- our ability to manage a contracting balance sheet or revenue consideration;
- our ability to retain deposits, during the pendency of the Merger, and integration and conversion activities related to the Merger;
- terms and conditions in our merger agreement with CBC that restrict our business while the Merger is pending;
- the occurrence of any event, change, or other circumstances that could give rise to the right of one or both of the parties to terminate the merger agreement;
- delays in completing the Merger;
- the failure to satisfy any of the conditions to the Merger on a timely basis or at all;
- the possibility that the anticipated benefits of the Merger will not be realized when expected or at all, including as a result of the impact of, or problems arising from, the integration of the two companies or as a result of the strength of the economy and competitive factors in the areas we and CBC do business;
- certain restrictions during the pendency of the Merger that may impact the parties' ability to pursue certain business opportunities or strategic transactions;
- the possibility that the Merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- diversion of management's attention from ongoing business operations and opportunities during the pendency of the Merger;
- potential adverse reactions or changes to business or employee relationships, including those resulting from the announcement or completion of the Merger and the integration of the two companies and banks;
- economic forecast variables that are either materially worse or better than end of quarter projections and deterioration in the economy that exceeds current consensus estimates;
- our ability to effectively manage problem credits;
- risks related to any future acquisitions, including transaction expenses, the potential distraction of management resources and the possibility that we will not realize anticipated benefits from any future acquisitions;
- interest rate shifts and its impact on our consolidated financial condition and consolidated results of operation;
- disruptions to the credit and financial markets, either nationally or globally;
- competition in the banking industry, nationally, regionally or locally;
- failure to maintain adequate liquidity and regulatory capital and comply with evolving federal and state banking regulations;
- inability of our risk management framework to effectively mitigate credit risk, interest rate risk, liquidity risk, price risk, compliance risk, technology risk, operational risk, strategic risk and reputational risk;
- our dependence on our management and our ability to attract and retain experienced and talented bankers;
- failure to keep pace with technological change or difficulties when implementing new technologies;
- system failures, data security breaches, including as a result of cyber-attacks, or failures to prevent breaches of our network security;
- our reliance on communications and information systems to conduct business and reliance on third parties and their affiliates to provide key components of business structure, any disruptions of which could interrupt operations or increase the costs of doing business;
- fraudulent and negligent acts by our customers, employees or vendors;

- our ability to prevent or detect all errors or fraud with our financial reporting controls and procedures;
- increased loan losses or impairment of goodwill and other intangibles;
- an inability to raise necessary capital to fund our growth strategy, operations, or to meet increased minimum regulatory capital levels;
- the sufficiency of our capital, including sources of such capital and the extent to which capital may be used or required;
- the institution and outcome of litigation and other legal proceedings to which we become subject;
- the impact of recent and future legislative and regulatory changes;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for credit losses, slow the growth of our commercial real estate loans or write-down assets, or otherwise impose restrictions or conditions on our operations, including, but not limited to, our ability to acquire or be acquired;
- our status as an emerging growth company and a smaller reporting company, which reduces our disclosure obligations under the federal securities laws compared to other publicly traded companies;
- the impact of current and future governmental monetary and fiscal policies; and
- other factors and risks described in this quarterly report and from time to time in other documents that we file or furnish with the Securities and Exchange Commission ("SEC"), including, without limitation, the risks described under Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2023, that was filed with the SEC on March 15, 2024.

Because of these risks and other uncertainties, our actual results, performance or achievement, or industry results, may be materially different from the anticipated or estimated results discussed in this filing. Our past results of operations are not necessarily indicative of our future results. You should not rely on any forward-looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. We undertake no obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under federal securities law. We qualify all of our forward-looking statements by these cautionary statements.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)
(Unaudited)

	March 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 53,695	$ 33,008
Federal funds and interest-bearing balances	32,847	53,785
Total cash and cash equivalents	86,542	86,793
Debt securities available-for-sale, at fair value (amortized cost of $ 135,673 and $136,366 at March 31, 2024 and December 31, 2023)	126,957	130,035
Debt securities held-to-maturity, at amortized cost (fair value of $ 49,525 and $50,432 at March 31, 2024 and December 31, 2023)	53,533	53,616
Loans held for sale, at lower of cost or fair value	2,803	7,349
Loans held for investment	1,883,282	1,957,442
Allowance for credit losses on loans	(22,254)	(22,569)
Loans held for investment, net	1,861,028	1,934,873
Restricted stock, at cost	16,066	16,055
Premises and equipment, net	12,990	13,270
Right-of-use asset	8,711	9,291
Other real estate owned, net	13,114	—
Goodwill	37,803	37,803
Core deposit intangible, net	1,130	1,195
Bank owned life insurance	39,179	38,918
Deferred taxes, net	10,204	11,137
Accrued interest receivable and other assets	19,655	19,917
Total assets	$ 2,289,715	$ 2,360,252
LIABILITIES		
Noninterest-bearing demand	$ 651,991	$ 675,098
Interest-bearing NOW accounts	358,598	381,943
Money market and savings accounts	661,835	636,685
Time deposits	258,120	249,830
Total deposits	1,930,544	1,943,556
Borrowings	44,889	102,865
Operating lease liability	11,440	12,117
Accrued interest payable and other liabilities	10,343	13,562
Total liabilities	1,997,216	2,072,100
Commitments and contingencies (Note 11)		
SHAREHOLDERS' EQUITY		
Preferred stock - 50,000,000 shares authorized, no par value; no shares issued and outstanding at March 31, 2024 and December 31, 2023	—	—
Common stock - 50,000,000 shares authorized, no par value; issued and outstanding 18,527,178 and 18,369,115 at March 31, 2024 and December 31, 2023	223,128	222,036
Retained earnings	75,510	70,575
Accumulated other comprehensive loss - net of taxes	(6,139)	(4,459)
Total shareholders' equity	292,499	288,152
Total liabilities and shareholders' equity	$ 2,289,715	$ 2,360,252

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)
(Unaudited)

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

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended	
	March 31, 2024	March 31, 2023
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 28,584	$ 27,019
Interest on debt securities	1,213	731
Interest on tax-exempted debt securities	306	487
Interest on deposits at other financial institutions	850	744
Interest and dividends on other interest-earning assets	311	228
Total interest and dividend income	31,264	29,209
INTEREST EXPENSE		
Interest on NOW, money market and savings accounts	6,770	2,903
Interest on time deposits	3,021	975
Interest on borrowings	979	439
Total interest expense	10,770	4,317
Net interest income	20,494	24,892
(Reversal of) provision for credit losses	(331)	202
Net interest income after (reversal of) provision for credit losses	20,825	24,690
NONINTEREST INCOME		
Service charges and fees on deposit accounts	362	262
Interchange and ATM income	163	177
Gain on sale of loans	415	808
Income from bank owned life insurance	261	223
Servicing and related income on loans, net	73	75
Other charges and fees	139	25
Total noninterest income	1,413	1,570
NONINTEREST EXPENSE		
Salaries and employee benefits	9,610	10,241
Occupancy and equipment	1,452	1,447
Data processing and communications	1,150	1,056
Legal, audit and professional	516	785
Regulatory assessments	387	452
Director and shareholder expenses	203	213
Merger and related expenses	549	—
Core deposit intangible amortization	65	91
Other expenses	1,049	734
Total noninterest expense	14,981	15,019
Income before income taxes	7,257	11,241
Income tax expense	2,322	3,017
Net income	$ 4,935	$ 8,224
Earnings per share:		
Basic	$ 0.27	$ 0.46
Diluted	$ 0.26	$ 0.44

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

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(dollars in thousands)
(Unaudited)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Net income	$ 4,935	$ 8,224
Other comprehensive (loss) income, net of tax:		
Unrealized loss on securities available for sale:		
Change in net unrealized (loss) income	(2,385)	1,960
Income tax (benefit) expense:		
Change in net unrealized (loss) income	(705)	528
Total other comprehensive (loss) income, net of tax	(1,680)	1,432
Total comprehensive income, net of tax	$ 3,255	$ 9,656

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

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands, except share data)
(Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount			
Three months ended March 31, 2023:					
Balance at December 31, 2022	**17,940,283**	**$ 218,280**	**$ 48,516**	**$ (6,441)**	**$ 260,355**
Adoption of ASU No. 2016-13, net of tax [(1)]	—	—	(3,851)	—	(3,851)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	**17,940,283**	**$ 218,280**	**$ 44,665**	**$ (6,441)**	**$ 256,504**
Stock-based compensation	—	1,686	—	—	1,686
Stock options exercised	6,950	67	—	—	67
Restricted stock units vested	347,097	—	—	—	—
Repurchase of shares in settlement of restricted stock units	(23,136)	(374)	—	—	(374)
Net income	—	—	8,224	—	8,224
Other comprehensive loss	—	—	—	1,432	1,432
Balance at March 31, 2023	**18,271,194**	**$ 219,659**	**$ 52,889**	**$ (5,009)**	**$ 267,539**
Three months ended March 31, 2024:					
Balance at December 31, 2023	**18,369,115**	**$ 222,036**	**$ 70,575**	**$ (4,459)**	**$ 288,152**
Stock-based compensation	—	895	—	—	895
Stock options exercised	81,400	706	—	—	706
Restricted stock units vested	110,084	—	—	—	—
Repurchase of shares in settlement of restricted stock units	(33,421)	(509)	—	—	(509)
Net income	—	—	4,935	—	4,935
Other comprehensive loss	—	—	—	(1,680)	(1,680)
Balance at March 31, 2024	**18,527,178**	**$ 223,128**	**$ 75,510**	**$ (6,139)**	**$ 292,499**

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
For the three months ended March 31, 2024 and 2023
(dollars in thousands)
(Unaudited)

	Three Months Ended March 31,	
	2024	**2023**
OPERATING ACTIVITIES		
Net income	$ 4,935	$ 8,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation on premises and equipment	370	412
Core deposit intangible amortization	65	91
Amortization of (discounts) premiums of debt securities	(127)	145
Gain on sale of loans	(415)	(808)
Loans originated for sale	(1,777)	(1,469)
Proceeds from sales of and principal collected on loans held for sale	6,778	10,802
(Reversal of) provision for credit losses	(331)	202
Deferred income tax expense	1,638	1,294
Stock-based compensation	895	1,686
Increase in cash surrender value of bank owned life insurance	(261)	(223)
Accretion of net discounts and deferred loan fees	(603)	(532)
Net decrease in other items	(3,114)	(1,552)
Net cash provided by operating activities	8,053	18,272
INVESTING ACTIVITIES		
Proceeds from maturities and paydowns of debt securities available for sale	2,941	1,683
Purchases of debt securities available for sale	(2,041)	(11,644)
Net change in stock investments	96	(580)
Net repayment (funding) of loans	61,609	4,043
Proceeds from sale of loans held for investment	—	50
Purchases of premises and equipment	(89)	(79)
Net cash provided by (used in) investing activities	62,516	(6,527)
FINANCING ACTIVITIES		
Net (decrease) increase in deposits	(13,017)	53,941
Repayment of Federal Home Loan Bank advances	(58,000)	(50,000)
Proceeds from exercise of stock options	706	67
Repurchase of common shares	(509)	(374)
Net cash (used in) provided by financing activities	(70,820)	3,634
Net change in cash and cash equivalents	(251)	15,379
Cash and cash equivalents at beginning of period	86,793	86,760
Cash and cash equivalents at end of period	$ 86,542	$ 102,139
Supplemental Disclosures of Cash Flow Information:		
Interest paid	$ 9,593	$ 4,017
Taxes paid	—	—
Lease liability arising from obtaining right-of-use assets	—	405
Loans transferred to other real estate owned	13,004	—
Net impact of adoption of ASU 2016-13 on retained earnings	—	3,851

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

SOUTHERN CALIFORNIA BANCORP AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2024

NOTE 1 – BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Southern California Bancorp is a California corporation incorporated on October 2, 2019 and is registered with the Board of Governors of the Federal Reserve System as a bank holding company for Bank of Southern California, N.A. under the Bank Holding Company Act of 1956, as amended. On May 15, 2020, the Company completed a reorganization whereby Bank of Southern California, N.A. became a wholly-owned subsidiary of the Company. Bank of Southern California, N.A. began business operations in December 2001 under the name Ramona National Bank. The Bank changed its name to First Business Bank, N.A. in 2006 and to Bank of Southern California, N.A. in 2010. Bank of Southern California, N.A. has a wholly-owned subsidiary, BCAL OREO1, LLC, which was incorporated on February 14, 2024. BCAL OREO1, LLC is used for holding other real estate owned and other assets acquired by foreclosure. The Bank operates under a federal charter and its primary regulator is the Office of the Comptroller of the Currency ("OCC"). The words "we," "us," "our," or the "Company" refer to Southern California Bancorp, and Bank of Southern California, N.A. collectively and on a consolidated basis. References herein to "Southern California Bancorp," "SCB," "Bancorp" or the "holding company," refer to Southern California Bancorp on a stand-alone basis. References to the "Bank" refer to Bank of Southern California, N.A.

As a relationship-focused community bank, the Bank offers a range of financial products and services to individuals, professionals, and small- to medium-sized businesses through its 13 branch offices serving Orange, Los Angeles, San Diego and Ventura counties, as well as the Inland Empire. Many of the banking offices have been acquired through a number of acquisitions.

On May 11, 2023, our common stock became listed on the Nasdaq Capital Market under the symbol BCAL. Prior to that date, our common stock was quoted under the same symbol on the OTC Pink Open Market.

On January 30, 2024, the Company announced the execution of a definitive merger agreement with California BanCorp (NASDAQ: CALB), the holding company for California Bank of Commerce, pursuant to which California BanCorp will merge into Southern California Bancorp in an all-stock merger valued at approximately $233.6 million based on the closing price of Southern California Bancorp on January 29, 2024. Under the terms of the merger agreement, which has been unanimously approved by the boards of directors of Southern California Bancorp and California BanCorp, each outstanding share of California BanCorp common stock will be exchanged for the right to receive 1.590 shares of Southern California Bancorp common stock. As a result of the transaction, Southern California Bancorp shareholders will own approximately 57.1% of the outstanding shares of the combined company and California BanCorp shareholders will own approximately 42.9% of the outstanding shares of the combined company. These amounts are subject to fair value adjustments upon the close of the Merger. The transaction is expected to close in the third quarter of 2024, subject to the satisfaction of customary closing conditions, including receipt of required regulatory approvals and approvals from Southern California Bancorp and California BanCorp shareholders. At March 31, 2024, California BanCorp had total loans of $1.52 billion, total assets of $1.92 billion, total deposits of $1.64 billion, and total equity of $200.7 million.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared pursuant to Article 10 of SEC Regulation S-X and other SEC rules and regulations for reporting on the Quarterly Report on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles ("GAAP") are not included herein. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in Item 8. Financial Statements and Supplementary Data of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, including its wholly owned subsidiary, the Bank and the Bank's wholly-owned subsidiary, BCAL OREO1, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change are the determination of the allowance for credit losses, the fair value of assets and liabilities acquired in business combinations and related purchase price allocation, the valuation of acquired loans, the valuation of goodwill and separately identifiable intangible assets associated with mergers and acquisitions, loan sales and servicing of financial assets and deferred tax assets and liabilities.

Operating Segments

We operate one reportable segment — commercial banking. The factors considered in making this determination include all of the banking products and services offered by the Company are available in each branch of the Company, all branches are located within the same economic environment, management does not allocate resources based on the performance of different lending or transaction activities and how information is reviewed by the chief executive officer and other key decision makers. As a result, we determined that all services we offer relate to commercial banking.

Recently Adopted Accounting Guidance

On January 1, 2023, the Company adopted Accounting Standard Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which replaces the incurred loss impairment methodology with a methodology that reflects current expected credit losses ("CECL") and requires consideration of historical experience, current conditions and reasonable and supportable forecasts to estimate expected credit losses for financial assets held at the reporting date. The measurement of expected credit losses under the CECL is applicable to financial assets measured at amortized cost, including loans, held-to-maturity debt securities and off-balance sheet credit exposures. ASU 2016-13 also requires credit losses on available-for-sale debt securities be measured through an allowance for credit losses. If the measurement indicates that 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 ("ACL") is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. In addition, ASU 2016-13 modifies the other-than-temporary impairment ("OTTI") model for available-for-sale debt securities to require an allowance for credit impairment instead of a direct write-down, which allows for reversal of credit impairments in future periods based on improvements in credit. The Company elected to account for accrued interest receivable separately from the amortized cost of loans and investment securities. The Company elected the CECL phase-in option provided by regulatory capital rules, which delays the impact of CECL on regulatory capital over a three-year transition period.

Concurrent with the adoption of ASU 2016-13, the Company adopted ASU 2022-02, Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings ("TDR") and Vintage Disclosures, which eliminated TDR accounting prospectively for all loan modifications occurring on or after January 1, 2023 and added additional disclosure requirements for current period gross charge-offs by year of origination. It also prescribes guidance for reporting modifications for certain loan refinancings and restructurings made to borrowers experiencing financial difficulty. Loans that were considered a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the superseded TDR accounting guidance until the loan is paid off, liquidated, or subsequently modified.

The Company adopted ASU 2016-13 using the modified retrospective transition approach, and recorded a net decrease of $3.9 million to the beginning balance of retained earnings as of January 1, 2023 for the cumulative effect adjustment, reflecting an initial adjustment to the ACL of $5.5 million, which included a $5.0 million increase in the ACL - loans and a $439 thousand increase in reserve for unfunded commitments, net of related deferred tax assets arising from temporary differences of $1.6 million, commonly referred to as the “Day 1” adjustment. This Day 1 adjustment reflects the development of the CECL models to estimate lifetime expected credit losses on the loans held for investment and unfunded commitments primarily using a lifetime loss methodology and management’s current expectation of future economic conditions. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the probable incurred loss accounting standards. As permitted under ASC 326, the Company elected to maintain the same loan segments that it previously identified prior to adoption of CECL.

At adoption of CECL and continuing through March 31, 2024, the Company did not record an ACL on available-for-sale debt securities or held-to-maturity debt securities as these investment portfolios primarily consisted of debt securities explicitly or implicitly backed by the U.S. government or state and local governments, and historically have had no credit loss experience. Refer to Note 2 – *Investment Securities*, for more information.

The following table presents the impact of adopting ASU 2016-13 on January 1, 2023:

(dollars in thousands)	**Pre-CECL Adoption**	**Impact of CECL Adoption**	**As Reported under CECL**
Assets:			
Allowance for credit losses - loans			
Construction and land development	$ 2,301	$ 881	$ 3,182
Real estate - other:			
1-4 family residential	972	424	1,396
Multifamily residential	1,331	(279)	1,052
Commercial real estate and other	9,388	2,838	12,226
Commercial and industrial	3,079	1,132	4,211
Consumer	28	31	59
	$ 17,099	$ 5,027	$ 22,126
Liabilities:			
Allowance for credit losses - unfunded loan commitments	$ 1,310	$ 439	$ 1,749

On January 1, 2024, the Company adopted ASU 2023-01, Leases (Topic 842): Common Control Arrangements. This standard requires entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. The standard is effective for the Company for fiscal years beginning after December 15, 2023, including interim periods within these fiscal years. The Company did not have any such common control leases, so adoption of this standard did not have a material impact to the consolidated financial statements.

On January 1, 2024, the Company adopted ASU 2023-02, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, a consensus of the Emerging Issues Task Force. The amendments in this update allow the option for an entity to apply the proportional amortization method of accounting to other equity investments that are made for the primary purpose of receiving tax credits or other income tax benefits, if certain conditions are met. Prior to this update, the application of the proportional amortization method of accounting was only limited to low-income housing tax credit ("LIHTC") structured investments. The proportional amortization method of accounting results in the amortization of applicable investments, as well as the related income tax credits or other income tax benefits received, being presented on a single line in the consolidated statements of income, income tax expense. Under this update, 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 update 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 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 update, LIHTC structured investments for which the proportional amortization method is not applied can no longer be accounted for using the delayed equity contribution guidance. Further, this update specifies that impairment of LIHTC structure investments not accounted for using the equity method must apply the impairment guidance in Subtopic 323-10 - Investments - Equity Method and Joint Ventures - Overall. This update also clarifies that for LIHTC structure investments not accounted for under the proportional amortization method or the equity method, an entity shall account for them under Topic 321 - Investments - Equity Securities. The amendments in this update 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. The provisions of this update are effective for the Company for interim and annual periods beginning December 15, 2023. Early adoption is permitted. The adoption of this standard did not have a material impact to the consolidated financial statements.

Significant Accounting Policies

The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the banking industry. We have not made any changes in our significant accounting policies from those disclosed in Item 8. Financial Statements and Supplementary Data of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Updates to our significant accounting policies described below reflect the impact of the adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326) and the related amendments, and ASU 2022-02, Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures.

Allowance for Credit Losses — Held-to-Maturity Debt Securities

An ACL is established for losses on held-to-maturity debt securities at the time of purchase or designation and is updated each period to reflect management's expectations of CECL as of the date of the consolidated balance sheets. The ACL is estimated collectively for groups of debt securities with similar risk characteristics, and is determined at the individual security level when the Company deems a security to no longer possess shared risk characteristics. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses. For debt securities where the Company has reason to believe the credit loss exposure is remote, a zero credit loss assumption is applied. Such debt securities were municipal securities, and historically have had limited credit loss experience. The Company does not anticipate any credit related losses in this investment portfolio. Changes in the ACL on held-to-maturity debt securities are recorded as a component of the (reversal of) provision for credit losses in the consolidated statements of income. Losses are charged against the ACL when management believes the uncollectibility of a held-to-maturity debt security is confirmed.

Allowance for Credit Losses — Available-for-Sale Debt Securities

For available-for-sale debt securities, the Company evaluates, on an individual basis, whether a decline in fair value below the amortized cost basis has resulted from a credit loss or other factors. The portion of the decline attributable to credit losses is recognized through an ACL, and changes in the ACL on available-for-sale debt securities are recorded as a component of the (reversal of) provision for credit losses in the consolidated statements of income. The portion of decline in fair value below the amortized cost basis not attributable to credit is recognized through other comprehensive income (loss), net of applicable taxes.

Allowance for Credit Losses — Loans

An ACL is the Company’s estimate of expected lifetime credit losses for its loans held for investment at the time of origination or acquisition and is maintained at a level deemed appropriate by management to provide for expected lifetime credit losses in the portfolio. The ACL consists of: (i) a specific allowance established for current expected credit losses on loans individually evaluated, (ii) a quantitative allowance for current expected credit losses based on the portfolio and expected economic conditions over a reasonable and supportable forecast period that reverts back to long-term trends to cover the expected life of the loan, (iii) a qualitative allowance including management judgment to capture factors and trends that are not adequately reflected in the quantitative allowance, and (iv) the ACL for off-balance sheet credit exposure for unfunded loan commitments (described in Allowance for Credit Losses - Off-Balance Sheet Credit Exposure).

The ACL on loans held for investment represents the portion of the loans’ amortized cost basis that the Company does not expect to collect due to anticipated credit losses over the loans’ contractual life. Amortized cost does not include accrued interest, which management elected to exclude from the estimate of expected credit losses. Provision for credit losses for loans held for investment is included in (reversal of) provision for credit losses in the consolidated statements of income. Loan charge-offs are recognized when management believes the collectability of the principal balance outstanding is unlikely. Subsequent recoveries, if any, are credited to the ACL. Credit losses are not estimated for accrued interest receivable as interest that is deemed uncollectible is written off through interest income.

Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. Pools of loans with similar risk characteristics are collectively evaluated while loans that no longer share risk characteristics with loan pools are evaluated individually. The Company measures the ACL using a discounted cash flow methodology, which utilizes pool-level assumptions and cash flow projections on individual loan basis, which then aggregated at the portfolio segment level and supplemented by a qualitative reserve that is applied to each portfolio segment level.

The Company’s loan portfolio consists of the following segments, based on regulatory call codes and related risk ratings:

Construction and land development loans are typically adjustable rate residential and commercial construction loans to builders, developers and consumers, with terms generally limited to 12 to 36 months. These loans generally require payment in full upon the sale or refinance of the property. Construction and development loans generally carry a higher degree of risk because repayment depends on the ultimate completion of the project and usually on the subsequent sale or refinance of the property, unless the project is user-owned which would then convert to a conventional term loan. Specific material risks may include (i) unforeseen delays in the building or the project, (ii) cost overruns or inadequate contingency reserves, (iii) poor management of construction process, (iv) inferior or improper construction techniques, (v) changes in the economic environment during the construction period, (vi) a downturn in the real estate market, (vii) rising interest rates which may impact the sale of the property and its price, and (viii) failure to sell or stabilize completed projects in a timely manner. The Company attempts to reduce risks associated with construction and land development loans by obtaining personal guarantees and by keeping the maximum loan-to-value (“LTV”) ratio at or below 75%, depending on the project type. Many of the construction and land development loans include interest reserves built into the loan commitment. For owner-occupied commercial construction loans, periodic cash payments for interest are required from the borrower’s cash flow.

Real estate loans are secured by single family residential properties (one to four units), multifamily residential properties (five or more units), owner-occupied commercial real estate (“CRE”), and non-owner occupied CRE. Real estate loans are subject to the same general risks as other loans and may also be impacted by changing demographics, collateral maintenance, and product supply and demand. Rising interest rates, as well as other factors arising after a loan has been made, could negatively affect not only property values but also a borrower’s cash flow, creditworthiness, and ability to repay the loan. Increasing interest rates can impact real estate values as rising rates generally cause a similar movement in capitalization rates which can cause real estate collateral values to decline. The Company usually obtains a security interest in real estate, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. The Company does not underwrite closed-end term consumer loans secured by a borrower’s residence. Junior liens may be considered in connection with a consumer home equity line of credit ("HELOC"), or as additional collateral support for SBA and other business loans.

The Company's commercial and industrial ("C&I") loans are generally made to businesses located in the Southern California region and surrounding communities. These loans are made to finance operations, to provide working capital, or for specific purposes such as to finance the purchase of assets or equipment or to finance accounts receivable and inventory. The Company's C&I loans may be secured (other than by real estate) or unsecured. They may take the form of single payment, installment, or lines of credit. These are generally based on the financial strength and integrity of the borrower and guarantor(s) and generally (with some exceptions) are collateralized by short-term assets such as accounts receivable, inventory, equipment, or a borrower's other business assets. Commercial term loans are typically made to provide working capital to finance the acquisition of fixed assets, refinance short-term debt originally used to purchase fixed assets or, in rare cases, to finance the purchase of businesses.

Consumer loans consist of loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with negotiable terms. The Company's installment loans typically amortize over periods up to 5 years. Although the Company typically requires monthly payments of interest and a portion of the principal on its loan products, the Company will offer consumer loans with a single maturity date when a specific source of repayment is available. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate.

The Company's ACL model incorporates assumptions for prepayment/curtailment rates, probability of default ("PD"), and loss given default ("LGD") to project each loan's cash flow throughout its entire life cycle. An initial reserve amount is determined based on the difference between the amortized cost basis of each loan and the present value of all future cash flows. The initial reserve amount is then aggregated at the loan segment level to derive the segment level quantitative loss rates. For prepayment and curtailment rates, the Company utilized Abrigo's benchmark since the adoption on January 1, 2023 through the second quarter of 2023 and switched to the Company's own historical prepayment and curtailment experience beginning in the third quarter of 2023. Quarterly PD is forecasted using a regression model that incorporates certain economic variables as inputs. The LGD is derived from PD using the Frye-Jacobs index provided by the Company's third-party model provider. Reasonable and supportable forecasts are used to predict current and future economic conditions. Management elected to use a four quarter reasonable and supportable forecast period followed by an eight quarter straight-line reversion period. After twelve quarters of forecast plus reversion period, the PD is assumed to remain unchanged for the remaining life of the loan.

The Company uses numerous key macroeconomic variables within the economic forecast scenarios from Moody's Analytics. These economic forecast scenarios are based on past events, current conditions, and the likelihood of future events occurring. These scenarios include a baseline forecast which represents their best estimate of future economic activity. Moody's Analytics also provides nine alternative scenarios, including five direct variations of the baseline scenario and four more extensive departures from their baseline forecast, including a slower growth, a stagflation, a next cycle recession and a low oil price scenario. Management recognizes the non-linearity of credit losses relative to economic performance and believes the use of multiple probability-weighted economic scenarios is appropriate in estimating credit losses over the forecast period. This approach is based on certain assumptions. The first assumption is that no single forecast of the economy, however detailed or complex, is completely accurate over a reasonable forecast timeframe and is subject to revisions over time. By considering multiple scenarios, management believes some of the uncertainty associated with a single scenario approach can be mitigated. Management periodically evaluates economic scenarios, determines whether to utilize multiple probability-weighted scenarios in the Company's ACL model, and, if multiple scenarios are utilized, evaluates and determines the weighting for each scenario used in the Company's ACL model, and thus the scenarios and weightings of each scenario may change in future periods. Economic scenarios as well as assumptions within those scenarios can vary based on changes in current and expected economic conditions.

The ACL process involves subjective and complex judgments and is reflective of significant uncertainties that could potentially result in materially different results under different assumptions and conditions. In addition to the aforementioned quantitative model, management periodically considers the need for qualitative adjustments to the ACL. Such qualitative adjustments may be related to and include, but are not limited to factors such as: differences in segment-specific risk characteristics, periods wherein current conditions and reasonable and supportable forecasts of economic conditions differ from the conditions that existed at the time of the estimated loss calculation, model limitations and management's overall assessment of the adequacy of the ACL. Qualitative risk factors are periodically evaluated by management.

Generally, the measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. Loans that do not share similar risk characteristics are evaluated individually for credit loss and are not included in the evaluation process discussed above. Expected credit losses on all individually evaluated loans are measured, primarily through the evaluation of estimated cash flows expected to be collected, or collateral values measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Company selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the net realizable value of the collateral. Cash receipts on individually evaluated loans for which the accrual of interest has been discontinued are applied first to principal and then to interest income. Prior to the adoption of ASC Topic 326, individually evaluated loans were referred to as impaired loans. Amounts are charged-off when available information confirms that specific loans or portions thereof, are uncollectible. This methodology for determining charge-offs is consistently applied to each loan segment.

Loans with terms that have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are evaluated for an ACL utilizing one of the methodologies above.

Allowance for Credit Losses — Off-Balance Sheet Credit Exposures

The Company also maintains a separate allowance for off-balance sheet commitments. Beginning January 1, 2023, management estimates anticipated losses using expected loss factors consistent with those used for the ACL methodology for loans described above, and utilization assumptions based on historical experience. Provision for credit losses for off-balance sheet commitments is included in (reversal of) provision for credit losses in the consolidated statements of income and added to the allowance for off-balance sheet commitments, which is included in accrued interest payable and other liabilities in the consolidated balance sheets.

Loan Modifications, Refinancings and Restructurings

Prior to the adoption of ASU 2022-02, a loan was classified as a TDR when the Company granted a concession to a borrower experiencing financial difficulties that it otherwise would not consider under its normal lending policies under ASC Subtopic 310-40, Troubled Debt Restructurings by Creditors. Upon the adoption of ASU 2022-02, the Company applies the general loan modification guidance provided in ASC 310-20 to all loan modifications, including modifications made for borrowers experiencing financial difficulty. The Company considers some of the indicators that a borrower is experiencing financial difficulty to be: currently in payment default on any of their debt, declaring bankruptcy, having issues continuing as a going concern, insufficient cash flow to service all debt service requirements, inability to obtain funds from other sources at a market rate for similar debt to non-troubled borrowers, and currently classified as substandard loans that are categorized as having well-defined weaknesses.

Under the general loan modification guidance, a modification is treated as a new loan only if the following two conditions are met: (1) the terms of the new loan are at least as favorable to the Company as the terms for comparable loans to other customers with similar collection risks; and (2) modifications to the terms of the original loan are more than minor. If either condition is not met, the modification is accounted for as the continuation of the existing loan with any effect of the modification treated as a prospective adjustment to the loan's effective interest rate. If the refinancing or restructuring is deemed to be a new loan, unamortized net fees or costs from the original loan and any prepayment penalties are recognized in interest income when the new loan is granted. In addition, a new effective interest rate will be determined. If the refinancing or restructuring is deemed to be a modification, the investment in the new loan is comprised of the remaining net investment in the original loan, any additional funds advanced to the borrower, any fees received, and direct loan origination costs associated with the refinancing or restructuring. The effective interest rate of the loan is recalculated based upon the amortized cost basis of the new loan and its revised contractual cash flows.

A modification may vary by program and by borrower-specific characteristics, that may include interest rate reductions, principal forgiveness, term extensions, payment delays and any combination of the above. It is intended to minimize the Company's economic loss and to avoid foreclosure or repossession of collateral. The Company applies the same credit loss methodology it uses for similar loans that were not modified.

GAAP requires that certain types of modifications be reported, which consist of (1) principal forgiveness; (2) interest rate reduction; (3) other-than-insignificant payment delay; (4) term extension; and any combination of the above. Since adoption of ASU 2022-02 on January 1, 2023, the Company did not have any loan modifications under ASU 2022-02. At December 31, 2023, the Company did not have any loans that have been modified and classified as TDRs under previous GAAP.

Recent Accounting Guidance Not Yet Effective

In October 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-06, Disclosure Improvements–Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative ("ASU 2023-06"). The amendments in this update modify the disclosure or presentation requirements for a variety of topics in the codification. Certain amendments represent clarifications to or technical corrections of the current requirements. The following is a summary of the topics included in the update and which pertain to the Company: 1. Statement of cash flows (Topic 230): Requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows; 2. Accounting changes and error corrections (Topic 250): Requires that when there has been a change in the reporting entity, the entity disclose any material prior-period adjustment and the effect of the adjustment on retained earnings in interim financial statements; 3. Earnings per share (Topic 260): Requires disclosure of the methods used in the diluted earnings-per-share computation for each dilutive security and clarifies that certain disclosures should be made during interim periods, and amends illustrative guidance to illustrate disclosure of the methods used in the diluted earnings per share computation; 4. Commitments (Topic 440): Requires disclosure of assets mortgaged, pledged, or otherwise subject to lien and the obligations collateralized; and 5. Debt (Topic 470): Requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings. For public business entities, the amendments in ASU 2023-06 are effective on the date which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation and S-X or Regulation S-K, the pending content of the related amendment will be removed from the codification and will not become effective for any entity. Early adoption is not permitted and the amendments are required to be applied on a prospective basis. The Company expects the adoption of this standard will not have a material impact on its consolidated financial statements.

ASU No. 2023-09, Income Taxes (Topic 740) – Improvements to Income Tax Disclosures: On December 14, 2023, the FASB issued ASU 2023-09 "Income Taxes (Topic 740): Improvements to Income Tax Disclosures," to address requests for improved income tax disclosures from investors, lenders, creditors and other allocators of capital that use the financial statements to make capital allocation decisions. This ASU is intended to improve the transparency of tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction, in addition to certain other amendments intended to improve the effectiveness of income tax disclosures. For public business entities, this ASU is effective for annual periods beginning after December 15, 2024. For other entities, this ASU is effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company expects the adoption of this standard will not have a material impact on its consolidated financial statements.

NOTE 2 - INVESTMENT SECURITIES

Debt Securities

Debt securities have been classified as either held-to-maturity or available-for-sale in the consolidated balance sheets according to management's intent. The amortized cost of held-to-maturity debt securities and their approximate fair values at March 31, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2024				
Taxable municipals	$ 552	$ —	$ (77)	$ 475
Tax exempt bank-qualified municipals	52,981	—	(3,931)	49,050
	$ 53,533	$ —	$ (4,008)	$ 49,525
December 31, 2023				
Taxable municipals	$ 551	$ —	$ (73)	$ 478
Tax exempt bank-qualified municipals	53,065	25	(3,136)	49,954
	$ 53,616	$ 25	$ (3,209)	$ 50,432

The amortized cost of available-for-sale debt securities and their approximate fair values at March 31, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2024				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ 77,824	$ 162	$ (4,352)	$ 73,634
SBA securities	5,568	4	(116)	5,456
U.S. Treasury	2,746	—	(365)	2,381
U.S. Agency	2,000	—	(337)	1,663
Collateralized mortgage obligations	45,176	24	(3,606)	41,594
Taxable municipals	1,528	—	(103)	1,425
Tax exempt bank-qualified municipals	831	—	(27)	804
	$ 135,673	$ 190	$ (8,906)	$ 126,957
December 31, 2023				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ 77,031	$ 631	$ (3,228)	$ 74,434
SBA securities	5,886	5	(109)	5,782
U.S. Treasury	2,760	—	(343)	2,417
U.S. Agency	2,000	—	(330)	1,670
Collateralized mortgage obligations	46,330	173	(3,002)	43,501
Taxable municipals	1,528	—	(107)	1,421
Tax exempt bank-qualified municipals	831	—	(21)	810
	$ 136,366	$ 809	$ (7,140)	$ 130,035

During the three months ended March 31, 2024 and 2023, there were no transfers between held-to-maturity and available-for-sale debt securities.

At March 31, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of our shareholders' equity.

Accrued interest receivable on held-to-maturity and available-for-sale debt securities totaled $879 thousand and $788 thousand at March 31, 2024 and December 31, 2023, respectively, and is included within accrued interest receivable and other assets in the consolidated balance sheets. Accrued interest receivable is excluded from the ACL.

At March 31, 2024, held-to-maturity debt securities with an amortized cost of $53.5 million were pledged to the Federal Reserve Bank as collateral for a secured line of credit of $46.3 million. There were no debt securities pledged at December 31, 2023. See Note 7 – *Borrowing Arrangements* for additional information regarding the FHLB and Federal Reserve secured lines of credit.

Contractual Maturities

The amortized cost and estimated fair value of all held-to-maturity and available-for-sale debt securities as of March 31, 2024 by contractual maturities 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.

	Held-to-Maturity		Available-for-Sale	
(dollars in thousands)	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
March 31, 2024				
Due in one year or less	$ —	$ —	$ 520	$ 515
Due after one year through five years	—	—	5,528	5,008
Due after five years through ten years	18,473	17,281	21,935	19,675
Due after ten years	35,060	32,244	107,690	101,759
	$ 53,533	$ 49,525	$ 135,673	$ 126,957

Realized Gains and Losses

The following table presents gross realized gains and losses, and related proceeds, for sales and calls of available-for-sale debt securities for the three months ended March 31, 2024 and 2023 follows:

	Three Months Ended	
(dollars in thousands)	March 31, 2024	March 31, 2023
Gross gains on sales and calls	$ —	$ —
Gross losses on sales and calls	—	—
Gain on sale of available-for-sale debt securities	—	—
Proceeds from sales and calls	$ —	$ 5

Unrealized Gains and Losses

The gross unrealized losses and related estimated fair values of all available-for-sale debt securities aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at March 31, 2024 and December 31, 2023 are summarized as follows:

	Less than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
March 31, 2024:						

(dollars in thousands)	Less than 12 Months Unrealized Losses	Less than 12 Months Estimated Fair Value	12 Months or Longer Unrealized Losses	12 Months or Longer Estimated Fair Value	Total Unrealized Losses	Total Estimated Fair Value
Available-for-sale debt securities:						
U.S. government and agency and government sponsored enterprise securities:						
Mortgage-backed securities:	$ (969)	$ 42,956	$ (3,383)	$ 24,186	$ (4,352)	$ 67,142
SBA securities	—	185	(116)	3,583	(116)	3,768
U.S. Treasury	—	—	(365)	2,381	(365)	2,381
U.S. Agency	—	—	(337)	1,663	(337)	1,663
Collateralized mortgage obligations	(495)	14,367	(3,111)	23,931	(3,606)	38,298
Taxable municipals	—	—	(103)	925	(103)	925
Tax exempt bank-qualified municipals	—	—	(27)	804	(27)	804
	$ (1,464)	$ 57,508	$ (7,442)	$ 57,473	$ (8,906)	$ 114,981
December 31, 2023:						
U.S. government and agency and government sponsored enterprise securities:						
Mortgage-backed securities:	$ (160)	$ 23,738	$ (3,068)	$ 20,951	$ (3,228)	$ 44,689
SBA securities	(8)	2,193	(101)	1,790	(109)	3,983
U.S. Treasury	—	—	(343)	2,417	(343)	2,417
U.S. Agency	—	—	(330)	1,670	(330)	1,670
Collateralized mortgage obligations	(311)	15,684	(2,691)	23,360	(3,002)	39,044
Taxable municipals	—	—	(107)	921	(107)	921
Tax exempt bank-qualified municipals	—	—	(21)	810	(21)	810
	$ (479)	$ 41,615	$ (6,661)	$ 51,919	$ (7,140)	$ 93,534

As of March 31, 2024, the Company had a total of 84 available-for-sale debt securities in a gross unrealized loss position totaling $8.9 million, consisting of 63 securities with total gross unrealized losses of $7.4 million that had been in a continual loss position for twelve months and longer. As of December 31, 2023, the Company had a total of 76 available-for-sale debt securities in a gross unrealized loss position totaling $7.1 million, consisting of 58 securities with total gross unrealized losses of $6.7 million that had been in a continual loss position for twelve months and longer. Such unrealized losses on these investment securities have not been recognized into income.

Unrealized losses on available-for-sale debt securities are recognized in shareholders' equity as accumulated other comprehensive loss. At March 31, 2024, the Company had a net unrealized loss on available-for-sale debt securities of $8.7 million, or $6.1 million net of tax in accumulated other comprehensive loss, compared to a net unrealized loss of $6.3 million, or $4.5 million net of tax in accumulated other comprehensive loss, at December 31, 2023.

Allowance for Credit Losses on Debt Securities

For available-for-sale debt securities with unrealized losses, management considered the financial condition of the issuer and the Company's intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The Company's available-for-sale debt securities consisted of U.S. Treasury, U.S. government and agency and government sponsored enterprise securities, and municipals, which historically have had limited credit loss experience. In addition, the Company reviewed the credit rating of the municipal securities. At March 31, 2024, the total fair value of taxable municipal and tax exempt bank-qualified municipal securities was $1.4 million and $804 thousand, respectively. At March 31, 2024, all of these securities were rated AA and above. At December 31, 2023, the total fair value of taxable municipal and tax exempt bank-qualified municipal securities was $1.4 million and $810 thousand, respectively. These securities rated AA and above totaled $1.4 million and rated A+ totaled $810 thousand at December 31, 2023.

At March 31, 2024, 61 held-to-maturity debt securities with fair values totaling $49.5 million had gross unrealized losses totaling $4.0 million, compared to 58 held-to-maturity debt securities with fair values totaling $48.3 million had gross unrealized losses totaling $3.2 million at December 31, 2023. The Company has the intent and ability to hold the securities classified as held-to-maturity until they mature, at which time the Company will receive full value for the securities. At March 31, 2024 and December 31, 2023, fair values of held-to-maturity debt securities rated AA and above totaled $46.2 million and $47.0 million, respectively and rated AA- totaled $3.3 million and $3.4 million, respectively.

Management evaluates securities in an unrealized loss position at least on a quarterly basis, and determined that the unrealized losses at March 31, 2024 and 2023 related to each investment were primarily attributable to factors other than credit related, including changes in interest rates driven by the Federal Reserve's policy to fight against inflation and general volatility in market conditions. As such, the Company applied a zero credit loss assumption for these securities and no provision for credit losses was recorded for held-to-maturity or available-for-sale debt securities during the three months ended March 31, 2024 and 2023.

Restricted Stock

As a member of the Federal Reserve System, the Company must hold stock of the Federal Reserve Bank of San Francisco in an amount equal to 3% of the Company's common stock and additional paid-in capital. In addition, as a member of the Federal Home Loan Bank ("FHLB") of San Francisco, the Company is required to own stock of the FHLB based on the Company's outstanding mortgage assets and outstanding advances from the FHLB.

The table below summarizes the Company's restricted stock investments at March 31, 2024 and December 31, 2023:

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Federal Reserve Bank	$ 7,441	$ 7,430
Federal Home Loan Bank	8,625	8,625
	$ 16,066	$ 16,055

During the three months ended March 31, 2024, the Company purchased $11 thousand of Federal Reserve Bank stock, and there were no purchases of FHLB stock, respectively.

Other Equity Securities Without A Readily Determinable Fair Value

The Company also has equity securities in the form of capital stock invested in two different banker's bank stocks which totaled $351 thousand at March 31, 2024 and December 31, 2023. These equity securities are reported in accrued interest receivable and other assets in the consolidated balance sheets. At March 31, 2024 and December 31, 2023, the Company evaluated the carrying value of these equity securities and determined that they were not impaired. During the three months ended March 31, 2024 and 2023, there were no losses related to changes in the fair value of these equity securities.

The Company has other equity investments and an investment in a technology venture capital fund focused on the intersection of fintech and community banking. At March 31, 2024 and December 31, 2023, the balance of these investments, which is included in accrued interest receivable and other assets in the consolidated balance sheets, was $6.9 million and $7.0 million, respectively. These equity securities are measured using the equity method of accounting when the Company's ownership interest in such investments exceeds 5%, or carried at cost less impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investments of the same issuer. Cash distributions considered return of capital are recorded as a reduction of the Company's investment. During the three months ended March 31, 2024, the Company received $73 thousand of net capital distributions from these equity investments. During the three months ended March 31, 2023, the Company made $567 thousand of net capital contributions to these equity investments. At March 31, 2024 and December 31, 2023, the Company evaluated the carrying value of these equity investments and determined they were not impaired. During the three months ended March 31, 2024 and 2023, there were no losses recognized related to changes in the fair value.

The Company has also invested in a limited partnership that operates affordable housing projects that qualify for and have received an allocation of federal and/or state low-income housing tax credits. This tax credit investment is reported in accrued interest receivable and other assets in the consolidated balance sheets, and is recorded net of accumulated amortization, using the proportional amortization method. Total estimated tax credits allocated and other benefits recognized, and proportional amortization expense recognized were $49 thousand, and $36 thousand, respectively for the three months ended March 31, 2024. The aggregate funding commitment for this investment was $2.0 million at March 31, 2024 and December 31, 2023. The unfunded portion of this investment totaled $1.5 million at March 31, 2024 and December 31, 2023, and is included in other liabilities in the consolidated balance sheets. During the three months ended March 31, 2024 and 2023, there was no contribution made. At March 31, 2024 and December 31, 2023, the Company evaluated the carrying value of this tax credit equity investment and determined it was not impaired, and no loss was recognized related to changes in the fair value.

NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans Held for Investment

The Company's loan portfolio consists primarily of loans to borrowers within its Southern California markets in Orange, Los Angeles, San Diego and Ventura counties, as well as the Inland Empire. Although the Company seeks to avoid concentrations of loans to a single industry or based upon a single class of collateral, real estate and real estate associated businesses are among the principal industries in the Company's market area. The Company's loan portfolio in real estate secured credit represented 85% and 83% of total loans at March 31, 2024 and December 31, 2023, respectively. The Company also originates SBA loans either for sale to institutional investors or for retention in the loan portfolio. Loans identified as held for sale are carried at the lower of cost or market value and separately designated as such in the consolidated financial statements. A portion of the Company's revenues are from origination of loans guaranteed by the SBA under its various programs and sale of the guaranteed portions of the loans. Funding for these loans depends on annual appropriations by the U.S. Congress.

The composition of the Company's loan portfolio at March 31, 2024 and December 31, 2023 was as follows:

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Construction and land development	$ 242,098	$ 243,521
Real estate - other:		
1-4 family residential	149,361	143,903
Multifamily residential	183,846	221,247
Commercial real estate and other	1,025,381	1,024,243
Commercial and industrial	279,788	320,142
Consumer	2,808	4,386
Loans held for investment (1)	1,883,282	1,957,442
Allowance for credit losses	(22,254)	(22,569)
Loans held for investment, net	$ 1,861,028	$ 1,934,873

(1) Loans held for investment includes net unearned fees of $1.7 million and $2.3 million and net unearned discounts of $1.4 million and $1.4 million at March 31, 2024 and December 31, 2023, respectively.

The Company has pledged $1.39 billion of loans with the FHLB under a blanket lien, of which an unpaid principal balance of $882.9 million was considered as eligible collateral under this secured borrowing arrangement and loans with an unpaid principal balance totaling $97.8 million were pledged as collateral under a secured borrowing arrangement with the Federal Reserve as of March 31, 2024. See Note 7 – *Borrowing Arrangements* for additional information regarding the FHLB and Federal Reserve secured lines of credit.

Loans Held for Sale

At March 31, 2024 and December 31, 2023, the Company had loans held for sale, consisting primarily of SBA 7(a) loans totaling $2.8 million and $7.3 million, respectively. The Company accounts for loans held for sale at the lower of carrying value or fair value. At March 31, 2024 and December 31, 2023, the fair value of loans held for sale totaled $3.0 million and $7.8 million, respectively.

Credit Quality Indicators

The Company categorizes loans using risk ratings based on relevant information about the ability of borrowers to service their debt such as current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. Larger, non-homogeneous loans such as CRE and C&I loans are analyzed individually for risk rating assessment. For purposes of risk classification, 1-4 Family Residential loans for investment purposes are evaluated with CRE loans.This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

Pass - Loans classified as pass include loans not meeting the risk ratings defined below.

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

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

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - Loans classified as loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The risk category of loans by class of loans and origination year as of March 31, 2024 follows:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term During the Period	Total
March 31, 2024									
Construction and land development									
Pass	$ —	$ 31,617	$ 113,870	$ 67,947	$ 17,163	$ 983	$ —	$ —	$ 231,580
Special mention	—	—	10,428	—	—	—	—	—	10,428
Substandard	—	—	—	—	—	90	—	—	90
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total construction and land development	—	31,617	124,298	67,947	17,163	1,073	—	—	242,098
Real estate - other:									
1-4 family residential									
Pass	—	23,680	32,682	19,601	7,719	19,113	41,801	—	144,596
Special mention	—	—	2,910	—	—	853	1,002	—	4,765
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total 1-4 family residential	—	23,680	35,592	19,601	7,719	19,966	42,803	—	149,361
Multifamily residential									
Pass	—	18,811	50,398	66,522	5,571	36,279	112	—	177,693
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	6,153	—	—	—	—	—	6,153
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total multifamily residential	—	18,811	56,551	66,522	5,571	36,279	112	—	183,846

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term During the Period	Total
March 31, 2024									
Commercial real estate and other									
Pass	16,890	74,495	302,558	284,348	51,823	245,913	36,905	—	1,012,932
Special mention	—	—	3,854	1,167	2,298	3,924	445	498	12,186
Substandard	—	—	—	—	—	263	—	—	263
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial real estate and other	16,890	74,495	306,412	285,515	54,121	250,100	37,350	498	1,025,381
Commercial and industrial									
Pass	2,779	25,446	53,957	10,412	5,881	19,269	145,039	—	262,783
Special mention	—	—	—	1,438	1,286	1,242	8,246	—	12,212
Substandard	—	—	340	58	—	1,272	3,123	—	4,793
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial and industrial	2,779	25,446	54,297	11,908	7,167	21,783	156,408	—	279,788
Consumer									
Pass	—	—	597	36	83	13	2,079	—	2,808
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total consumer	—	—	597	36	83	13	2,079	—	2,808
Total loans	$ 19,669	$ 174,049	$ 577,747	$ 451,529	$ 91,824	$ 329,214	$ 238,752	$ 498	$ 1,883,282
Total loans									
Pass	$ 19,669	$ 174,049	$ 554,062	$ 448,866	$ 88,240	$ 321,570	$ 225,936	$ —	$ 1,832,392
Special mention	—	—	17,192	2,605	3,584	6,019	9,693	498	39,591
Substandard	—	—	6,493	58	—	1,625	3,123	—	11,299
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total loans	$ 19,669	$ 174,049	$ 577,747	$ 451,529	$ 91,824	$ 329,214	$ 238,752	$ 498	$ 1,883,282

The risk category of loans by class of loans and origination year as of December 31, 2023 follows:

	Term Loans Amortized Cost Basis by Origination Year								
(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term During the Period	Total
December 31, 2023									
Construction and land development									
Pass	$ 25,113	$ 127,496	$ 71,199	$ 17,022	$ 2,071	$ 528	$ —	$ —	$ 243,429
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	92	—	—	92
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total construction and land development	25,113	127,496	71,199	17,022	2,071	620	—	—	243,521
Real estate - other:									
1-4 family residential									
Pass	24,928	35,670	20,207	6,887	4,884	15,582	35,645	100	143,903
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total 1-4 family residential	24,928	35,670	20,207	6,887	4,884	15,582	35,645	100	143,903
Multifamily residential									
Pass	18,803	61,677	73,365	5,712	27,292	21,245	149	—	208,243
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	13,004	—	—	—	—	—	—	13,004
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total multifamily residential	18,803	74,681	73,365	5,712	27,292	21,245	149	—	221,247

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term During the Period	Total
Commercial real estate and other									
Pass	76,434	304,524	287,245	57,736	51,992	203,976	36,543	1,626	1,020,076
Special mention	—	2,701	—	—	—	—	295	—	2,996
Substandard	—	—	—	—	—	1,171	—	—	1,171
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial real estate and other	76,434	307,225	287,245	57,736	51,992	205,147	36,838	1,626	1,024,243
Commercial and industrial									
Pass	46,701	70,658	12,883	7,095	8,266	13,715	153,712	1,877	314,907
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	346	64	—	1,208	121	3,097	399	5,235
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total commercial and industrial	46,701	71,004	12,947	7,095	9,474	13,836	156,809	2,276	320,142
Consumer									
Pass	163	—	39	91	6	11	4,076	—	4,386
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total consumer	163	—	39	91	6	11	4,076	—	4,386
Total loans	$ 192,142	$ 616,076	$ 465,002	$ 94,543	$ 95,719	$ 256,441	$ 233,517	$ 4,002	$ 1,957,442
Total loans									
Pass	$ 192,142	$ 600,025	$ 464,938	$ 94,543	$ 94,511	$ 255,057	$ 230,125	$ 3,603	$ 1,934,944
Special mention	—	2,701	—	—	—	—	295	—	2,996
Substandard	—	13,350	64	—	1,208	1,384	3,097	399	19,502
Doubtful	—	—	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—	—	—
Total loans	$ 192,142	$ 616,076	$ 465,002	$ 94,543	$ 95,719	$ 256,441	$ 233,517	$ 4,002	$ 1,957,442

A summary of gross charge-offs by class of loans and origination year for the three months ended March 31, 2024 and 2023 follows:

	Term Loans Gross Charge-offs by Origination Year							Revolving Loans Amortized Cost Basis Converted to Term During the Period	
(dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis		Total
Three Months Ended March 31, 2024									
Construction and land development	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - other:									
1-4 family residential	—	—	—	—	—	—	1	—	1
Multifamily residential	—	—	—	—	—	—	—	—	—
Commercial real estate and other	—	—	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—	—
Total loans	$ —	$ —	$ —	$ —	$ —	$ —	$ 1	$ —	$ 1

	Term Loans Gross Charge-offs by Origination Year							Revolving Loans Amortized Cost Basis Converted to Term During the Period	
(dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis		Total
Three Months Ended March 31, 2023									
Construction and land development	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - other:									
1-4 family residential	—	—	—	—	—	12	—	—	12
Multifamily residential	—	—	—	—	—	—	—	—	—
Commercial real estate and other	—	—	—	—	—	—	—	—	—
Commercial and industrial	—	—	—	15	—	—	—	—	15
Consumer	—	—	—	—	—	—	—	—	—
Total loans	$ —	$ —	$ —	$ 15	$ —	$ 12	$ —	$ —	$ 27

Past Due Loans

A summary of past due loans as of March 31, 2024 and December 31, 2023 follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Nonaccrual	Total
March 31, 2024							
Construction and land development	$ —	$ —	$ —	$ —	$ 242,098	$ —	$ 242,098
Real estate - other:							
1-4 family residential	—	—	—	—	149,361	—	149,361
Multifamily residential	—	—	—	—	177,693	6,153	183,846
Commercial real estate and other	—	—	—	—	1,025,381	—	1,025,381
Commercial and industrial	—	—	—	—	279,788	—	279,788
Consumer	—	—	—	—	2,808	—	2,808
	$ —	$ —	$ —	$ —	$ 1,877,129	$ 6,153	$ 1,883,282

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Nonaccrual	Total
December 31, 2023							
Construction and land development	$ —	$ —	$ —	$ —	$ 243,521	$ —	$ 243,521
Real estate - other:							
1-4 family residential	—	—	—	—	143,903	—	143,903
Multifamily residential	—	—	—	—	208,243	13,004	221,247
Commercial real estate and other	—	—	—	—	1,024,243	—	1,024,243
Commercial and industrial	19	—	—	19	320,123	—	320,142
Consumer	—	—	—	—	4,386	—	4,386
	$ 19	$ —	$ —	$ 19	$ 1,944,419	$ 13,004	$ 1,957,442

There were no loans over 90 days past due loans and still accruing interest as of March 31, 2024 and December 31, 2023.

Nonaccrual Loans

A summary of total nonaccrual loans and the amount of nonaccrual loans with no related ACL as of March 31, 2024 and December 31, 2023 follows:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Total Nonaccrual Loans	Nonaccrual Loans with no ACL	Total Nonaccrual Loans	Nonaccrual Loans with no ACL
Construction and land development	$ —	$ —	$ —	$ —
Real estate - other:				
1-4 family residential	—	—	—	—
Multifamily residential	6,153	6,153	13,004	13,004
Commercial real estate and other	—	—	—	—
Commercial and industrial	—	—	—	—
Consumer	—	—	—	—
	$ 6,153	$ 6,153	$ 13,004	$ 13,004

Collateral dependent Loans

Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. Estimates for costs to sell are included in the determination of the ACL when liquidation of the collateral is anticipated. In cases where the loan is well secured and the estimated value of the collateral exceeds the amortized cost of the loan, no ACL is recorded. At March 31, 2024, a $6.2 million multifamily residential three-year bridge loan originated in May 2022 was classified as a collateral dependent loan, and was collateralized by an 8-unit multifamily apartment building located in Los Angeles, California. Based on a review of the collateral value, after accounting for estimated selling costs, the estimated net collateral value of $6.7 million was sufficient to result in no loss to the Company at March 31, 2024. At December 31, 2023, a $13.0 million multifamily residential loan was classified as a collateral dependent loan, and was collateralized by three investment multifamily properties. Based on the most recent appraisals, the combined "As-Is" collateral value, after accounting for estimated selling costs, the estimated net collateral value was lower than the loan’s net carrying value resulting in a $1.3 million charge-off during 2023.

Other Real Estate Owned (“OREO”), Net

Real estate acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis by a charge to the ACL, if necessary. The Company had $13.1 million of foreclosed assets at March 31, 2024, compared with no foreclosed assets at December 31, 2023.

Allowance for Credit Losses - Loans

The ACL consists of: (i) a specific allowance established for CECL on loans individually evaluated, (ii) a quantitative allowance for current expected loan losses based on the portfolio and expected economic conditions over a reasonable and supportable forecast period that reverts back to long-term trends to cover the expected life of the loan, (iii) a qualitative allowance including management judgment to capture factors and trends that are not adequately reflected in the quantitative allowance, and (iv) the ACL for off-balance sheet credit exposure for unfunded loan commitments.

For prepayment and curtailment rates, the Company used its own historical prepayment and curtailment experience with covering the period starting from December 2020 to estimate the ACL. The Company used the probability-weighted two-scenario forecasts, representing a base-case scenario and one downside scenario, to estimate the ACL. The Company utilized economic forecasts released by Moody’s Analytics during the fourth week of March 2024. Other sources of economic forecasts and meeting minutes of the Federal Open Market Committee meeting were also considered by the Company when determining the scenario weighting. At March 31, 2024 as compared to December 31, 2023, the Moody’s economic forecast suggested a minimal change in the interest-rate forecasts, the national unemployment rate and the national gross domestic product forecast based on the current economic data, which included the impact of the ongoing inflationary pressures throughout the U.S. economy, general uncertainty concerning future economic conditions, the potential for recessionary conditions, political uncertainty, geopolitical instability, and the financial system turmoil and related governmental and other reactions to the rising interest rate environment. The underlying assumptions in the Moody’s economic forecasts supporting the baseline forecast remained consistent in the expectation that the Federal Reserve is done raising rates and will continue to reduce the Federal Reserve’s balance sheet through quantitative tightening. This resulted in no change in Moody’s expectation that the Federal Reserve’s first rate cut would take place in the second quarter of 2024, and that a Fed funds rate of 5.25% combined with continued reductions in the Federal Reserve’s balance sheet will be sufficient to slow the economy and bring inflation back to the Federal Reserve’s target rate of 2% without tipping the economy into recession. Moody’s expectation is for the unemployment rate to edge slightly higher, reaching 4% by the end of 2024 before peaking just above that in mid-2025. These forecasts suggested little change from the December 2023 forecasts in their national outlook. Their outlook for Gross Domestic Product (“GDP”) growth rate was improved to 2.5% in 2024 and 1.5% in 2025. This is consistent with the Federal Reserve’s outlook for GDP growth of 2.1% in 2024, and consistent with the Conference Board’s forecast for GDP growth of 2.1% in 2024 and 1.5% in 2025.

Moody’s economic forecasts for California are marginally more pessimistic than the December 2023 forecasts, especially in unemployment rate and state GDP. Moody’s baseline forecast suggested unemployment rate and GDP for California will peak in the second quarter of 2024 at 5.13% and 2.53%, respectively, with those numbers dropping to 4.96% and 0.98%, respectively, in the first quarter of 2025. Moody’s downside scenario suggested the unemployment rate of 5.90% in the second quarter of 2024, peaking at 7.39% in the first quarter of 2025, with GDP of 2.19% in the second quarter of 2024, troughing at -0.85% in the first quarter of 2025, for an average of 0.27% for the year. The pessimistic changes in key economic forecasts for California would have a negative impact to the Company ACL. During the first quarter of 2024, the Company updated its historical prepayment and curtailment rates analysis, and they increased slightly due to higher payoffs and paydowns.

Accrued interest receivable on loans receivable, net, totaled $6.3 million and $6.4 million at March 31, 2024 and December 31, 2023, respectively, and is included within accrued interest receivable and other assets in the accompanying consolidated balance sheets. Accrued interest receivable is excluded from the ACL.

Allowance for Credit Losses - Unfunded Loan Commitments

The allowance for unfunded credit commitments is maintained at a level that management believes to be sufficient to absorb estimated expected credit losses related to unfunded credit facilities. The Company evaluates the loss exposure for unfunded loan commitments to extend credit following the same principles used for the ACL, with consideration for experienced utilization rates on client credit lines and the inherently lower risk of unfunded loan commitments relative to disbursed commitments. The Company recognized a negative provision for unfunded loan commitments of $17 thousand for the three months ended March 31, 2024. There was a $76 thousand provision for unfunded loan commitments for the three months ended March 31, 2023. The provision for unfunded loan commitments is included in provision for credit losses in the consolidated statements of income. The reserve for unfunded loan commitments was $916 thousand and $933 thousand at March 31, 2024 and December 31, 2023, respectively. The reserve for unfunded loan commitments is included in accrued interest and other liabilities in the consolidated balance sheets.

A summary of the changes in the ACL for the periods indicated follows:

(dollars in thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Allowance for loan losses (ALL)		
Balance, beginning of period	$ 22,569	$ 17,099
Adoption of ASU No. 2016-13 (1)	—	5,027
(Reversal of) provision for loan losses	(314)	278
Charge-offs	(1)	(27)
Recoveries	—	14
Net recoveries (charge-offs)	(1)	(13)
Balance, end of period	$ 22,254	$ 22,391
Reserve for unfunded loan commitments		
Balance, beginning of period	$ 933	$ 1,310
Adoption of ASU No. 2016-13 (1)	—	439
Reversal of credit losses for unfunded loan commitments	(17)	(76)
Balance, end of period	916	1,673
Allowance for credit losses (ACL), end of period	$ 23,170	$ 24,064

(1) Represents the impact of adopting ASU 2016-13, Financial Instruments - Credit Losses on January 1, 2023. As a result of adopting ASU 2016-13, the Company's methodology to compute our ACL is based on a CECL methodology, rather than the previously applied incurred loss methodology.

A summary of changes in the ALL by loan portfolio segment for the periods indicated follows:

(dollars in thousands)	Construction and Land Development	Real Estate - Other	Commercial & Industrial	Consumer	Total
Three Months Ended March 31, 2024					
Beginning of period	$ 2,032	$ 16,280	$ 4,242	$ 15	$ 22,569
Provision for (reversal of) loan losses	101	293	(704)	(4)	(314)
Charge-offs	—	(1)	—	—	(1)
Recoveries	—	—	—	—	—
Net charge-offs	—	(1)	—	—	(1)
End of period	$ 2,133	$ 16,572	$ 3,538	$ 11	$ 22,254
Three Months Ended March 31, 2023					
Beginning of period	$ 2,301	$ 11,691	$ 3,079	$ 28	$ 17,099
Adoption of ASU No. 2016-13 (1)	881	2,983	1,132	31	5,027
Provision for (reversal of) loan losses	215	37	31	(5)	278
Charge-offs	—	(12)	(15)	—	(27)
Recoveries	—	—	14	—	14
Net charge-offs	—	(12)	(1)	—	(13)
End of period	$ 3,397	$ 14,699	$ 4,241	$ 54	$ 22,391

(1) Represents the impact of adopting ASU 2016-13, Financial Instruments - Credit Losses on January 1, 2023. As a result of adopting ASU 2016-13, the Company's methodology to compute our ACL is based on a CECL methodology, rather than the previously applied incurred loss methodology.

NOTE 4 - TRANSFERS AND SERVICING OF FINANCIAL ASSETS

The Company has originated loans that are serviced for others, including loans partially guaranteed by the SBA, some of which have been sold in the secondary market, as well as CRE loans, C&I loans participated with various other financial institutions and special purpose vehicle ("SPV") participations for the Main Street loans. Loans serviced for others are accounted for as sales and are therefore not included in the accompanying consolidated balance sheets. Loans serviced for others totaled $63.6 million and $58.8 million at March 31, 2024 and December 31, 2023, respectively. This includes SBA loans serviced for others of $40.4 million and $35.4 million at March 31, 2024, and December 31, 2023, for which there was a related servicing asset of $624 thousand and $546 thousand, respectively.

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

The servicing asset activity includes additions from loan sales with servicing retained, and reductions from amortization as the serviced loans are repaid and servicing fees are earned. The SBA servicing asset is reported in accrued interest receivable and other assets in the consolidated balance sheets.

A summary of changes in the SBA servicing asset for the three months ended March 31, 2024 and 2023 follows:

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Balance, beginning of period	$ 546	$ 514
Additions	109	192
Amortization [(1)]	(31)	(22)
Balance, end of period	$ 624	$ 684

(1) Amortization included accelerated amortization of $10 thousand and $3 thousand for the three months ended March 31, 2024 and 2023, respectively.

During the three months ended March 31, 2024, SBA 7(a) loans sold totaled $6.3 million, resulting in total gains on sale of SBA loans of $415 thousand. SBA 7(a) loans sold during the three months ended March 31, 2023 totaled $9.9 million, resulting in total gains on sale of SBA loans of $797 thousand.

The fair value of the servicing asset approximated the carrying value at March 31, 2024 and December 31, 2023. The significant assumptions used in the valuation of the SBA servicing asset at March 31, 2024 and December 31, 2023 included:

(dollars in thousands)	**March 31, 2024**	**December 31, 2023**
Discount rate:		
Range	8.0% – 26.2%	10.5% – 26.2%
Weighted average	14.3%	16.1%
Prepayment speed:		
Range	11.2% – 45.1%	11.2% – 48.1%
Weighted average	18.9%	19.0%

The following table presents the components of net servicing fees, included in servicing and related income on loans, net in the consolidated statements of income, for the three months ended March 31, 2024 and 2023:

(dollars in thousands)	Three Months Ended March 31, 2024	2023
Contractually specified fees	$ 92	$ 92
Amortization	(31)	(22)
Net servicing fees	$ 61	$ 70

NOTE 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill, the excess purchase price over the fair value of all identifiable assets and liabilities acquired, totaled $37.8 million at March 31, 2024 and December 31, 2023. Goodwill is reviewed for impairment at least annually during the fourth quarter of each fiscal year. During the three months ended March 31, 2024, the Company's stock price and market capitalization decreased due to the continued market volatility. The Company evaluated current conditions and concluded there had been no significant changes in the economic environment or future projections since the annual goodwill impairment test performed at December 31, 2023 and therefore, believes that there is no impairment as of March 31, 2024. Management will continue to evaluate the economic conditions at future reporting periods for applicable changes.

The Company performed a qualitative assessment for potential impairment at December 31, 2023, and as a result of that assessment had determined that there has been no impairment to the goodwill. There were no changes to goodwill during the three months ended March 31, 2024 and 2023.

Core deposit intangibles are amortized over periods of 4.75 to 7.58 years. As of March 31, 2024, the weighted-average remaining amortization period for core deposit intangibles was approximately 5.9 years. The Company performed the annual impairment analysis for the core deposit intangibles at least annually during the fourth quarter of each fiscal year. The Company evaluated current conditions and concluded there had been no significant changes in the economic environment or future projections since the annual core deposit intangibles impairment test performed at September 30, 2023 and therefore, believes that there is no impairment as of March 31, 2024. Management will continue to evaluate the economic conditions at future reporting periods for applicable changes. The following table presents the changes in core deposit intangibles for the three months ended March 31, 2024 and 2023.

(dollars in thousands)	Three Months Ended March 31, 2024	2023
Gross balance, beginning of period	$ 4,185	$
Additions	—	
Gross balance, end of period	$ 4,185	$
Accumulated amortization:		
Balance, beginning of period	$ (2,990)	$ (
Amortization	(65)	
Balance, end of period	(3,055)	(
Net core deposit intangible, end of period	$ 1,130	$

Future estimated amortization expense for each of the next five years is as follows:

(dollars in thousands)		Amount
Remainder of 2024	$	193
2025		237
2026		217
2027		205
2028		134
Thereafter		144
	$	1,130

NOTE 6 - DEPOSITS

The Company offers the Insured Cash Sweep ("ICS") product, providing customers with FDIC insurance coverage at ICS network institutions. As of March 31, 2024, ICS deposits decreased to $245.3 million, or 12.7% of total deposits, compared to $274.1 million, or 14.1% of total deposits at December 31, 2023.

Time deposits that exceeded the FDIC insurance limit of $250,000 amounted to $126.0 million and $122.6 million as of March 31, 2024 and December 31, 2023, respectively. Brokered time deposits totaled $113.7 million and $107.8 million as of March 31, 2024 and December 31, 2023, respectively.

The Company participates in a state public deposits program that allows it to receive deposits from the state or from political subdivisions within the state in amounts that would not be covered by the FDIC. This program provides a stable source of funding to the Company. As of March 31, 2024 and December 31, 2023, total collateralized deposits, including the deposits of State of California and their public agencies, were $71.5 million and $72.7 million, respectively, and were collateralized by letters of credit issued by the FHLB under the Company's secured line of credit with the FHLB. See Note 7 – *Borrowing Arrangements* for additional information regarding the FHLB secured line of credit.

At March 31, 2024, the scheduled maturities of time deposits are as follows:

(dollars in thousands)		Amount
Remainder of 2024	$	228,708
2025		24,855
2026		4,344
2027		74
2028		139
	$	258,120

NOTE 7 - BORROWING ARRANGEMENTS

A summary of outstanding borrowings as of March 31, 2024 and December 31, 2023 follows:

(dollars in thousands)		March 31, 2024		December 31, 2023
FHLB advances	$	27,000	$	85,000
Subordinated notes		17,889		17,865
Total borrowings	$	44,889	$	102,865

Federal Home Loan Bank Secured Line of Credit

At March 31, 2024, the Company had a secured line of credit of $499.3 million from the FHLB, of which $395.3 million was available. This secured borrowing arrangement is collateralized under a blanket lien on qualifying real estate loans and is subject to the Company providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. At March 31, 2024, the Company had pledged qualifying loans with an unpaid principal balance of $882.9 million for this line. In addition, at March 31, 2024, the Company used $77.0 million of its secured FHLB borrowing capacity by having the FHLB issue letters of credit to meet collateral requirements for deposits from the State of California and other public agencies.

The Company had overnight borrowings of $27.0 million with an interest rate of 5.69% and $85.0 million with an interest of 5.70% at March 31, 2024 and December 31, 2023, respectively.

Federal Reserve Bank Secured Line of Credit

At March 31, 2024, the Company had credit availability of $125.4 million at the Federal Reserve discount window to the extent of collateral pledged. At March 31, 2024, the Company had pledged held-to-maturity debt securities with an amortized cost of $53.5 million as collateral, and qualifying loans with an unpaid principal balance of $97.8 million as collateral through the Borrower-in-Custody ("BIC") program. The Company had no discount window borrowings at March 31, 2024 and December 31, 2023.

Federal Funds Unsecured Lines of Credit

At March 31, 2024, the Company had three overnight unsecured credit lines from correspondent banks totaling $75.0 million. The lines are subject to annual review. There were no outstanding borrowings under these lines at March 31, 2024 and December 31, 2023.

Fixed-to-Floating Rate Subordinated Notes

On May 28, 2020, the Company issued $18 million of 5.50% Fixed-to-Floating Rate Subordinated Notes Due 2030 (the "Notes"). The Notes mature March 25, 2030 and accrue interest at a fixed rate of 5.50% through the fixed-rate period to March 26, 2025, after which interest accrues at a floating rate of 90-day Secured Overnight Financing Rate ("SOFR") plus 350 basis points, until maturity, unless redeemed early, at the Company's option, after the end of the fixed-rate period. Issuance costs of $475 thousand were incurred and are being amortized over the first 5-year fixed term of the Notes; unamortized issuance costs at March 31, 2024 and December 31, 2023, were $111 thousand and $135 thousand, respectively. The net unamortized issuance costs are netted against the balance and recorded in borrowings in the consolidated balance sheets. The amortization expenses are recorded in interest expense in the consolidated statements of income. At March 31, 2024, the Company was in compliance with all covenants and terms of the Notes.

NOTE 8 - SHAREHOLDERS' EQUITY

Common Stock Repurchase Plan

On June 14, 2023, the Company announced an authorized share repurchase plan, providing for the repurchase of up to 550,000 shares of the Company's outstanding common stock, or approximately 3% of its then outstanding shares. Repurchases under the program may occur from time to time in open market transactions, in privately negotiated transactions, or by other means in accordance with federal securities laws and other restrictions. The Company intends to fund its repurchases from available working capital and cash provided by operating activities. The timing of repurchases, as well as the number of shares repurchased, will depend on a variety of factors, including price; trading volume; business, economic and general market conditions; and the terms of any Rule 10b5-1 plan adopted by the Company. The repurchase program has no expiration date and may be suspended, modified, or terminated at any time without prior notice.

There were no shares repurchased under this share repurchase plan during the three months ended March 31, 2024.

NOTE 9 - EARNINGS PER SHARE ("EPS")

The following is a reconciliation of net income and shares outstanding to the income and number of shares used to compute EPS for the three months ended March 31, 2024 and 2023:

	Three Months Ended March 31,	
(dollars in thousands, except share and per share data)	**2024**	**2023**
Net income	$ 4,935	$ 8,224
Weighted average common shares outstanding - basic	18,426,848	18,055,287
Dilutive effect of outstanding:		
Stock options and unvested stock grants	374,868	565,504
Weighted average common shares outstanding - diluted	18,801,716	18,620,791
Earnings per common share - basic	$ 0.27	$ 0.46
Earnings per common share - diluted	$ 0.26	$ 0.44

The Company's only performance based restricted stock grants were vested when the performance conditions had been met on March 1, 2023. A total of 275,171 performance based restricted stock grants were vested and included in the computation of basic EPS for the three months ended March 31, 2023 because the performance conditions had been met. At March 31, 2024 and 2023, there were 1,191 and 74,707 restricted stock units and zero and 22 stock options, respectively, that were not included in the computation of diluted earnings per share, because they were anti-dilutive.

NOTE 10 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has granted loans to certain directors, their related interests with which they are associated, and beneficial owners with more than 5% of any class of the Company's voting securities. The balance of these loans outstanding and activity in related party loans for the three months ended March 31, 2024 and 2023 follows:

	Three Months Ended March 31,	
(dollars in thousands)	**2024**	**2023**
Balance, beginning of period	$ 5,928	$ 8,073
New credit granted	—	—
Repayments	(615)	(21)
Balance, end of period	$ 5,313	$ 8,052

Directors and related interests deposits at March 31, 2024 and December 31, 2023, amounted to approximately $16.5 million and $16.4 million, respectively.

The Company leases the Ramona branch office from a beneficial owners with more than 5% of any class of the Company's voting securities and former member of the Company's Board of Directors under an operating lease expiring in 2027 on terms considered to be prevailing in the market at the time of the lease. Total lease expense for the the three months ended March 31, 2024 and 2023 was $11 thousand for both periods, and future minimum lease payments under the lease were $140 thousand and $151 thousand, respectively as of March 31, 2024 and December 31, 2023.

On April 2022, the holding company entered into a commitment of $2.0 million investment with the Castle Creek Launchpad Fund I ("Launchpad"). As of March 31, 2024, the holding company has committed to a $2.0 million investment in the Launchpad. A director of the Company is a member of the Investment Committee for Launchpad. At March 31, 2024 and December 31, 2023, total capital contributions made to this investment were $928 thousand and $910 thousand, respectively.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Company enters into financial commitments to meet the financing needs of its customers. These financial commitments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk not recognized in the Company's financial statements.

Commitments to extend credit are agreements to lend to a client as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. The Company evaluates each client's credit worthiness on a case-by-case basis. Collateral may or may not be required based on management's credit evaluation of the customer. The majority of the Company's commitments to extend credit and standby letters of credit are secured by real estate.

The Company's exposure to loan loss in the event of nonperformance on commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans reflected in the consolidated financial statements.

The Company had the following outstanding financial commitments whose contractual amount represents potential credit risk at March 31, 2024 and December 31, 2023:

(dollars in thousands)	March 31, 2024	December 31, 2023
Commitments to extend credit	$ 384,635	$ 405,854
Letters of credit issued to customers	3,804	4,939
Commitments to contribute capital to other equity investments	3,177	3,170
	$ 391,616	$ 413,963

The Company entered into deferred compensation agreements with certain key officers. Under these agreements, the Company is obligated to provide, upon retirement, a 10-year benefit to the officers. The annual benefits range from $20 thousand to $75 thousand. The estimated present value of future benefits to be paid is being accrued over the period from the effective date of the agreements until the expected retirement dates of the participants. The expense incurred for these agreements for the three months ended March 31, 2024 and 2023, was $81 thousand and $78 thousand, respectively. The Company is a beneficiary of life insurance policies that have been purchased as a method of financing the obligated benefits under these agreements.

In the normal course of business, the Company is named or threatened to be named as a defendant in various legal actions. The ultimate outcome with respect to these legal matters and claims cannot be determined. At this time, the Company believes that liability, if any, is not likely to be material to the consolidated balance sheets or consolidated statements of income.

NOTE 12 - STOCK-BASED COMPENSATION PLAN

In contemplation of the holding company reorganization, in November 2019 the Company's Board of Directors adopted the Southern California Bancorp 2019 Omnibus Equity Incentive Plan (the "2019 Plan"). The 2019 Plan was approved by shareholders in April 2020 with a maximum number of shares of common stock that may be issued or paid out under the plan of 2,200,000. In addition, upon the completion of the bank holding company reorganization in 2020, the Bank's 2001 Stock Option Plan and 2011 Omnibus Equity Incentive Plan were terminated and all outstanding and unexpired stock options and all shares of restricted stock outstanding under the terminated plans became equivalent awards of the Company under the 2019 Plan.

In October 2020, the maximum number of shares under the 2019 Plan was increased by300,000 to 2,500,000. In June 2021, the maximum number of shares under the 2019 Plan was increased by 900,000 to 3,400,000.

In addition, the 2019 Plan permits the Company to grant additional stock options and restricted share units. The Plan provides for the granting to eligible participants such incentive awards as the Board of Directors or a committee established by the Board, in its sole discretion, to administer the Plan. The Board has the power to determine the terms of the awards, including the exercise price, the number of shares subject to each award, the vesting and exercisability of the awards and the form of consideration payable upon exercise. Stock options expire no later than ten years from the date of the grant. The 2019 Plan provides for accelerated vesting if there is a change of control, as defined in the Plan. Restricted stock units generally vest over a period ofone to five years.

For the three months ended March 31, 2024 and 2023, total stock-based compensation cost related to stock options and restricted shares units was $895 thousand and $1.7 million, respectively. The Company recorded an accelerated stock-based compensation expense for the performance-based restricted stock units totaling $632 thousand for the three months ended March 31, 2023, and there was no comparable transaction for the three months ended March 31, 2024.

Stock Options

As of March 31, 2024, there was $33 thousand of total unrecognized compensation cost related to the outstanding stock options. There were 81,400 and 6,950 stock options exercised during the three months ended March 31, 2024 and 2023. The intrinsic value of stock options exercised was approximately $558 thousand and $49 thousand for the three months ended March 31, 2024 and 2023, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. There were no options granted during the three months ended March 31, 2024 and 2023.

A summary of changes in outstanding stock options during the three months ended March 31, 2024 and 2023 are presented below:

	Three Months Ended March 31, 2024			
(dollars in thousands, except share data)	**Shares**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (Years)**	**Aggregate Intrinsic Value**
Outstanding at beginning of period	272,813	$ 9.30		
Granted	—	$ —		
Exercised	(81,400)	$ 8.68		
Expired	(750)	$ 5.93		
Forfeited	(15,300)	$ 10.75		
Outstanding at end of period	175,363	$ 9.48	3.3	$ 953
Options exercisable	169,163	$ 9.43	3.2	$ 926

(dollars in thousands, except share data)	Three Months Ended March 31, 2023 Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Aggregate Intrinsic Value
Outstanding at beginning of period	326,868	$	9.53			
Granted	—	$	—			
Exercised	(6,950)	$	9.64			
Forfeited	(27,580)	$	12.79			
Outstanding at end of period	292,338	$	9.22	3.9	$	1,529
Options exercisable	264,638	$	8.94	3.7	$	1,458

Restricted Stock Units

A summary of the changes in outstanding unvested restricted stock units during the three months ended March 31, 2024 and 2023 is presented below:

	Three Months Ended March 31, 2024 Restricted Shares		Weighted Average Grant Date Fair Value
Unvested at beginning of period	637,899	$	13.11
Granted	168,035	$	15.25
Vested	(110,084)	$	16.14
Forfeited	(4,839)	$	15.50
Unvested at end of period	691,011	$	13.13

	Three Months Ended March 31, 2023 Restricted Shares		Weighted Average Grant Date Fair Value
Unvested at beginning of period	959,337	$	11.55
Granted	170,934	$	16.93
Vested (1)	(347,097)	$	10.51
Forfeited	—	$	—
Unvested at end of period	783,174	$	13.18

(1) Included the vesting of performance-based awards totaling 275,171 shares, with a weighted average grant date fair value of $9.29 for the three months ended March 31, 2024.

On March 1, 2023, the Board confirmed that all performance conditions for the performance-based restricted stock units totaling 275,171 shares had been satisfied and accelerated vesting in full. As of March 31, 2024, the Company did not have any outstanding unvested restricted stock units subject to various financial performance conditions. For the three months ended March 31, 2023, the Company recorded accelerated stock-based compensation totaling $632 thousand.

As of March 31, 2024, there was $7.1 million of total unrecognized compensation expense related to the outstanding restricted stock units that will be recognized over the weighted-average period of 2.1 years. The total grant date fair value of restricted stock units vested was $1.8 million for the three months ended March 31, 2024, and $3.6 million for the three months ended March 31, 2023. Related tax expenses were approximately $79 thousand for the three months ended March 31, 2024, and related tax benefits were approximately $652 thousand for the three months ended March 31, 2023.

Future levels of compensation cost recognized related to stock-based compensation awards may be impacted by new awards and/or modifications, repurchases and cancellations of existing awards. Under the terms of the 2019 Plan, vested options generally expire ninety days after the director or employee terminates their service affiliation with the Company.

NOTE 13 - REGULATORY MATTERS

At March 31, 2024 and December 31, 2023, the Company qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, is not subject to consolidated capital rules at the bank holding company level.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies.Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The Bank also elected to exclude the effects of credit loss accounting under CECL from common equity Tier 1 capital ratio for a three-year transitional period.

Banks considered to be "adequately capitalized" are required to maintain a minimum total capital ratio of8.0%, a minimum Tier 1 capital ratio of 6.0%, a minimum common equity Tier 1 capital ratio of4.5%, and a minimum leverage ratio of4.0%. Banks considered to be "well capitalized" must maintain a minimum total capital ratio of 10.0%, a minimum Tier 1 capital ratio of8.0%, a minimum common equity Tier 1 capital ratio of 6.5%, and a minimum leverage ratio of5.0%. As of March 31, 2024 and December 31, 2023, the Bank exceeded the minimums necessary to qualify as "well capitalized" under the regulatory framework for prompt corrective action (PCA). There are no conditions or events that management believes have changed the Bank's categories. Management believes, as of March 31, 2024 and December 31, 2023, that the Bank met all capital adequacy requirements to which we are subject.

Basel III, the comprehensive regulatory capital rules for U.S. banking organizations, requires all banking organizations to maintain a capital conservation buffer above the minimum risk-based capital requirements in order to avoid certain limitations on capital distributions, stock repurchases and discretionary bonus payments to executive officers. The capital conservation buffer is exclusively comprised of common equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. Effective January 1, 2019, the capital conservation buffer increased by 0.625% to its fully phased-in 2.5%, such that the common equity Tier 1, Tier 1 and total capital ratio minimums inclusive of the capital conservation buffers were 7.0%, 8.5%, and 10.5% at March 31, 2024. At March 31, 2024, the Bank was in compliance with the capital conservation buffer requirements. To be categorized as well capitalized, the Bank must maintain minimum ratios as set forth in the table below.

The following table also sets forth the Bank's actual capital amounts and ratios:

			Amount of Capital Required			
			To be Adequately Capitalized		To be Well-Capitalized under PCA Provisions	
(dollars in thousands)	Actual Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2024:						
Total Capital (to Risk-Weighted Assets)	$ 294,620	14.12 %	$ 166,873	8.0 %	$ 208,592	10.0 %
Tier 1 Capital (to Risk-Weighted Assets)	274,183	13.14 %	125,155	6.0 %	166,873	8.0 %
CET1 Capital (to Risk-Weighted Assets)	274,183	13.14 %	93,866	4.5 %	135,584	6.5 %
Tier 1 Capital (to Average Assets)	274,183	12.03 %	91,196	4.0 %	113,995	5.0 %
As of December 31, 2023:						
Total Capital (to Risk-Weighted Assets)	$ 289,743	13.51 %	$ 171,575	8.0 %	$ 214,469	10.0 %
Tier 1 Capital (to Risk-Weighted Assets)	270,341	12.61 %	128,681	6.0 %	171,575	8.0 %
CET1 Capital (to Risk-Weighted Assets)	270,341	12.61 %	96,511	4.5 %	139,405	6.5 %
Tier 1 Capital (to Average Assets)	270,341	11.65 %	92,818	4.0 %	116,022	5.0 %

The primary source of funds for the Company is dividends from the Bank. Under federal law, the Bank may not declare a dividend in excess of its undivided profits and, absent the approval of the OCC, the Bank's primary banking regulator, if the total amount of dividends declared by the Bank in any calendar year exceeds the total of the Bank's retained net income of that current period, year to date, combined with its retained net income for the preceding two years. The Bank also is prohibited from declaring or paying any dividend if, after making the dividend, the Bank would be considered "undercapitalized" (as defined by reference to other OCC regulations). Federal bank regulatory agencies have authority to prohibit banking institutions from paying dividends if those agencies determine that, based on the financial condition of the bank, such payment will constitute an unsafe or unsound practice.

The Federal Reserve limits the amount of dividends that bank holding companies may pay on common stock to income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policies.

NOTE 14 - FAIR VALUE

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

ASC Topic 820, *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

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

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

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

Fair value of financial instruments

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

Cash and Due from Banks: The carrying amounts of cash and short-term instruments approximate fair values because of the liquidity of these instruments.

Federal Funds Sold and Interest-Bearing Balances: The carrying amount is assumed to be the fair value given the short-term nature of these deposits.

Debt Securities Held to Maturity and Available for Sale: The fair values of securities held to maturity and available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities.

Loans Held for Sale: The fair value of loans held-for-sale is based on commitments outstanding from investors as well as what secondary market investors are currently offering for portfolios with similar characteristics.

Loans Held for Investment, net: The fair value of loans, which is based on an exit price notion, is generally determined using an income based approach based on discounted cash flow analysis. This approach utilizes the contractual maturity of the loans and market indications of interest rates, prepayment speeds, defaults and credit risk in determining fair value. If an individually evaluated loan has had a charge-off or if the fair value of the collateral is less than the recorded investment in the loan, we establish a specific reserve and report the loan as nonrecurring Level 3. 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. For the fair value of collateral-dependent individually evaluated loans, an asset-based approach is applied to determine the estimated fair values of the underlying collateral based on recent real estate appraisals, less costs to sell. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. New appraisals in certain circumstances, including when there has been significant deterioration in the condition of the collateral, if the foreclosure process has begun, or if the existing valuation is deemed to be outdated. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Restricted Stock Investments: Investments in FHLB and Federal Reserve stocks are recorded at cost and measured for impairment. Ownership of FHLB and Federal Reserve stocks are restricted to member banks and the securities do not have a readily determinable market value. Purchases and sales of these securities are at par value with the issuer. The fair value of investments in FHLB and Federal Reserve stock is equal to the carrying amount.

Other Equity Securities: The fair value of equity securities is based on quoted prices in active markets for identical assets to determine the fair value. If quoted prices are not available to determine fair value, the Company estimates the fair values by using independent pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

Other Real Estate Owned ("OREO"): Nonrecurring adjustments to certain commercial and residential real estate properties classified as OREO are measured at the lower of the carrying amount or fair value, less costs to sell. The fair value of OREO is generally based on recent real estate appraisals or broker opinions, obtained from independent third parties, which are frequently adjusted by management to reflect current conditions and estimated selling costs.

Accrued Interest Receivable: The fair value of accrued interest receivable approximates their carrying amounts.

Deposits: The fair values disclosed for demand deposits, including interest and non-interest demand accounts, savings, and certain types of money market accounts are by definition based on carrying value. Fair value for fixed-rate certificates of deposit is estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregate expected monthly maturities on time deposits. Early withdrawal of fixed-rate certificates of deposit is not expected to be significant.

Borrowings: The fair values of the Company's overnight borrowings from the Federal Home Loan Bank approximates their carrying value as the advances were recently borrowed at market rate. The fair value of fixed-rated term borrowings is estimated using a discounted cash flow through the remaining maturity dates based on the current borrowing rates for similar types of borrowing arrangements. The fair values of subordinated debt are based on rates currently available to the Company for debt with similar terms and remaining maturities.

Accrued Interest Payable: The fair value of accrued interest payable approximates their carrying amounts.

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

The estimated fair value hierarchy level and estimated fair value of financial instruments at March 31, 2024 and December 31, 2023, is summarized as follows:

		March 31, 2024		December 31, 2023	
(dollars in thousands)	Fair Value Hierarchy	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:					
Cash and due from banks	Level 1	$ 53,695	$ 53,695	$ 33,008	$ 33,008
Fed funds and interest-bearing balances	Level 1	32,847	32,847	53,785	53,785
Debt securities available for sale	Level 1/2	126,957	126,957	130,035	130,035
Debt securities held to maturity	Level 2	53,533	49,525	53,616	50,432
Loans held for sale	Level 2	2,803	3,038	7,349	7,834
Loans held for investment, net	Level 3	1,861,028	1,801,369	1,934,873	1,883,154
Restricted stock, at cost	Level 2	16,066	16,066	16,055	16,055
Other equity securities	Level 2	9,080	9,080	9,187	9,187
Accrued interest receivable	Level 2	7,355	7,355	7,301	7,301
Financial liabilities:					
Deposits	Level 2	1,930,544	1,929,827	1,943,556	1,943,007
Borrowings	Level 2	44,889	44,843	102,865	102,447
Accrued interest payable	Level 2	1,630	1,630	477	477

Recurring fair value measurements

The following table provides the hierarchy and fair value for each major category of assets and liabilities measured at fair value on a recurring basis at the periods indicated:

	Recurring Fair Value Measurements			
(dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Total**
March 31, 2024				
Securities available for sale:				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ —	$ 73,634	$ —	$ 73,634
SBA securities	—	5,456	—	5,456
U.S. Treasury	2,381	—	—	2,381
U.S. Agency	—	1,663	—	1,663
Collateralized mortgage obligations	—	41,594	—	41,594
Taxable municipals	—	1,425	—	1,425
Tax exempt bank-qualified municipals	—	804	—	804
	$ 2,381	$ 124,576	$ —	$ 126,957
December 31, 2023				
Securities available for sale:				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ —	$ 74,434	$ —	$ 74,434
SBA securities	—	5,782	—	5,782
U.S. Treasury	2,417	—	—	2,417
U.S. Agency	—	1,670	—	1,670
Collateralized mortgage obligations	—	43,501	—	43,501
Taxable municipals	—	1,421	—	1,421
Tax exempt bank-qualified municipals	—	810	—	810
	$ 2,417	$ 127,618	$ —	$ 130,035

Nonrecurring fair value measurements

The Company may also be required, from time to time, to measure certain other assets and liabilities on a nonrecurring basis in accordance with generally accepted accounting principles. For the valuation of the collateral-dependent loans, the Company relies primarily on third-party valuation information from certified appraisers and values are generally based upon recent appraisals of the underlying collateral, brokers' opinions based upon recent sales of comparable properties, estimated equipment auction or liquidation values, income capitalization, or a combination of income capitalization and comparable sales. Depending on the type of underlying collateral, valuations may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary. At March 31, 2024, the Company did not have any collateral-dependent individually evaluated loans that was measured on the fair value of its underlying collateral.

At December 31, 2023, the Company took a partial charge-off of $1.3 million on a collateral-dependent individually evaluated loan based on its recent property appraisals during the year ended December 31, 2023.

The following tables summarize the fair value of assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2024 and December 31, 2023.

(dollars in thousands)	Fair Value	Fair Value Measurement Level: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024				
Foreclosed assets:				
Other real estate owned, net	$ 13,114	$ —	$ —	$ 13,114
December 31, 2023				
Collateral dependent loans [(1)]:				
Multifamily Residential	$ 13,000	$ —	$ —	$ 13,000

(1) Collateral-dependent loans whose fair value is based upon appraisals.

Quantitative information about Level 3 fair value measurements measured on a non-recurring basis are summarized below as of March 31, 2024 and December 31, 2023.

(dollars in thousands)	Asset Fair Value	Valuation Technique	Unobservable Input	Range % (Weighted Average)
March 31, 2024				
Other real estate owned, net	$ 13,114	Market approach	Cost to sell	7.50%-7.50% (7.50%)
December 31, 2023				
Multifamily Residential	$ 13,000	Income approach	Capitalization rate	3.84%-4.94% (4.50%)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our consolidated financial condition and consolidated results of operations should be read in conjunction with our consolidated financial statements and related notes. Historical consolidated results of operations and the percentage relationships among any amounts included, and any trends that may appear, may not indicate trends in operations or consolidated results of operations for any future periods. We are a bank holding company and we conduct all of our material business operations through the Bank. As a result, the discussion and analysis below primarily relate to activities conducted at the Bank level.

Overview

Southern California Bancorp is a California corporation incorporated on October 2, 2019, and headquartered in Del Mar, California. On May 15, 2020, we completed a reorganization whereby Bank of Southern California, N.A. became the wholly owned subsidiary of the Company. Bank of Southern California, N.A. has a wholly-owned subsidiary, BCAL OREO1, LLC, which was incorporated on February 14, 2024. BCAL OREO1, LLC is used for holding other real estate owned and other assets acquired by foreclosure. We are regulated as a bank holding company by the Board of Governors of the Federal Reserve System ("Federal Reserve"). The Bank operates under a national charter and is regulated by the Office of Comptroller of the Currency ("OCC").

We are a relationship-focused community bank and we offer a range of financial products and services to individuals, professionals, and small- to medium-sized businesses through our 13 branch offices serving Orange, Los Angeles, San Diego and Ventura counties, as well as the Inland Empire. We keep a steady focus on our solution-driven, relationship-based approach to banking, providing clients accessibility to decision makers and enhancing the value of our services through strong client partnerships. Our lending products consist primarily of construction and land development loans, real estate loans, C&I loans and consumer loans, and we are a Preferred SBA Lender. Our deposit products consist primarily of demand deposit, money market, and certificates of deposit. We also provide treasury management services including online banking, cash vault, sweep accounts and lock box services.

Recent Developments

Proposed Merger with California BanCorp

On January 30, 2024, the Company announced the execution of a definitive merger agreement with California BanCorp (NASDAQ: CALB), the holding company for California Bank of Commerce, pursuant to which California BanCorp will merge into Southern California Bancorp in an all-stock merger valued at approximately $233.6 million based on the closing price of Southern California Bancorp on January 29, 2024. Under the terms of the merger agreement, which has been unanimously approved by the boards of directors of Southern California Bancorp and California BanCorp, each outstanding share of California BanCorp common stock will be exchanged for the right to receive 1.590 shares of Southern California Bancorp common stock. As a result of the transaction, Southern California Bancorp shareholders will own approximately 57.1% of the outstanding shares of the combined company and California BanCorp shareholders will own approximately 42.9% of the outstanding shares of the combined company. These amounts are subject to fair value adjustments upon the close of the Merger. The transaction is expected to close in the third quarter of 2024, subject to the satisfaction of customary closing conditions, including receipt of required regulatory approvals and approvals from Southern California Bancorp and California BanCorp shareholders. At March 31, 2024, California BanCorp had total loans of $1.52 billion, total assets of $1.92 billion, total deposits of $1.64 billion, and total equity of $200.7 million.

Impact of Federal Reserve Rapid Rate Hiking Cycle on Economy and Banking Industry

The COVID-19 pandemic has receded, with business activity returning to more normal conditions and concerns regarding a potential recession moderating with full year 2023 increase in GDP reported at 2.5%, slowing to 1.6% in the first quarter of 2024. California's 2023 GDP increased by 2.8% from 2022 and it is forecast by Moody's to slow to 2.1% in 2024. High interest rates and broader economic headwinds have put a damper on investment, particularly in the near term for the tech industry, which employs 8% of the state's workforce, as tech payrolls have trended lower over the past year. Moody's forecast for the state's 2024 unemployment rate is 5.1%, up from 4.4% in 2023. Despite the anticipated slowdown in California, it is still considered to have the fifth largest economy in the world.

Between March 2022 and September 2023, the Federal Reserve raised interest rates eleven times by an aggregate of 525 basis points, to a range between 5.25% and 5.50%, the highest level in 22 years. The rapid rate hiking cycle was in response to an increase in inflation, as measured by the Consumer Price Index, from 1.2% in November 2020 to 9.1% in July 2022, which has since moderated to 3.5% in March 2024. The Federal Reserve paused interest rates increases in September 2023. In its April 2024 statement, the Federal Reserve acknowledged that progress in bringing the inflation rate down to its 2% target was stalling and opted to hold the benchmark interest rate at current levels for longer.

The rapid rise in interest rates between 2022 and 2023 resulted in an industry-wide reduction in the fair value of many banks' securities portfolios, pressuring their liquidity. The subsequent bank runs led to the failure of several financial institutions beginning in March of 2023, among other events, fostered a state of volatility and uncertainty with respect to the health of the U.S. banking system, particularly around liquidity, uninsured deposits and customer concentrations. The situation is stabilizing due to strong actions taken by federal regulators in attempts to calm the markets.

We have a strong consolidated balance sheet with diversified deposit and loan portfolios, and with very little sector or individual customer concentration, other than our CRE concentration. Our relationship-based banking model is founded on strong, ongoing relationships with our commercial clients, which represent a broad variety of industries. The recent uncertainty in the banking industry has provided us with an opportunity to attract new clients that have concerns about the banks they have been doing business with, based on the above events. We have no meaningful exposure to cryptocurrency or venture capital business models, our accumulated other comprehensive loss on our available-for-sale debt securities is manageable, and our capital position is strong. However, in an abundance of caution, we proactively responded to these events by reaching out to our customers and explaining what differentiates us from the recently failed banks. We also have elected to vigorously defend our deposit base in the face of increasing competition and deposit costs.

We have a highly skilled and experienced lending production team and credit administration team. Given our concentration in commercial real estate secured loans, we mitigate that risk through comprehensive underwriting policies, semi-annual loan level reviews, close monitoring of self-established industry and geographical and collateral type limits, periodic stress testing and continuous portfolio risk management reporting. Per the regulatory definition of commercial real estate, at March 31, 2024, our concentration of such loans represented 506% of our total risk-based capital. In addition, at March 31, 2024, total loans secured by commercial real estate under construction and land development represented 82% of our total risk-based capital. The non-performing assets for these segments per the regulatory definition of commercial real estate loans at March 31, 2024 were $19.3 million and there were no charge-offs during the three months ended March 31, 2024.

Given the nature of our commercial banking business, approximately 43% of our total deposits exceeded the FDIC deposit insurance limits at March 31, 2024. However, we offer our deposit customers access to the Insured Cash Sweep ("ICS Product"), which allows us to divide customers' deposits that exceed the FDIC insurance limits into smaller amounts, below the FDIC insurance limits, and place those deposits in other participating FDIC insured institutions with the convenience of managing all deposit accounts through our Bank. Our total deposits in the ICS Product decreased to $245.3 million, or 13% of total deposits at March 31, 2024, compared to $274.1 million, or 14% of total deposits at December 31, 2023. In the third quarter of 2023, we appointed new leadership to oversee our Bank-wide deposit and treasury operations and continue to focus on defending our deposit base while managing our deposit costs.

We have a small investment portfolio of high-quality securities. In 2022, we deployed our excess cash by purchasing held-to-maturity debt securities that are not marked to market, which means there is no unrealized loss recorded through the accumulated other comprehensive loss if their market value is impacted by changes in interest rates. We continue to reposition our debt securities mix to protect us from an unpredictable interest rate environment. At March 31, 2024, the amortized cost of our held-to-maturity debt securities was $53.5 million, or approximately 2.3% of total assets. The fair value of our available-for-sale debt securities was $127.0 million, or approximately 5.5% of total assets. The increases in the 10-Year Treasury Bond to nearly 5% resulted in higher net unrealized losses on our debt securities. At March 31, 2024, our accumulated other comprehensive loss, net of taxes, increased to $6.1 million, compared to $4.5 million at December 31, 2023. If we realized all of our unrealized losses on both held-to-maturity and available-for-sale debt securities, our losses, net of taxes would be $9.0 million at March 31, 2024. The results of our stress testing on our debt security portfolio at March 31, 2024, illustrated that our losses, net of taxes on both held-to-maturity and available-for-sale debt securities would increase to $39.4 million at 300 basis point rate shock scenario. If we realized all of these unrealized losses, the Bank would continue to exceed all regulatory capital requirements necessary to be considered well capitalized.

At March 31, 2024, our liquidity position remained strong, with the following financial balances (unaudited), compared to December 31, 2023:

- Total cash and cash equivalents of approximately $86.5 million, compared to $86.8 million.
- Total liquidity ratio of approximately 11.0%, compared to 11.1%.
- Unpledged, liquid securities at fair value were approximately $127.0 million, compared to $130.0 million.
- Available borrowing capacity from the Federal Home Loan Bank (“FHLB”) secured lines of credit of approximately $395.3 million, compared to $339.2 million. At March 31, 2024, we had overnight FHLB borrowings of $27.0 million.
- Available borrowing capacity from the Federal Reserve Discount Window program was approximately $125.4 million, compared to $141.6 million. There were no outstanding borrowings under this program at March 31, 2024.
- Available borrowing capacity from three unsecured credit lines from correspondent banks totaling $75.0 million at both period ends. There were no outstanding borrowings on these lines at March 31, 2024.
- Did not participate in Federal Reserve Bank Term Funding Program borrowings at March 31, 2024.
- Total available borrowing capacity was approximately $595.7 million at March 31, 2024, compared to $555.8 million.
- Total available liquidity was approximately $809.2 million at March 31, 2024.

We continue to monitor macroeconomic variables related to increasing interest rates, inflation, and concerns regarding an economic downturn, and its potential effects on our business, customers, employees, communities and markets. The following challenges could have an impact on our business, consolidated financial condition or near- or longer-term consolidated results of operations:

- Slower loan growth and declining deposits;
- Difficulty retaining and attracting deposit relationships;
- Credit quality deterioration of our loan portfolio resulting in additional provision for credit losses and impairment charges;
- Margin pressure as we increase deposit rates in response to potential further rate increases by our competitors;

- Increases in other comprehensive loss from the unrealized losses on available-for-sale debt securities; and
- Liquidity stresses to maintain sufficient levels of high-quality liquid assets and access to borrowing lines.

Financial Highlights

The following table sets forth certain of our financial highlights as of and for each of the periods presented. This data should be read in conjunction with our consolidated financial statements and related notes included herein at Part I - *Financial Information*, Item 1 - *Financial Statements* of this filing.

	Three Months Ended		
($ in thousands except share and per share data)	March 31, 2024	December 31, 2023	March 31, 2023
EARNINGS			
Net interest income	$ 20,494	$ 22,559	$ 24,892
(Reversal of) provision for credit losses	$ (331)	$ 824	$ 202
Noninterest income	$ 1,413	$ (102)	$ 1,570
Noninterest expense	$ 14,981	$ 15,339	$ 15,019
Income tax expense	$ 2,322	$ 1,882	$ 3,017
Net income	$ 4,935	$ 4,412	$ 8,224
Pre-tax pre-provision income (1)	$ 6,926	$ 7,118	$ 11,443
Adjusted pre-tax pre-provision income (1)	$ 7,475	$ 7,118	$ 11,443
Diluted earnings per share	$ 0.26	$ 0.24	$ 0.44
Ending shares outstanding	18,527,178	18,369,115	18,271,194
PERFORMANCE RATIOS			
Return on average assets	0.86 %	0.75 %	1.46 %
Adjusted return on average assets (1)	0.95 %	0.75 %	1.46 %
Return on average common equity	6.85 %	6.21 %	12.72 %
Adjusted return on average common equity (1)	7.61 %	6.21 %	12.72 %
Yield on loans	6.02 %	6.08 %	5.78 %
Yield on earning assets	5.79 %	5.85 %	5.53 %
Cost of deposits	2.05 %	1.81 %	0.80 %
Cost of funds	2.17 %	1.95 %	0.88 %
Net interest margin	3.80 %	4.05 %	4.71 %
Efficiency ratio (1)	68.4 %	68.3 %	56.8 %
Adjusted efficiency ratio (1)	65.9 %	68.3 %	56.8 %
Net (charge-offs) recoveries to average loans held-for-investment	0.00 %	(0.26)%	0.00 %

(1) Refer to Non-GAAP Financial Measures in the Management's Discussion and Analysis of Financial Condition and Results of Operations of this filing.

	March 31, 2024	December 31, 2023
CAPITAL		
Tangible equity to tangible assets [1]	11.27 %	10.73 %
Book value (BV) per common share	$ 15.79	$ 15.69
Tangible BV per common share [1]	$ 13.69	$ 13.56
ASSET QUALITY		
Allowance for loan losses (ALL)	$ 22,254	$ 22,569
Reserve for unfunded loan commitments	916	933
Allowance for credit losses (ACL)	$ 23,170	$ 23,502
ALL to total loans	1.18 %	1.15 %
ACL to total loans	1.23 %	1.20 %
30-89 days past due, excluding nonaccrual loans	$ —	$ 19
Over 90 days past due, excluding nonaccrual loans	$ —	$ —
Special mention loans	$ 39,591	$ 2,996
Special mention loans to total loans held for investment	2.10 %	0.15 %
Substandard loans	$ 11,299	$ 19,502
Substandard loans to total loans held for investment	0.60 %	1.00 %
Nonperforming loans	$ 6,153	$ 13,004
Nonperforming loans to total loans held for investment	0.33 %	0.66 %
Other real estate owned	$ 13,114	$ —
Nonperforming assets	$ 19,267	$ 13,004
Nonperforming assets to total assets	0.84 %	0.55 %
END OF PERIOD BALANCES		
Total loans, including loans held for sale	$ 1,886,085	$ 1,964,791
Total assets	$ 2,289,715	$ 2,360,252
Deposits	$ 1,930,544	$ 1,943,556
Loans to deposits	97.7 %	101.1 %
Shareholders' equity	$ 292,499	$ 288,152

(1) Refer to Non-GAAP Financial Measures in the Management's Discussion and Analysis of Financial Condition and Results of Operations of this filing.

Non-GAAP Financial Measures

This filing contains certain non-GAAP financial measures in addition to results presented in accordance with GAAP. We believe the presentation of certain non-GAAP financial measures provides information useful to assess our consolidated financial condition and consolidated results of operations and to assist investors in evaluating our consolidated financial results relative to our peers. These non-GAAP financial measures complement our GAAP reporting and are presented below to provide investors and others with information that we use to manage the business each period. Because not all companies use identical calculations, the presentation of these non-GAAP financial measures may not be comparable to other similarly titled measures used by other companies. These non-GAAP measures should be taken together with the corresponding GAAP measures and should not be considered a substitute of the GAAP measures.

(1) Efficiency ratio is computed by dividing noninterest expense by total net interest income and noninterest income. We measure our success and the productivity of our operations through monitoring of the efficiency ratio. Adjusted noninterest expense is computed by adjusting noninterest expense for merger related expense adjustments for the period indicated. Adjusted efficiency ratio is computed by dividing adjusted noninterest expense by total net interest income and noninterest income.

(2) Pre-tax pre-provision income is computed by adding net interest income and noninterest income and subtracting noninterest expense. This non–GAAP financial measure provides a greater understanding of pre–tax profitability before giving effect to credit loss expense. Adjusted pre-tax pre-provision income is computed by adding net interest income and noninterest income and subtracting adjusted noninterest expense.

(3) Adjusted net income is computed by adjusting net income for tax-effected merger related expense adjustments for the periods indicated.

(4) Average tangible common equity is computed by subtracting goodwill and core intangible deposits, net, from average shareholders' equity.

(5) Adjusted return on average assets is computed by dividing annualized adjusted net income by average assets. Adjusted return on average equity is computed by dividing annualized adjusted net income by average shareholders' equity.

(6) Return on average tangible common equity is computed by dividing net income by average tangible common equity. It helps us measure our performance of businesses consistently, whether they were acquired or developed internally. Adjusted return on average tangible common equity is computed by dividing adjusted net income by average tangible common equity

(7) Tangible common equity and tangible assets are computed by subtracting goodwill and core deposit intangibles, net, from total shareholders' equity and total assets, respectively.

(8) Tangible common equity to tangible assets ratio is computed by dividing tangible common equity by tangible assets.

(9) Tangible book value per share is computed by dividing tangible common equity by total common shares outstanding. We consider tangible book value per share a meaningful measure because it suggests what our common shareholders can expect to receive if we are in financial distress and are forced to liquidate our assets at the book value price. Intangible assets like goodwill are not a part of the process since they cannot be sold for cash during liquidation.

We consider average tangible common equity, tangible common equity, and tangible common equity to tangible asset ratio as useful additional methods to evaluate our capital utilization and adequacy to withstand unexpected market conditions. These ratios differ from the regulatory capital ratios principally in that the numerator excludes goodwill and other intangible assets.

The following tables present a reconciliation of non-GAAP financial measures to GAAP measures for the periods indicated:

	Three Months Ended		
(dollars in thousands)	March 31, 2024	December 31, 2023	March 31, 2023
Efficiency Ratio			
Noninterest expense	$ 14,981	$ 15,339	$ 15,019
Less: Merger and related expenses	549	—	—
Adjusted noninterest expense	$ 14,432	$ 15,339	$ 15,019
Net interest income	20,494	22,559	24,892
Noninterest income	1,413	(102)	1,570
Total net interest income and noninterest income	$ 21,907	$ 22,457	$ 26,462
(1) Efficiency ratio (non-GAAP)	68.4 %	68.3 %	56.8 %
(1) Adjusted efficiency ratio (non-GAAP)	65.9 %	68.3 %	56.8 %
Pre-tax Pre-provision Income			
Net interest income	$ 20,494	$ 22,559	$ 24,892
Noninterest income	1,413	(102)	1,570
Total net interest income and noninterest income	21,907	22,457	26,462
Less: Noninterest expense	14,981	15,339	15,019
(2) Pre-tax pre-provision income (non-GAAP)	$ 6,926	$ 7,118	$ 11,443
Add: Merger and related expenses	549	—	—
(2) Adjusted pre-tax pre-provision income (non-GAAP)	$ 7,475	$ 7,118	$ 11,443
Return on Average Assets, Equity, and Tangible Equity			
Net income	$ 4,935	$ 4,412	$ 8,224
Add: After-tax merger and related expenses [(1)]	$ 547	$ —	$ —
(3) Adjusted net income (non-GAAP)	$ 5,482	$ 4,412	$ 8,224
Average assets	$ 2,309,827	$ 2,345,323	$ 2,277,971
Average shareholders' equity	289,763	282,072	262,118
Less: Average intangible assets	38,964	39,035	39,340
(4) Average tangible common equity (non-GAAP)	$ 250,799	$ 243,037	$ 222,778
Return on average assets	0.86 %	0.75 %	1.46 %
(5) Adjusted return on average assets (non-GAAP)	0.95 %	0.75 %	1.46 %
Return on average equity	6.85 %	6.21 %	12.72 %
(5) Adjusted return on average equity (non-GAAP)	7.61 %	6.21 %	12.72 %
(6) Return on average tangible common equity (non-GAAP)	7.91 %	7.20 %	14.97 %
(6) Adjusted return on average tangible common equity (non-GAAP)	8.79 %	7.20 %	14.97 %

(1) After-tax merger and related expenses are presented using a 29.56% tax rate.

(dollars in thousands, except per share amounts)	March 31, 2024	December 31, 2023
Tangible Common Equity Ratio/Tangible Book Value Per Share		
Shareholders’ equity	$ 292,499	$ 288,152
Less: Intangible assets	38,933	38,998
(7) Tangible common equity (non-GAAP)	$ 253,566	$ 249,154
Total assets	$ 2,289,715	$ 2,360,252
Less: Intangible assets	38,933	38,998
(7) Tangible assets (non-GAAP)	$ 2,250,782	$ 2,321,254
Equity to asset ratio	12.77 %	12.21 %
(8) Tangible common equity to tangible asset ratio (non-GAAP)	11.27 %	10.73 %
Book value per share	$ 15.79	$ 15.69
(9) Tangible book value per share (non-GAAP)	$ 13.69	$ 13.56
Shares outstanding	18,527,178	18,369,115

Results of Operations

Net Income

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

Net income for the three months ended March 31, 2024 was $4.9 million, or $0.26 per diluted share, compared to $4.4 million or $0.24 per diluted share in the prior quarter. The $523 thousand increase in net income from the prior quarter was primarily due to a $1.5 million increase in noninterest income, a $1.2 million decrease in the (reversal of) provision for credit losses, and a $358 thousand decrease in noninterest expense, partially offset by a $2.1 million decrease in net interest income. Pre-tax, pre-provision income for the three months ended March 31, 2024 was $6.9 million, a decrease of $192 thousand, or 2.7% compared to pre-tax, pre-provision income of $7.1 million for the three months ended December 31, 2023.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Net income for the three months ended March 31, 2024 was $4.9 million, or $0.26 per diluted share, compared to a net income of $8.2 million, or $0.44 per diluted share for the same 2023 period. The $3.3 million decrease in net income from the three months ended March 31, 2023 was primarily due to a $4.4 million decrease in net interest income, partially offset by a $695 thousand decrease in income taxes, a $533 thousand decrease in the (reversal of) provision for credit losses. Pre-tax, pre-provision income for the three months ended March 31, 2024 was $6.9 million, a decrease of $4.5 million, or 39.5% compared to pre-tax, pre-provision income of $11.4 million for the same 2023 period.

Net Interest Income and Margin

Net interest income is our primary source of revenue, which is the difference between interest income on loans, debt securities and other investments (collectively, "interest-earning assets") and interest expense on deposits and borrowings (collectively, "interest-bearing liabilities"). Net interest margin represents net interest income expressed as a percentage of interest-earning assets. Net interest income is affected by changes in volume, mix, and rates of interest-earning assets and interest-bearing liabilities, as well as days in a period. We closely monitor both total net interest income and the net interest margin and seek to maximize net interest income without exposing us to an excessive level of interest rate risk through our asset and liability management policies. The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their corresponding yields and costs for the periods indicated:

	Three Months Ended								
	March 31, 2024			December 31, 2023			March 31, 2023		
	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost	Average Balance	Income/Expense	Yield/Cost
Assets				*($ in thousands)*					
Interest-earning assets:									
Total loans[(1)]	$1,909,271	$28,584	6.02 %	$1,954,396	$29,968	6.08 %	$1,894,234	$27,019	5.78 %
Taxable debt securities	126,803	1,213	3.85 %	113,375	991	3.47 %	97,023	731	3.06 %
Tax-exempt debt securities[(2)]	53,842	306	2.89 %	58,644	353	3.02 %	74,188	487	3.37 %
Deposits in other financial institutions	54,056	716	5.33 %	56,313	759	5.35 %	37,611	457	4.93 %
Fed funds sold/resale agreements	9,771	134	5.52 %	9,008	125	5.51 %	25,306	287	4.60 %
Restricted stock investments and other bank stock	16,412	311	7.62 %	16,394	373	9.03 %	14,902	228	6.20 %
Total interest-earning assets	2,170,155	31,264	5.79 %	2,208,130	32,569	5.85 %	2,143,264	29,209	5.53 %
Total noninterest-earning assets	139,672			137,193			134,707		
Total assets	**$ 2,309,827**			**$ 2,345,323**			**$ 2,277,971**		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Interest-bearing NOW accounts	$ 359,784	$ 2,045	2.29 %	$ 362,579	$ 1,860	2.04 %	$ 206,785	$ 316	0.62 %
Money market and savings accounts	648,640	4,725	2.93 %	669,391	4,746	2.81 %	685,368	2,587	1.53 %
Time deposits	255,474	3,021	4.76 %	208,700	2,331	4.43 %	152,613	975	2.59 %
Total interest-bearing deposits	1,263,898	9,791	3.12 %	1,240,670	8,937	2.86 %	1,044,766	3,878	1.51 %
Borrowings:									
FHLB advances	50,593	708	5.63 %	56,380	802	5.64 %	14,356	168	4.75 %
Subordinated debt	17,878	271	6.10 %	17,854	271	6.02 %	17,783	271	6.18 %
Total borrowings	68,471	979	5.75 %	74,234	1,073	5.73 %	32,139	439	5.54 %
Total interest-bearing liabilities	1,332,369	10,770	3.25 %	1,314,904	10,010	3.02 %	1,076,905	4,317	1.63 %
Noninterest-bearing liabilities:									
Noninterest-bearing deposits [(3)]	661,265			721,169			915,160		
Other liabilities	26,430			27,178			23,788		
Shareholders' equity	289,763			282,072			262,118		
Total Liabilities and Shareholders' Equity	**$ 2,309,827**			**$ 2,345,323**			**$ 2,277,971**		
Net interest spread			2.54 %			2.83 %			3.90 %
Net interest income and margin[(4)]		**$ 20,494**	**3.80 %**		**$ 22,559**	**4.05 %**		**$ 24,892**	**4.71 %**
Cost of deposits[(5)]	$1,925,163	$9,791	2.05 %	$1,961,839	$8,937	1.81 %	$1,959,926	$3,878	0.80 %
Cost of funds[(6)]	$1,993,634	$10,770	2.17 %	$2,036,073	$10,010	1.95 %	$1,992,065	$4,317	0.88 %

(1) Total loans are net of deferred loan origination fees/costs and discounts/premiums, and include average balances of loans held for sale and nonperforming loans. Interest income includes accretion of net deferred loan fees and net purchased discounts of $604 thousand, $501 thousand and $532 thousand for the three months ended March 31, 2024, December 31, 2023, and March 31, 2023, respectively.

(2) Tax-exempt debt securities yields are presented on a tax equivalent basis using a 21% tax rate.

(3) Average noninterest-bearing deposits represent 34.35%, 36.76% and 46.69% of average total deposits for the three months ended March 31, 2024, December 31, 2023, and March 31, 2023, respectively.

(4) Annualized net interest income divided by average interest-earning assets.

(5) Total deposits is the sum of interest-bearing deposits and noninterest-bearing deposits. The cost of deposits is calculated as annualized total interest expense on deposits divided by average total deposits.

(6) Total funding is the sum of total interest-bearing liabilities and noninterest-bearing deposits. The cost of total funding is calculated as annualized total interest expense divided by average total funding.

Rate/Volume Analysis

The following table presents the changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. Information is provided on changes attributable to (i) changes in volume multiplied by the prior rate and (ii) changes in rate multiplied by the prior volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

	Three Months Ended March 31, 2024 vs. December 31, 2023			Three Months Ended March 31, 2024 vs. March 31, 2023		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest-earning assets:			($ in thousands)			
Total loans	$ (1,083)	$ (301)	$ (1,384)	$ 465	$ 1,100	$ 1,565
Taxable debt securities	109	113	222	264	218	482
Tax-exempt debt securities	(29)	(18)	(47)	(102)	(79)	(181)
Deposits in other financial institutions	(40)	(3)	(43)	219	40	259
Fed fund sold/resale agreements	9	—	9	(202)	49	(153)
Restricted stock investments and other bank stock	(5)	(57)	(62)	27	56	83
Total interest-earning assets	(1,039)	(266)	(1,305)	671	1,384	2,055
Interest-bearing liabilities:						
Interest-bearing NOW accounts	(39)	224	185	375	1,354	1,729
Money market and savings accounts	(211)	190	(21)	(125)	2,263	2,138
Time deposits	515	175	690	990	1,056	2,046
Total interest-bearing deposits	265	589	854	1,240	4,673	5,913
Borrowings:						
FHLB advances	(93)	(1)	(94)	502	38	540
Subordinated debt	(3)	3	—	4	(4)	—
Total borrowings	(96)	2	(94)	506	34	540
Total interest-bearing liabilities	169	591	760	1,746	4,707	6,453
Net interest income	**$ (1,208)**	**$ (857)**	**$ (2,065)**	**$ (1,075)**	**$ (3,323)**	**$ (4,398)**

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

Net interest income for the three months ended March 31, 2024 was $20.5 million, compared to $22.6 million in the prior quarter. The $2.1 million decrease in net interest income was due to higher average balances and costs of interest-bearing liabilities, coupled with lower average balances and yields on interest-earning assets.

Net interest margin for the three months ended March 31, 2024 was 3.80%, compared with 4.05% in the prior quarter. The decrease was primarily related to a 22 basis point increase in the cost of funds, coupled with a 6 basis point decrease in the total average interest-earning assets yield. The yield on total average earning assets during the three months ended March 31, 2024 was 5.79%, compared with 5.85% in the prior quarter. The yield on total average loans during the three months ended March 31, 2024 was 6.02%, a decrease of 6 basis points from 6.08% in the prior quarter. The yield on average total loans during the three months ended March 31, 2024 included the impact of the reversal of a nonaccrual loan's interest income of $168 thousand, which decreased the overall loan yield by 4 basis points. There was no significant reversal of interest income in the prior quarter.

During the three months ended March 31, 2024, total interest income decreased by $1.3 million to $31.3 million, comprised primarily of a $1.4 million decrease in loan interest income and a $96 thousand decrease in interest and dividend income from other financial institutions and other interest-earning assets, partially offset by a $175 thousand increase in total debt securities income. The decrease in interest income was due to a number of factors: one fewer day in the current quarter than prior quarter, a lower average total loan balance from organic loan growth, a decrease in yield on total average interest-earning assets, a change in the interest-earning asset mix, and the reversal of an aforementioned nonaccrual loan's interest income of $168 thousand. Average total interest-earning assets decreased $38.0 million, the result of a $45.1 million decrease in total average loans, a $2.3 million decrease in average deposits in other financial institutions, partially offset by an $8.6 million increase in average total debt securities, a $763 thousand increase in average Fed funds sold/resale agreements, and a $18 thousand increase in average restricted stock investments and other bank stock. The increase in interest expense during the three months ended March 31, 2024 was primarily due to a $854 thousand increase in interest expense on interest-bearing deposits, the result of a $23.2 million increase in average interest-bearing deposits, coupled with a 26 basis point increase in interest-bearing deposit costs, partially offset by a $94 thousand decrease in interest expense on Federal Home Loan Bank (FHLB) borrowings, the result of a $5.8 million decrease in average FHLB borrowings.

Total cost of funds for the three months ended March 31, 2024 was 2.17%, an increase of 22 basis points from 1.95% in the prior quarter. The increase was primarily driven by a 26 basis point increase in the cost of interest-bearing deposits, an increase in average interest-bearing deposits, and a decrease in average noninterest-bearing deposits. Average noninterest-bearing demand deposits decreased $59.9 million to $661.3 million and represented 34.3% of total average deposits during the three months ended March 31, 2024, compared with $721.2 million and 36.8%, respectively, for the prior quarter; average interest-bearing deposits increased $23.2 million to $1.26 billion during the three months ended March 31, 2024. The total cost of deposits during the three months ended March 31, 2024 was 205 basis points, an increase of 24 basis points from 181 basis points in the prior quarter. The cost of total interest-bearing deposits increased due primarily to repricing deposits in the higher interest rate environment and peer bank deposit competition.

Average total borrowings decreased $5.8 million to $68.5 million for the three months ended March 31, 2024 resulting primarily from a decrease of $5.8 million in average FHLB advances. The average cost of total borrowings was 5.75% for the three months ended March 31, 2024, a 2 basis point increase from 5.73% in the prior quarter.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Net interest income for the three months ended March 31, 2024 was $20.5 million, compared to $24.9 million for the three months ended March 31, 2023. The $4.4 million decrease in net interest income was due to higher average balances and costs of interest-bearing liabilities, partially offset by higher average balances and yields on interest-earning assets.

Net interest margin for the three months ended March 31, 2024 was 3.80%, compared with 4.71% for the same 2023 period. The 91 basis point decrease was primarily related to a 129 basis point increase in the cost of funds, partially offset by a 26 basis point increase in the total average interest-earning assets yield resulting from higher market interest rates and a change in our average interest-earning asset mix. The yield on total average earning assets during the three months ended March 31, 2024 was 5.79%, compared with 5.53% for the same 2023 period. The yield on average loans during the three months ended March 31, 2024 was 6.02%, an increase of 24 basis points from 5.78% for the same 2023 period.

During the three months ended March 31, 2024, total interest income increased $2.1 million, comprised of a $1.6 million increase in total loan interest income, and a $301 thousand increase in total debt securities income, coupled with a $189 thousand increase interest and dividend income from other financial institutions and other interest-earning assets. The increase in interest income was due to a number of factors: higher average loans from organic loan growth; a change in the interest-earning asset mix; and increases in yields on interest-earning assets resulting from increases in the target Fed fund rates. Average interest-earning assets increased $26.9 million, resulting primarily from a $15.0 million increase in average total loans, a $16.4 million increase in average deposits in other financial institutions, a $9.4 million increase in total average debt securities, and a $1.5 million increase in average restricted stock investments and other bank stock, partially offset by a $15.5 million decrease in average Fed fund sold/resale agreements.

During the three months ended March 31, 2024, total interest expense increased by $6.5 million to $10.8 million, comprised primarily of a $5.9 million increase in interest on interest-bearing deposits due to repricing deposits in the higher interest rate environment and peer bank deposit competition, coupled with the increase in average interest-bearing liabilities balances between periods.

Total cost of funds for the three months ended March 31, 2024 was 2.17%, an increase of 129 basis points from 0.88% for the same 2023 period. The increase was primarily driven by a 161 basis point increase in the cost of interest-bearing deposits, coupled with an increase in average interest-bearing deposits, and a decrease in average noninterest-bearing deposits. Average noninterest-bearing demand deposits decreased $253.9 million to $661.3 million and represented 34.3% of total average deposits for the three months ended March 31, 2024, compared with $915.2 million and 46.7%, respectively, for the same 2023 period; average interest-bearing deposits increased $219.1 million to $1.26 billion during the three months ended March 31, 2024. The total cost of deposits for the three months ended March 31, 2024 was 2.05%, up 125 basis points from 0.80% for the same 2023 period.

Average total borrowings increased $36.3 million to $68.5 million for the three months ended March 31, 2024 resulting from a $36.2 million increase in average FHLB advances. The average cost of total borrowings was 5.75% for the three months ended March 31, 2024, a 21 basis point increase from 5.54% for the same 2023 period.

Provision for Credit Losses

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

We recorded a reversal of credit losses of $331 thousand for the three months ended March 31, 2024, compared to a provision for credit losses of $824 thousand in the prior quarter. The reversal of provision for credit losses included a $17 thousand negative provision for unfunded loan commitments primarily due to the impact of lower unfunded loan commitments. Total unfunded loan commitments decreased $22.4 million to $388.4 million at March 31, 2024 from $410.8 million at December 31, 2023. The reversal of credit losses for the loans held for investments for the three months ended March 31, 2024 was $314 thousand, a decrease of $1.4 million from $1.1 million in the prior quarter. The decrease was driven primarily by decreases in net charge-offs, loans held for investment and substandard accruing loans, coupled with changes in the portfolio mix, and a change in our reasonable and supportable forecast, primarily related to the economic outlook for California and a change in historical prepayment and curtailment rates analysis, partially offset by an increase in special mention loans. We continue to monitor macroeconomic variables related to increasing interest rates, inflation and the concerns of an economic downturn, and we believe it is appropriately provisioned for the current environment.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

We recorded a reversal of credit losses of $331 thousand for the three months ended March 31, 2024, compared to a provision for credit losses of $202 thousand for the same 2023 period.

We adopted CECL effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the CECL adoption included an increase in the allowance for credit losses of $5.5 million, of which included $439 thousand to establish a reserve for unfunded commitments and a $3.9 million decrease to retained earnings to reflect the cumulative effect of adoption of CECL, with the $1.6 million tax impact portion being recorded as part of the deferred tax asset on our Consolidated Balance Sheet. The determination of the ACL in each period is a critical accounting estimate that involves management's judgments about the loan portfolio that impact credit losses. For additional information on the allowance, see the "Financial Condition — Allowance For Credit Losses" below

Noninterest Income

The following table sets forth the various components of our noninterest income for the periods indicated:

	Three months ended		
(dollars in thousands)	**March 31, 2024**	**December 31, 2023**	**March 31, 2023**
Service charges and fees on deposit accounts	$ 362	$ 321	$ 262
Interchange and ATM income	163	186	177
Gain on sale of loans	415	—	808
Income from bank-owned life insurance	261	253	223
Servicing and related income on loans, net	73	17	75
Loss on sale of debt securities	—	(1,008)	—
Other charges and fees	139	129	25
Total noninterest income (loss)	$ 1,413	$ (102)	$ 1,570

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

Total noninterest income during the three months ended March 31, 2024 was $1.4 million, an increase of $1.5 million compared to total noninterest loss of $102 thousand in the prior quarter. During the three months ended March 31, 2024, we recorded a gain on sale of loans of $415 thousand, at an average premium of 6.56%, on the sale of $6.3 million in SBA 7(a) loans, compared to no gain on SBA 7(a) loan sales in the prior quarter. In the prior quarter, we recorded a loss on sale of available-for-sale debt securities of $1.0 million in order to redeploy the proceeds into higher-yielding available-for-sale debt securities, for which there was no comparable transaction during the three months ended March 31, 2024.

Servicing and related income on loans was $73 thousand during the three months ended March 31, 2024, compared to $17 thousand for prior quarter. The $56 thousand increase was primarily due to higher net servicing fee income for the current quarter. Net servicing fee income was lower in the prior quarter due to a higher accelerated amortization from loan payoffs.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Total noninterest income during the three months ended March 31, 2024 was $1.4 million, a decrease of $157 thousand compared to total noninterest income of $1.6 million for the same 2023 period. The decrease was due primarily to lower gain on sale of loans, partially offset by higher deposit-related fees, and higher other charges and fees.

Gain on sale of loans was $415 thousand during the three months ended March 31, 2024, compared to a gain of $808 thousand for the same 2023 period. The $393 thousand decrease was primarily due to lower average premium on sales of SBA 7(a) loans during the three months ended March 31, 2024. There were six SBA 7(a) loan sales during the three months ended March 31, 2024, compared to seven SBA loans sold with a net carrying value of $9.9 million, resulting in a gain of $797 thousand, at an average premium of 8.04% and one non-SBA loan with a net carrying value of $39 thousand, resulting in a gain of $11 thousand during the three months ended March 31, 2023.

Service charges and fees on deposit accounts was $362 thousand, an increase of $100 thousand, compared to $262 thousand for the same 2023 period. The increase was primarily due to higher analysis charges for certain deposit accounts.

Other charges and fees during the three months ended March 31, 2024 was $139 thousand, an increase of $114 thousand compared to $25 thousand for the same 2023 period. The increase was due primarily to a higher OREO income in the current quarter. There was no OREO income for the same 2023 period.

Noninterest Expense

The following table sets forth the various components of our noninterest expense for the periods indicated:

	Three months ended		
(dollars in thousands)	**March 31, 2024**	**December 31, 2023**	**March 31, 2023**
Salaries and employee benefits	$ 9,610	$ 9,598	$ 10,241
Occupancy and equipment	1,452	1,678	1,447
Data processing and communications	1,150	1,158	1,056
Legal, audit and professional	516	1,161	785
Regulatory assessments	387	320	452
Director and shareholder expenses	203	207	213
Merger and related expenses	549	—	—
Core deposit intangible amortization	65	80	91
Other expenses	1,049	1,137	734
Total noninterest expense	$ 14,981	$ 15,339	$ 15,019

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

Total noninterest expense during the three months ended March 31, 2024 was $15.0 million, a decrease of $358 thousand compared with total noninterest expense of $15.3 million in the prior quarter. The decrease was primarily due to decreases in occupancy and equipment expenses, legal, audit and professional fees, and other expenses, partially offset by increases in merger and related expenses of $549 thousand.

Occupancy and equipment expenses was $1.5 million during the three months ended March 31, 2024, compared to $1.7 million during the prior quarter. The $226 thousand decrease in occupancy and equipment expenses was due primarily to an impairment charge of $134 thousand related to the right-of-use asset associated with a Company lease in the prior quarter.

Legal, audit and professional expenses were $516 thousand during the three months ended March 31, 2024, compared to $1.2 million during the prior quarter. The $645 thousand decrease was due primarily to a decrease in legal and consulting expenses related to compliance projects and loan review projects incurred in the prior quarter.

Merger and related expenses were $549 thousand during the three months ended March 31, 2024 related to the recently announced merger with California BanCorp, which is expected to be completed later this year. There were no merger and related expenses in the prior quarter.

Other expenses were $1.0 million during the three months ended March 31, 2024, compared to $1.1 million in the prior quarter. The $88 thousand decrease in other expenses was primarily due to decreases in office expense, customer service related expense, and marketing, advertising and public relation expense, partially offset by an increase in loan related expense.

Our efficiency ratio for the three months ended March 31, 2024 was 68.4%, compared to 68.3% for the three months ended December 31, 2023. Excluding the merger and related expenses of $549 thousand, the efficiency ratio for the three months ended March 31, 2024 would have been 65.9%.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Total noninterest expense during the three months ended March 31, 2024 was $15.0 million, a decrease of $38 thousand compared with total noninterest expense of $15.0 million for the same 2023 period. The decrease was primarily due to decreases in salaries and employee benefits, legal, audit and professional costs, partially offset by increases in merger and related expenses, and other expenses.

Salaries and employee benefits were $9.6 million during the three months ended March 31, 2024, compared to $10.2 million for the same 2023 period. The $631 thousand decrease in salaries and benefits was due primarily to accelerated stock compensation expense related to the vesting of performance-based restricted stock units of $632 thousand recorded during the three months ended March 31, 2023. There were no accelerated stock compensation related expenses for the three months ended March 31, 2024.

Legal, audit and professional expenses were $516 thousand during the three months ended March 31, 2024, compared to $785 thousand for the same 2023 period. The $269 thousand decrease was due primarily to a decrease in legal expenses related to the higher legal expenses associated with preparation for the Company's listing to Nasdaq during the three months ended March 31, 2023.

There were $549 thousand merger and related expenses during the three months ended March 31, 2024, related to the recently announced merger with California BanCorp, which is expected to be completed later this year. There were no merger and related expenses during the three months ended March 31, 2023.

Other expenses were $1.0 million during the three months ended March 31, 2024, compared to $734 thousand for the same 2023 period. The $315 thousand increase was due primarily to the increases in loan related expenses, customer service related expenses, travel expenses and insurance expenses, partially offset by the decreases in sundry losses during the three months ended March 31, 2024.

Our efficiency ratio for the three months ended March 31, 2024 was 68.4%, compared to 56.8% for the three months ended March 31, 2023. Excluding the merger and related expenses of $549 thousand, the efficiency ratio for the three months ended March 31, 2024 would have been 65.9%.

Income Taxes

Three Months Ended March 31, 2024 Compared to Three Months Ended December 31, 2023

Income tax expense during the three months ended March 31, 2024 was $2.3 million, compared to $1.9 million in the prior quarter. The effective rate was 32.0% during the three months ended March 31, 2024, compared to 29.9% for the prior quarter. The increase in the effective tax rate between periods was primarily due to the impact of the non-tax deductible portion of the merger expenses and the vesting and exercise of equity awards combined with changes in the Company's stock price over time, and excess executive compensation.

Three Months Ended March 31, 2024 Compared to Three Months Ended March 31, 2023

Income tax expense for the three months ended March 31, 2024 was $2.3 million, compared to $3.0 million for the same 2023 period. The effective rate was 32.0% during the three months ended March 31, 2024, compared to 26.8% for the same 2023 period. The increase in the effective tax rate between periods was primarily due to the impact of the non-tax deductible portion of the merger expenses and the vesting and exercise of equity awards combined with changes in the Company's stock price over time, and excess executive compensation.

Financial Condition

Summary

Total assets at March 31, 2024 were $2.29 billion, a decrease of $70.5 million from $2.36 billion at December 31, 2023. The decrease in total assets was primarily related to a $251 thousand decrease in cash and cash equivalents, a $73.8 million decrease in loans held for investment, net (including ACL), a $4.5 million decrease in loans held for sale, a $3.2 million decrease in total debt securities, a $933 thousand decrease in deferred tax asset, and a $580 thousand decrease in right of use asset, partially offset by a $13.1 million increase in OREO, net.

Total liabilities were $2.00 billion at March 31, 2024, a decrease of $74.9 million from $2.07 billion at December 31, 2023. The decrease in total liabilities was driven by a $13.0 million decrease in total deposits, and a $677 thousand decrease in operating lease liability, coupled with a $58.0 million decrease in borrowings. Shareholders' equity was $292.5 million at March 31, 2024, an increase of $4.3 million from $288.2 million at December 31, 2023. The increase in shareholders' equity was driven by $4.9 million of net income generated during the three months ended March 31, 2024, $895 thousand related to share-based compensation activity, partially offset by a $1.7 million increase in net of tax unrealized losses on available-for-sale debt securities during the period.

Debt Securities

Our debt securities portfolio consists of both held-to-maturity and available-for-sale securities aggregating $180.5 million and $183.7 million at March 31, 2024 and December 31, 2023, respectively. Our held-to-maturity debt securities and available-for-sale debt securities represented 2.34% and 5.54%, respectively, of total assets at March 31, 2024, compared to 2.27% and 5.51%, respectively, at December 31, 2023.

During the three months ended March 31, 2024, there were no transfers between held-to-maturity and available-for-sale debt securities.

At March 31, 2024 and December 31, 2023, held-to-maturity debt securities with an amortized cost of $53.5 million and $53.6 million, respectively, were pledged to the Federal Reserve Bank as collateral for a secured line of credit of $46.3 million and $47.3 million, respectively,

Held-to-Maturity Debt Securities

The amortized cost of held-to-maturity debt securities and their approximate fair values at March 31, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2024				
Taxable municipals	$ 552	$ —	$ (77)	$ 475
Tax exempt bank-qualified municipals	52,981	—	(3,931)	49,050
	$ 53,533	$ —	$ (4,008)	$ 49,525
December 31, 2023				
Taxable municipals	$ 551	$ —	$ (73)	$ 478
Tax exempt bank-qualified municipals	53,065	25	(3,136)	49,954
	$ 53,616	$ 25	$ (3,209)	$ 50,432

At March 31, 2024, we had 61 held-to-maturity debt securities in a gross unrealized loss position with an amortized cost basis of $53.5 million with pre-tax unrealized losses of $4.0 million, compared to 58 held-to-maturity debt securities with an amortized cost basis of $51.5 million with pre-tax unrealized losses of $3.2 million at December 31, 2023. The effective duration of the held-to-maturity debt securities was 6.39 years and 5.58 years at March 31, 2024 and December 31, 2023, respectively. We have the intent and ability to hold the securities classified as held to maturity until they mature, at which time we will receive full value for the securities.

All held-to-maturity debt securities were municipal securities, and historically have had limited credit loss experience. At March 31, 2024 and December 31, 2023, the total fair value of taxable municipal and tax exempt bank-qualified municipal securities were $475 thousand and $478 thousand, respectively, and $49.1 million and $50.0 million, respectively. At March 31, 2024 and December 31, 2023, the total held-to-maturity debt securities rated AA and above was $46.2 million and $47.0 million, respectively, and rated AA- was $3.3 million and $3.4 million, respectively. Accordingly, we applied a zero credit loss assumption for these securities and no allowance for credit loss was recorded as of March 31, 2024 and December 31, 2023.

Available-for-Sale Debt Securities

The amortized cost of available-for-sale debt securities and their approximate fair values at March 31, 2024 and December 31, 2023 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2024				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ 77,824	$ 162	$ (4,352)	$ 73,634
SBA securities	5,568	4	(116)	5,456
U.S. Treasury	2,746	—	(365)	2,381
U.S. Agency	2,000	—	(337)	1,663
Collateralized mortgage obligations	45,176	24	(3,606)	41,594
Taxable municipal	1,528	—	(103)	1,425
Tax exempt bank-qualified municipals	831	—	(27)	804
	$ 135,673	$ 190	$ (8,906)	$ 126,957
December 31, 2023				
U.S. government and agency and government sponsored enterprise securities:				
Mortgage-backed securities	$ 77,031	$ 631	$ (3,228)	$ 74,434
SBA securities	5,886	5	(109)	5,782
U.S. Treasury	2,760	—	(343)	2,417
U.S. Agency	2,000	—	(330)	1,670
Collateralized mortgage obligations	46,330	173	(3,002)	43,501
Taxable municipals	1,528	—	(107)	1,421
Tax exempt bank-qualified municipals	831	—	(21)	810
	$ 136,366	$ 809	$ (7,140)	$ 130,035

The estimated fair value of available-for-sale debt securities were $127.0 million at March 31, 2024, a decrease of $3.1 million, from $130.0 million at December 31, 2023. The decrease was primarily due to principal reductions and amortization of discounts and premiums aggregating to $2.7 million, and fair value market adjustments of $2.4 million, partially offset by purchases of $2.0 million.

At March 31, 2024, we had 84 available-for-sale debt securities in a gross unrealized loss position with an amortized cost basis and fair value of $123.9 million and $115.0 million, respectively, with pre-tax unrealized losses of $8.9 million, compared to 76 available-for-sale debt securities with an amortized cost basis and fair value of $100.7 million and $93.5 million, respectively with pre-tax unrealized holding losses of $7.1 million at December 31, 2023. The net of tax unrealized loss on available-for-sale debt securities is reflected in accumulated other comprehensive loss. The effective duration of this portfolio was 5.24 years and 5.13 years at March 31, 2024 and December 31, 2023, respectively. We do not have the current intent to sell these available-for-sale debt securities with a fair value below amortized cost, and it is more likely than not that we will not be required to sell such securities prior to the recovery of their amortized cost basis. The issuers of these securities have not, to our knowledge, established any cause for default on these securities. As a result, we expect to recover the entire amortized cost basis of these securities.

When market interest rates increase, bond prices tend to fall and, consequently, the fair value of our securities may also decrease. Increases in longer-term market interest rates during 2023 and into 2024 have resulted in higher net unrealized losses in our debt securities. There may be further net unrealized losses on our debt securities classified as available–for-sale, which would negatively affect our total and tangible shareholders' equity.

We determined that the increase in unrealized losses related to each available-for-sale debt securities at March 31, 2024 was primarily attributable to factors other than credit related, including general volatility in market conditions. Our available-for-sale debt securities consisted of U.S. Treasury, U.S. government and agency and government sponsored enterprise securities, and municipals which are issued, guaranteed, or supported by the U.S. government, and historically have had limited credit loss experience. In addition, we reviewed the credit rating of the municipal securities. At March 31, 2024, the total fair value of taxable municipal and tax exempt bank-qualified municipal securities was $1.4 million and $804 thousand, respectively. All of these available-for-sale debt securities rated AA and above totaled $2.2 million. At December 31, 2023, the total fair value of taxable municipal and tax exempt bank-qualified municipal securities was $1.4 million and $810 thousand, respectively. These available-for-sale debt securities rated AA and above totaled $1.4 million and rated AA+ totaled $810 thousand at December 31, 2023. Accordingly, we applied a zero credit loss assumption for these securities and no ACL was recorded as of March 31, 2024 and December 31, 2023.

The amortized cost, estimated fair value and weighted average yield of held-to-maturity and available-for-sale debt securities as of March 31, 2024 are presented below by contractual maturities. 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.

	Held-to-Maturity			Available-for-Sale		
(dollars in thousands)	**Amortized Cost**	**Estimated Fair Value**	**Weighted Average Yield (1)**	**Amortized Cost**	**Estimated Fair Value**	**Weighted Average Yield (1)**
Due in one year or less	$ —	$ —	— %	$ 520	$ 515	3.00 %
Due after one year through five years	—	—	— %	5,528	5,008	2.10 %
Due after five years through ten years	18,473	17,281	2.22 %	21,935	19,675	3.01 %
Due after ten years	35,060	32,244	2.31 %	107,690	101,759	3.80 %
	$ 53,533	$ 49,525	2.28 %	$ 135,673	$ 126,957	3.60 %

(1) Weighted average yields are computed based on the amortized cost of the individual underlying securities.

The following table presents the amortized cost and weighted average yields using amortized cost of held-to-maturity debt securities as of March 31, 2024, based on the contractual maturity dates:

	One Year of Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Held-to-maturity:										
Taxable municipals	$ —	— %	$ —	— %	$ 552	2.30 %	$ —	— %	$ 552	2.30 %
Tax exempt bank-qualified municipals	—	— %	—	— %	17,921	2.22 %	35,060	2.31 %	52,981	2.28 %
Total	$ —	— %	$ —	— %	$ 18,473	2.22 %	$ 35,060	2.31 %	$ 53,533	2.28 %

The following table presents the fair value and weighted average yields using amortized cost of available-for-sale debt securities as of March 31, 2024, based on the contractual maturity dates:

	One Year of Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Available-for-sale:										
U.S. government and agency and government sponsored enterprise securities:										
Mortgage-backed securities	$ —	— %	$ 877	1.52 %	$ 11,563	2.25 %	$ 61,194	3.90 %	$ 73,634	3.59 %
SBA securities	—	— %	446	6.57 %	4,805	5.21 %	205	6.98 %	5,456	5.39 %
U.S. Treasury	—	— %	2,381	0.95 %	—	— %	—	— %	2,381	0.95 %
U.S. Agency	—	— %	—	— %	1,663	2.05 %	—	— %	1,663	2.05 %
Collateralized mortgage obligations	—	— %	—	— %	1,234	4.49 %	40,360	3.64 %	41,594	3.66 %
Taxable municipals	515	3.00 %	500	5.24 %	410	1.72 %	—	— %	1,425	3.31 %
Tax exempt bank-qualified municipals	—	— %	804	2.28 %	—	— %	—	— %	804	2.28 %
Total	$ 515	3.00 %	$ 5,008	2.10 %	$ 19,675	3.01 %	$ 101,759	3.80 %	$ 126,957	3.60 %

Loans Held for Sale

Loans held for sale consist of SBA 7(a) loans originated and held for sale in the secondary market. At March 31, 2024, loans held for sale totaled $2.8 million, compared to $7.3 million loans held for sale at December 31, 2023. Loans held for sale at March 31, 2024 are expected to be sold in the secondary market in 2024.

During the three months ended March 31, 2024, we originated $1.8 million of SBA 7(a) loans. During the three months ended March 31, 2024, loan sales related to six SBA loans with a net carrying value of $6.3 million, resulted in a gain of $415 thousand, at an average premium of 6.56%. This compares to seven SBA loans sold with a net carrying value of $9.9 million resulting in a gain on sale of $797 thousand, at an average premium of 8.04%, and one non-SBA loan with a net carrying value of $39 thousand, resulting in a gain of $11 thousand during the three months ended March 31, 2023.

Loans Held for Investment

The composition of our loans held for investment at March 31, 2024 and December 31, 2023 was as follows:

(dollars in thousands)	**March 31, 2024**	**% of Total Loans**	**December 31, 2023**	**% of Total Loans**
Construction and land development	$ 242,098	12.9 %	$ 243,521	12.4 %
Real estate - other:				
1-4 family residential	149,361	7.9 %	143,903	7.4 %
Multifamily residential	183,846	9.8 %	221,247	11.3 %
Commercial real estate and other	1,025,381	54.4 %	1,024,243	52.3 %
Commercial and industrial	279,788	14.9 %	320,142	16.4 %
Consumer	2,808	0.1 %	4,386	0.2 %
Loans(1)	1,883,282	100.0 %	1,957,442	100.0 %
Allowance for loan losses	(22,254)		(22,569)	
Net loans	$ 1,861,028	100.0 %	$ 1,934,873	100.0 %

(1) Loans held for investment includes net unearned fees of $1.7 million and $2.3 million and net unearned discounts of $1.4 million and $1.4 million at March 31, 2024 and December 31, 2023, respectively.

Total loans held for investment were $1.88 billion, or 82.2% of total assets, at March 31, 2024, a decrease of $74.2 million from $1.96 billion, or 82.9% of total assets, at December 31, 2023. The change during the three months ended March 31, 2024, was due primarily to originations of $28.9 million and net advances of $8.0 million, offset by payoffs and transfer to OREO of $98.3 million and $13.0 million, respectively.

Loans secured by real estate, defined as construction and land development loans and real estate - other loans, decreased by $32.2 million to $1.60 billion at March 31, 2024. The decrease in loans secured by real estate was primarily driven by a $1.4 million decrease in construction and land development loans, and a $37.4 million decrease in multifamily residential loans, partially offset by a $5.5 million increase in 1-4 family residential loans, and $1.1 million increase in commercial real estate and other loans

Commercial and industrial loans were $279.8 million at March 31, 2024, a decrease of $40.4 million from $320.1 million at December 31, 2023. The decrease in commercial and industrial loans was primarily attributable to net paydowns of $4.8 million and payoffs of $39.4 million, partially offset by originations of $4.6 million.

Loan Maturities

The following table sets forth the amounts of gross loans, by maturity, at March 31, 2024:

(dollars in thousands)	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Fifteen Years	Due after Fifteen Years	Total
Construction and land development	$ 173,104	$ 63,816	$ 5,178	$ —	$ 242,098
Real estate - other:					
1-4 family residential	34,588	42,788	46,646	25,339	149,361
Multifamily residential	26,448	57,305	80,323	19,770	183,846
Commercial real estate and other	84,333	286,140	578,324	76,584	1,025,381
Commercial and industrial	135,054	95,119	49,611	4	279,788
Consumer	2,677	129	—	2	2,808
	$ 456,204	$ 545,297	$ 760,082	$ 121,699	$ 1,883,282

The following table sets forth the amounts of gross loans, due after one year, presented by fixed or floating interest rates at March 31, 2024:

(dollars in thousands)	Fixed Rate	Floating Rate	Total
Construction and land development	$ 18,448	$ 50,546	$ 68,994
Real estate - other:			
1-4 family residential	32,651	82,122	114,773
Multifamily residential	86,219	71,179	157,398
Commercial real estate and other	328,742	612,306	941,048
Commercial and industrial	64,781	79,953	144,734
Consumer	131	—	131
	$ 530,972	$ 896,106	$ 1,427,078

Loan Concentrations

Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than most residential real estate loans and consumer loans and depend on cash flows from the owner's business or the property to service the debt. Because our loan portfolio, including loans held for sale, contains a number of CRE loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our levels of nonperforming assets. Approximately 54.4% of our total loan portfolio, including loans held for sale, is comprised of commercial real estate loans as of March 31, 2024 as presented below:

(dollars in thousands)	March 31, 2024	Percentage of CRE Portfolio	Average Loan Size	Weighted Average LTV [2]
Commercial real estate loans [1]:				
Industrial	$ 294,700	28.8 %	$ 1,675	52 %
Office	177,100	17.3 %	1,789	52 %
Medical/dental office	36,000	3.5 %	1,161	48 %
Retail	127,500	12.5 %	1,250	47 %
Special purpose	123,800	12.1 %	2,427	40 %
Self storage	51,100	5.0 %	8,511	46 %

(dollars in thousands)	March 31, 2024	Percentage of CRE Portfolio	Average Loan Size	Weighted Average LTV [2]
Restaurant	35,000	3.4 %	1,458	44 %
Other	178,600	17.4 %	3,800	49 %
Total	$ 1,023,800	100.0 %	$ 1,910	49 %

1. *CRE loans include owner-occupied CRE and non-owner occupied CRE loans, but exclude farmland loans. Balance includes loans held for sale and loans held for investment.*
2. *Weighted average LTV is based on current loan balance as of March 31, 2024, and collateral value at origination or renewal.*

The following table presents the percentages of our commercial real estate loans broken out by occupancy as of March 31, 2024:

	March 31, 2024			
	Owner Occupied		Non-owner Occupied	
Commercial real estate loans [1]:	Balance	% of Total	Balance	% of Total
Industrial	$ 179,400	47.1 %	$ 115,300	17.9 %
Office	49,000	12.9 %	128,100	19.9 %
Medical/dental office	27,400	7.2 %	8,600	1.3 %
Retail	28,400	7.5 %	99,100	15.4 %
Special purpose	61,100	16.0 %	62,700	9.8 %
Self storage	—	— %	51,100	7.9 %
Restaurant	9,000	2.4 %	26,000	4.0 %
Other	26,700	6.9 %	151,900	23.8 %
Total	$ 381,000	100.0 %	$ 642,800	100.0 %

1. *CRE loans include owner-occupied CRE and non-owner occupied CRE loans, but exclude farmland loans. Balance includes loans held for sale and loans held for investment.*

With the increases in remote work over the last few years, rising interest rates and increasing vacancy rates nationwide, commercial real estate loans collateralized by office properties have unique credit risks. We attempt to reduce our credit risk within this portfolio by emphasizing loan-to-value ratios and debt service ratios. The following table presents a summary of the balances and weighted average loan-to-values of office loans and medical/dental office loans within our commercial real estate loan portfolio as of March 31, 2024:

(dollars in thousands)	March 31, 2024	Weighted Average LTV [1]
Office loans:		
Up to $500	$ 12,800	44 %
More than $500 through $2,000	57,100	50 %
More than $2,000 through $5,000	42,500	50 %
More than $5,000 through $10,000	42,200	56 %
More than $10,000 through $20,000	33,600	50 %
Greater than $20,000	24,900	55 %
Total	$ 213,100	51 %

1. *Weighted average LTV is based on current loan balance as of March 31, 2024, and collateral value at origination or renewal.*

Delinquent Loans

A summary of past due loans, loans still accruing and nonaccrual loans as of March 31, 2024 and December 31, 2023 follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Nonaccrual
March 31, 2024					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Real estate - other:					
1-4 family residential	—	—	—	—	—
Multifamily residential	—	—	—	—	6,153
Commercial real estate and other	—	—	—	—	—
Commercial and industrial	—	—	—	—	—
Consumer	—	—	—	—	—
	$ —	$ —	$ —	$ —	$ 6,153

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Nonaccrual
December 31, 2023					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Real estate - other:					
1-4 family residential	—	—	—	—	—
Multifamily residential	—	—	—	—	13,004
Commercial real estate and other	—	—	—	—	—
Commercial and industrial	19	—	—	19	—
Consumer	—	—	—	—	—
	$ 19	$ —	$ —	$ 19	$ 13,004

There were no past due loans still accruing at March 31, 2024. The $19 thousand 30-59 days past due loan was paid off during the three months ended March 31, 2024.

Total nonaccrual loans decreased during the three months ended March 31, 2024 to $6.2 million primarily due to the transfer of a nonaccrual multifamily loan with a net carrying value of $13.0 million to OREO, and the addition of a three-year multifamily bridge loan collateralized by an 8-unit multifamily apartment building located in Los Angeles, California, originated in May 2022 with an original loan-to-value of 75%, with a carrying value of $6.2 million, that was downgraded from a Pass risk rating to nonaccrual during the three months ended March 31, 2024. The property has one 10% owner and guarantor in common with the OREO multifamily property discussed later. Given the subject loan's relationship with the previously foreclosed OREO, the Company acted conservatively to downgrade the loan to nonaccrual when it was less than 90 days past due, at which time the borrower defaulted on the subject loan's collateral property taxes. A court appointed receiver was in place at the end of March 2024 and the Company is pressing forward with the foreclosure process.

The following table presents the risk categories for total loans by class of loans as of March 31, 2024 and December 31, 2023:

(dollars in thousands)	Pass	Special Mention	Substandard	Total
March 31, 2024				
Construction and land development	$ 231,580	$ 10,428	$ 90	$ 242,098
Real estate - other:				
1-4 family residential	144,596	4,765	—	149,361

(dollars in thousands)		Pass		Special Mention		Substandard		Total
Multifamily residential		177,693		—		6,153		18
Commercial real estate and other		1,012,932		12,186		263		1,02
Commercial and industrial		262,783		12,212		4,793		27
Consumer		2,808		—		—		
	$	1,832,392	$	39,591	$	11,299	$	1,88

(dollars in thousands)		Pass		Special Mention		Substandard		Total
December 31, 2023								
Construction and land development	$	243,429	$	—	$	92	$	243,521
Real estate - other:								
1-4 family residential		143,903		—		—		143,903
Multifamily residential		208,243		—		13,004		221,247
Commercial real estate and other		1,020,076		2,996		1,171		1,024,243
Commercial and industrial		314,907		—		5,235		320,142
Consumer		4,386		—		—		4,386
	$	1,934,944	$	2,996	$	19,502	$	1,957,442

Special mention loans increased by $36.6 million during the three months ended March 31, 2024 to $39.6 million at March 31, 2024 due mostly to a $10.4 million increase in special mention construction and land development loans, a $4.8 million increase in special mention 1-4 family residential loans, a $9.2 million increase in special mention commercial real estate loans, and $12.2 million increase in special mention commercial and industrial loans.

Substandard loans decreased by $8.2 million during the three months ended March 31, 2024 to $11.3 million at March 31, 2024 due mostly to the aforementioned multifamily nonaccrual loan transferred to OREO during the first quarter, and one commercial real estate loan of $906 thousand that was paid off, partially offset by a downgrade of a multifamily loan of $6.2 million.

There were no loans classified as doubtful or loss loans at March 31, 2024 and December 31, 2023.

Loan Modifications

We do not have any modifications of loans that were made to borrowers experiencing financial difficulty during the three months ended March 31, 2024 and March 31, 2023. There were no TDRs at March 31, 2024 and December 31, 2023.

Non-performing Assets

Nonperforming assets consist of loans on which we have ceased accruing interest (nonaccrual loans), OREO, and other repossessed assets owned. Nonaccrual loans consist of all loans 90 days or more past due and on loans where, in the opinion of management, there is reasonable doubt as to the collection of principal and interest.

The following table presents a summary of nonperforming assets, along with corresponding nonperforming asset ratios, as of March 31, 2024 and December 31, 2023:

(dollars in thousands)		March 31, 2024		December 31, 2023
Nonaccrual loans:				
Construction and land development	$	—	$	—
Real estate - other:				

(dollars in thousands)	March 31, 2024	December 31, 2023
1-4 family residential	—	—
Multifamily residential	6,153	13,004
Commercial real estate and other	—	—
Commercial and industrial	—	—
Consumer	—	—
Total nonaccrual loans	6,153	13,004
Loans past due over 90 days or more and still on accrual	—	—
Total nonperforming loans	6,153	13,004
Other real estate owned	13,114	—
Total nonperforming assets	$ 19,267	$ 13,004
Allowance for loan losses to total loans	1.18 %	1.15 %
Nonaccrual loans to total loans	0.33 %	0.66 %
Allowance for loan losses to nonaccrual loans	3.62x	1.74x
Nonperforming assets to total assets	0.84 %	0.55 %

At March 31, 2024, nonaccrual and nonperforming loans were $6.2 million, compared to $13.0 million at December 31, 2023. The decrease from December 31, 2023 was due primarily to the transfer of a nonaccrual loan with a net carrying value of $13.0 million to OREO, and the addition of the aforementioned multifamily loan with a carrying value of $6.2 million, that was downgraded from a Pass risk rating to nonaccrual during the three months ended March 31, 2024. We foreclosed on three multifamily properties in Santa Monica, California, and transferred them to OREO, net with their estimated fair value of $13.1 million during the three months ended March 31, 2024. At March 31, 2024, OREO, net was $13.1 million, compared to no OREO at December 31, 2023.

Allowance for Credit Losses

We adopted CECL effective January 1, 2023 using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the CECL adoption included an increase in the allowance for credit losses of $5.5 million, which included $439 thousand to establish a reserve for unfunded commitments and a $3.9 million decrease to retained earnings to reflect the cumulative effect of adoption of CECL, with the $1.6 million tax impact portion being recorded as part of the deferred tax asset on our Consolidated Balance Sheet.

Our ACL is an estimate of expected lifetime credit losses for its loans held for investment at the time of origination or acquisition and is maintained at a level deemed appropriate by management to provide for expected lifetime credit losses in the portfolio. The ACL consists of: (i) a specific allowance established for CECL on loans individually evaluated, (ii) a quantitative allowance for current expected loan losses based on the portfolio and expected economic conditions over a reasonable and supportable forecast period that reverts back to long-term trends to cover the expected life of the loan, (iii) a qualitative allowance including management judgment to capture factors and trends that are not adequately reflected in the quantitative allowance, and (iv) the ACL for off-balance sheet credit exposure for unfunded loan commitments. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. We measure the ACL using a discounted cash flow methodology, which utilizes pool-level assumptions and cash flow projections on individual loan basis, which then aggregated at the portfolio segment level and supplemented by a qualitative reserve that is applied to each portfolio segment level. Our ACL model incorporates assumptions for prepayment/curtailment rates with covering the period starting from December 2020 to estimate the ACL, probability of default (“PD”), and loss given default (“LGD”) to project each loan’s cash flow throughout its entire life cycle.

Accrued interest receivable on loans receivable, net totaled $6.3 million and $6.4 million at March 31, 2024 and December 31, 2023, respectively, and is included within accrued interest receivable and other assets in the accompanying consolidated balance sheets. Accrued interest receivable is excluded from the ACL.

The following table presents a summary of the changes in the ACL for the periods indicated:

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
(dollars in thousands)	Allowance for Loan Losses ("ALL")	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses	Allowance for Loan Losses ("ALL")	Reserve for Unfunded Loan Commitments	Total Allowance for Credit Losses
Balance, beginning of period	$ 22,569	$ 933	$ 23,502	$ 17,099	$ 1,310	$ 18,409
Adoption of ASU No. 2016-13 [1]	—	—	—	5,027	439	5,466
(Reversal of) provision for credit losses	(314)	(17)	(331)	278	(76)	202
Charge-offs	(1)	—	(1)	(27)	—	(27)
Recoveries	—	—	—	14	—	14
Net charge-offs	(1)	—	(1)	(13)	—	(13)
Balance, end of period	$ 22,254	$ 916	$ 23,170	$ 22,391	$ 1,673	$ 24,064

(1) Represents the impact of adopting ASU 2016-13, Financial Instruments - Credit Losses on January 1, 2023. As a result of adopting ASU 2016-13, our methodology to compute our ACL is based on a CECL methodology, rather than the previously applied incurred loss methodology.

The following table presents a summary of the ALL by portfolio segment, along with the corresponding percentage of each segment to total loans as of periods indicated:

	March 31, 2024		December 31, 2023	
(dollars in thousands)	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Construction and land development	$ 2,133	12.9 %	$ 2,032	12.4 %
Real estate - other:				
1-4 family residential	1,275	7.9 %	1,195	7.4 %
Multifamily residential	1,255	9.8 %	1,449	11.3 %
Commercial real estate and other	14,042	54.4 %	13,636	52.3 %
Commercial and industrial	3,538	14.9 %	4,242	16.4 %
Consumer	11	0.1 %	15	0.2 %
	$ 22,254	100.0 %	$ 22,569	100.0 %

The ALL was $22.3 million at March 31, 2024, compared to $22.6 million at December 31, 2023. The $315 thousand change in the ALL during the three months ended March 31, 2024 was driven by a number of factors, including decreases in net charge-offs, loans held for investment of $74.2 million and substandard accruing loans of $1.4 million, coupled with changes in the portfolio mix, and a change in the reasonable and supportable forecast, primarily related to the economic outlook for California and change and historical prepayment and curtailment rates analysis, partially offset by an increase in special mention loans of $36.6 million. We also updated qualitative risk factors based on the our judgment of our market area, industry or business specific data, changes in underlying loan composition of specific portfolios, trends relating to credit quality, delinquency, non-performing and adversely rated loans, model imprecision and reasonable and supportable forecasts of economic conditions that were not captured in the quantitative analysis. Management continues to monitor macroeconomic variables related to increasing interest rates, inflation and the concerns of an economic downturn, and believes it is appropriately provisioned for the current environment.

At March 31, 2024, our ratio of ALL to total loans held for investment was 1.18%, and increase from 1.15% at December 31, 2023.

We evaluated numerous key macroeconomic variables within the economic forecast scenarios from Moody's Analytics. At March 31, 2024, we used the probability-weighted two-scenario forecasts, representing a base-case scenario and one downside scenario, to estimate the ACL. The economic forecasts released by Moody's Analytics during the fourth week of March 2024. Other sources of economic forecasts and meeting minutes of the Federal Open Market Committee meeting were also considered by us when determining the scenario weighting. At March 31, 2024 as compared to December 31, 2023, the Moody's economic forecast suggested a minimal change in the interest-rate forecasts, the national unemployment rate and the national gross domestic product forecast based on the current economic data, which included the impact of the ongoing inflationary pressures throughout the U.S. economy, general uncertainty concerning future economic conditions, the potential for recessionary conditions, political uncertainty, geopolitical instability, and the financial system turmoil and related governmental and other reactions to the rising interest rate environment. The underlying assumptions in the Moody's economic forecasts supporting the baseline forecast remained consistent in the expectation that the Federal Reserve is done raising rates and will continue to reduce the Federal Reserve's balance sheet through quantitative tightening. This resulted in no change in Moody's expectation that the Federal Reserve's first rate cut would take place in the second quarter of 2024, and that a Fed funds rate of 5.25% combined with continued reductions in the Federal Reserve's balance sheet will be sufficient to slow the economy and bring inflation back to the Federal Reserve's target rate of 2% without tipping the economy into recession. Moody's expectation is for the unemployment rate to edge slightly higher, reaching 4% by the end of 2024 before peaking just above that in mid-2025. These forecasts suggested little change from the December 2023 forecasts in their national outlook. Their outlook for Gross Domestic Product ("GDP") growth rate was improved to 2.5% in 2024 and 1.5% in 2025. This is consistent with the Federal Reserve's outlook for GDP growth of 2.1% in 2024, and consistent with the Conference Board's forecast for GDP growth of 2.1% in 2024 and 1.5% in 2025.

Moody's economic forecasts for California are marginally more pessimistic than the December 2023 forecasts, especially in unemployment rate and state GDP. Moody's baseline forecast suggested unemployment rate and GDP for California will peak in the second quarter of 2024 at 5.13% and 2.53%, respectively, with those numbers dropping to 4.96% and 0.98%, respectively, in the first quarter of 2025. Moody's downside scenario suggested the unemployment of 5.90% in the second quarter of 2024, peaking at 7.39% in the first quarter of 2025, with GDP of 2.19% in the second quarter of 2024, troughing at -0.85% in the first quarter of 2025, for an average of 0.27% for the year. The pessimistic changes in key economic forecasts for California would have a negative impact to the Company ACL. During the first quarter of 2024, the Company updated its historical prepayment and curtailment rates analysis, and they increased slightly due to higher payoffs and paydowns.

During the three months ended March 31, 2024, changes in loan volume/mix and qualitative risk factors decreased the ACL by approximately $712 thousand, changes in projected loss drivers and prepayment/ curtailment rates assumptions increased the ACL by approximately $200 thousand, and changes in classified loans increased the ACL by approximately $198 thousand. Net charge-offs during the period were $1 thousand.

The ACL process involves subjective and complex judgments and is reflective of significant uncertainties that could potentially result in materially different results under different assumptions and conditions. We review the level of the allowance at least quarterly and performs a sensitivity analysis on the significant assumptions utilized in estimating the ACL for collectively evaluated loans. Applying a 100% probability weighting to the downside scenario rather than using the probability-weighted two scenario approach would result in an increase in ACL by approximately $3.4 million, or an additional 18 basis points to the ALL to total loans held for investment ratio. This sensitivity analysis and related impact on the ACL is a hypothetical analysis and is not intended to represent management's judgments or assumptions of qualitative loss factors that were utilized at March 31, 2024.

The following table presents net charge-offs, average loans and net charge-offs as a percentage of average loans for the periods indicated:

(dollars in thousands)	Three Months Ended March 31, 2024 Net (Charge-off) Recovery	Three Months Ended March 31, 2024 Average Loans	Three Months Ended March 31, 2024 (Charge-off) Recovery Ratio	Three Months Ended March 31, 2023 Net (Charge-off) Recovery	Three Months Ended March 31, 2023 Average Loans	Three Months Ended March 31, 2023 (Charge-off) Recovery Ratio
Construction and land development	$ —	$ 240,693	— %	$ —	$ 219,372	— %
Real estate - other:						
1-4 family residential	(1)	141,394	— %	(12)	137,367	(0.03) %
Multifamily residential	—	217,560	— %	—	231,923	— %
Commercial real estate and other	—	1,017,551	— %	—	986,068	— %
Commercial and industrial	—	289,574	— %	(1)	317,452	— %
Consumer	—	2,499	— %	—	2,052	— %
	$ (1)	$ 1,909,271	— %	$ (13)	$ 1,894,234	— %

Allowance for Credit Losses on Off-Balance Sheet Commitments

We also maintain a separate allowance for off-balance sheet commitments, which is included in accrued interest payable and other liabilities in our consolidated balance sheets. Management evaluates the loss exposure for off-balance sheet commitments to extend credit following the same principles used for the ACL, with consideration for experienced utilization rates on client credit lines and the inherently lower risk of unfunded loan commitments relative to disbursed commitments. The allowance for off-balance sheet commitments totaled $916 thousand and $933 thousand at March 31, 2024 and December 31, 2023, respectively. The change in the allowance for off-balance sheet commitments between periods was the result of a $17 thousand reversal of provision for credit losses on unfunded loan commitments from lower unfunded loan commitment balances at March 31, 2024. Total unfunded loan commitments decreased $22.4 million to $388.4 million at March 31, 2024, from $410.8 million at December 31, 2023.

Servicing Asset and Loan Servicing Portfolio

We sell loans in the secondary market and, for certain loans, retain the servicing responsibility. The loans serviced for others were accounted for as sales and are therefore not included in the accompanying consolidated balance sheets. We receive servicing fees ranging from 0.25% to 1.00% for the services provided over the life of the loan; the servicing asset is initially recognized at fair value based on the present value of the estimated future net servicing income, incorporating assumptions that market participants would use in their estimates of fair value. The risks inherent in the SBA servicing asset relates primarily to changes in prepayments that result from shifts in interest rates and a reduction in the estimated future cash flows. The servicing asset activity includes additions from loan sales with servicing retained and acquired servicing rights and reductions from amortization as the serviced loans are repaid and servicing fees are earned. Loans serviced for others totaled $63.6 million and $58.8 million at March 31, 2024 and December 31, 2023, respectively. This includes SBA loans serviced for others of $40.4 million at March 31, 2024 and $35.4 million at December 31, 2023 for which there was a related servicing asset of $624 thousand and $546 thousand, respectively. The fair value of the servicing asset approximated its carrying value at March 31, 2024 and December 31, 2023. Consideration for each SBA loan sale includes the cash received and the fair value of the related servicing asset. The significant assumptions used in the valuation of the SBA servicing asset at March 31, 2024 included a weighted average discount rate of 14.3% and a weighted average prepayment speed assumption of 18.9%. The significant assumptions used in the valuation of the SBA servicing asset at December 31, 2023 included a weighted average discount rate of 16.1% and a weighted average prepayment speed assumption of 19.0%.

Goodwill and Core Deposit Intangibles

Goodwill totaled $37.8 million at March 31, 2024 and December 31, 2023.

Core deposit intangibles totaled $1.1 million and $1.2 million at March 31, 2024 and December 31, 2023, respectively. The $65 thousand decrease in core deposit intangibles between periods was the result of amortization during the period. At March 31, 2024, core deposit intangibles had a weighted average remaining amortization period of 5.9 years.

Refer to Note 5 - *Goodwill and Other Intangible Assets* of the Notes to Consolidated Financial Statements included in Part I - *Financial Information* - Item 1. *Financial Statements* of this filing for more information regarding business combinations and related activity.

Deposits

The following table presents the composition of deposits, related percentage of total deposits, and spot rates, as of March 31, 2024 and December 31, 2023:

	March 31, 2024			December 31, 2023		
(dollars in thousands)	Amount	Percentage of Total Deposits	Spot Rate (1)	Amount	Percentage of Total Deposits	Spot Rate (1)
Noninterest-bearing demand	$ 651,991	33.8 %	0.0 %	$ 675,098	34.7 %	0.0 %
Interest-bearing NOW accounts (2)	358,598	18.6 %	2.4 %	381,943	19.7 %	2.1 %
Money market and savings accounts (3)	661,835	34.2 %	3.0 %	636,685	32.8 %	2.9 %
Time deposits	144,401	7.5 %	4.7 %	142,005	7.3 %	4.5 %
Broker time deposits	$ 113,719	5.9 %	5.0 %	$ 107,825	5.5 %	4.6 %
Total deposits	$ 1,930,544	100.0 %	2.1 %	$ 1,943,556	100.0 %	1.9 %

(1) Weighted average interest rates at March 31, 2024 and December 31, 2023.

(2) Included ICS products of $241.7 million and $265.8 million at March 31, 2024 and December 31, 2023, respectively.

(3) Included ICS products of $3.6 million and $8.3 million at March 31, 2024 and December 31, 2023, respectively.

We offer our depositors access to the Insured Cash Sweep ("ICS Product"), which allows us to divide customers deposits that exceed the FDIC insurance limits into smaller amounts, below the FDIC insurance limits, and place those deposits in other participating FDIC insured institutions with the convenience of managing all deposit accounts through our Bank. Our total deposits in the ICS Product decreased to $245.3 million, or 12.7% of total deposits at March 31, 2024, compared to $274.1 million, or 14.1% of total deposits at December 31, 2023.

Total deposits were $1.93 billion at March 31, 2024, a decrease of $13.0 million from $1.94 billion at December 31, 2023. The decrease in total deposits was primarily driven by a $28.7 million decrease in ICS deposits, and a $23.1 million decrease in noninterest-bearing demand deposits, partially offset by a $29.8 million increase in money market and savings accounts, excluding ICS, and a $5.9 million increase in brokered time deposits, a $701 thousand increase in interest-bearing NOW accounts, excluding ICS, and a $2.4 million increase in time deposits.

At March 31, 2024, noninterest-bearing demand deposits totaled $652.0 million and represented 33.8% of total deposits, compared to $675.1 million or 34.7% at December 31, 2023. At March 31, 2024 and December 31, 2023, total deposits exceeding FDIC deposit insured limits were $833.5 million, or 43% of total deposits and $816.6 million, or 42% of total deposits, respectively.

The following table sets forth the average balance of deposit accounts and the weighted average rates paid for the periods indicated:

	For the Three Months Ended March 31,			
	2024		2023	
(dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Noninterest-bearing demand	$ 661,265	— %	$ 915,160	— %
Interest-bearing NOW accounts	359,784	2.29 %	206,785	0.62 %
Money market and savings accounts	648,640	2.93 %	685,368	1.53 %
Time deposits	255,474	4.76 %	152,613	2.59 %
Total deposits	$ 1,925,163	2.05 %	$ 1,959,926	0.80 %

The increase in the weighted average rate on deposits was primarily due to repricing deposits in the higher interest rate environment and peer bank deposit competition during the three months ended March 31, 2024. Beginning in March 2022 through September 2023, the Federal Reserve's FOMC has raised the target Fed funds rate by 525 basis points.

The following table sets forth the maturities of time deposits at March 31, 2024:

(dollars in thousands)	Three Months of Less	Over Three Months through Six Months	Over Six Months through Twelve Months	Over Twelve Months	Total
Time deposits in amounts of $250,000 or less	$ 95,099	$ 5,855	$ 17,000	$ 14,180	$ 132,134
Time deposits in amounts over $250,000	76,912	25,060	22,237	1,777	125,986
Total time deposits	$ 172,011	$ 30,915	$ 39,237	$ 15,957	$ 258,120

Borrowings

Total borrowings decreased $58.0 million to $44.9 million at March 31, 2024 from $102.9 million at December 31, 2023. The decrease was attributable to a $58.0 million decrease in FHLB overnight borrowings (refer to Note 7 - *Borrowing Arrangements* of the Notes to Consolidated Financial Statements included in Part I - *Financial Information*, Part 1. *Financial Statements* of this filing).

A summary of outstanding borrowings, and related information, as of or for the three months ended March 31, 2024 and December 31, 2023:

(dollars in thousands)	March 31, 2024	December 31, 2023
FHLB Advances		
Outstanding balance	$ 27,000	$ 85,000
Weighted average interest rate, end of period	5.69 %	5.70 %
Average balance outstanding during the quarter	$ 50,593	$ 56,380
Weighted average interest rate during the quarter	5.63 %	5.64 %
Maximum amount outstanding at any month-end during the quarter	$ 70,000	$ 85,000
Subordinated Notes		
Outstanding balance	$ 17,889	$ 17,865
Weighted average interest rate, end of period	5.50 %	5.50 %
Average balance outstanding during the quarter [(1)]	$ 17,878	$ 17,854
Weighted average interest rate during the quarter [(2)]	6.10 %	6.02 %
Maximum amount outstanding at any month-end during the quarter	$ 17,889	$ 17,865

(1) Average balance outstanding includes average net unamortized issuance costs for the periods presented.

(2) Weighted average interest rate includes issuance costs for the periods presented.

Shareholders' Equity

Total shareholders' equity was $292.5 million at March 31, 2024, compared to $288.2 million at December 31, 2023. The $4.3 million increase between periods was primarily due to net income of $4.9 million, stock-based compensation expense of $895 thousand, the repurchase of shares in settlement of restricted stock units of $509 thousand, and increase in net of tax of unrealized losses on debt securities available-for-sale of $1.7 million.

On June 14, 2023, we announced an authorized share repurchase plan, providing for the repurchase of up to 550,000 shares of our outstanding common stock, or approximately 3% of our then outstanding shares. Repurchases under the program may occur from time to time in open market transactions, in privately negotiated transactions, or by other means in accordance with federal securities laws and other restrictions. We intend to fund its repurchases from available working capital and cash provided by operating activities. The timing of repurchases, as well as the number of shares repurchased, will depend on a variety of factors, including price; trading volume; business, economic and general market conditions; and the terms of any Rule 10b5-1 plan adopted by us. The repurchase program has no expiration date and may be suspended, modified, or terminated at any time without prior notice.

There were no shares repurchased under this share repurchase plan during the three months ended March 31, 2024.

Tangible book value per common share at March 31, 2024 was $13.69, compared with $13.56 at December 31, 2023. The $0.13 increase in tangible book value per common share during the three months ended March 31, 2024 was primarily the result of net income generated and the impact of share-based compensation expense, partially offset by other comprehensive losses related to changes in unrealized losses, net of taxes on available-for-sale securities. Tangible book value per common share is also impacted by certain other items, including amortization of intangibles, and share changes resulting from share-based compensation results.

The Bank's leverage capital ratio and total risk-based capital ratio were 12.03% and 14.12%, respectively, at March 31, 2024.

Liquidity and Market Risk Management

Liquidity

Liquidity is a measure of our ability to meet our cash flow requirements, including inflows and outflows of cash for depositors and borrowers, while at the same time meeting our operating, capital and strategic cash flow needs. Several factors influence our liquidity needs, including depositor and borrower activity, interest rate trends, changes in the economy, maturities, re-pricing and interest rate sensitivity of our debt securities, loan portfolio and deposits. We attempt to maintain a total liquidity ratio (liquid assets, including cash and due from banks, federal funds sold, fully disbursed loans held for sale, investments maturing one year or less, and available-for-sale debt securities not pledged as collateral expressed as a percentage of total deposits and short term debt) above approximately 10.0%. Our total liquidity ratios were 11.0% at March 31, 2024 and 11.1% at December 31, 2023. During the three months ended March 31, 2024, we deployed our excess liquidity into repaying a portion of the high cost FHLB overnight advances.

For additional information regarding our operating, investing, and financing cash flows, see *"Consolidated Statements of Cash Flows"* in our consolidated financial statements contained in Item I. *Financial Information*, Part 1. *Financial Statements* of this filing.

Bank of Southern California, N.A.

The Bank’s primary sources of liquidity are derived from deposits from customers, principal and interest payments on loans and debt securities, FHLB advances and other borrowings. The Bank’s primary uses of liquidity include customer withdrawals of deposits, extensions of credit to borrowers, operating expenses, and repayment of FHLB advances and other borrowings. While maturities and scheduled amortization of loans and debt securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by market interest rates, economic conditions, and competition.

At March 31, 2024, we had a secured line of credit of $499.3 million from the FHLB, of which $395.3 million was available. This secured borrowing arrangement is collateralized under a blanket lien on qualifying real estate loans and is subject to us providing adequate collateral and continued compliance with the Advances and Security Agreement and other eligibility requirements established by the FHLB. At March 31, 2024, we had pledged qualifying loans with an unpaid principal balance of $882.9 million for this line. In addition, at March 31, 2024, we used $77.0 million of our secured FHLB borrowing capacity by having the FHLB issue letters of credit to meet collateral requirements for deposits from the State of California and other public agencies. We had an overnight borrowing of $27.0 million at March 31, 2024.

At March 31, 2024, we had credit availability of $125.4 million at the Federal Reserve discount window to the extent of collateral pledged. At March 31, 2024, we had pledged our held-to-maturity debt securities with an amortized cost of $53.5 million, and qualifying loans with an unpaid principal balance of $97.8 million as collateral through the Borrower-in-Custody (“BIC”) program. We had no discount window borrowings at March 31, 2024 and December 31, 2023.

We have three overnight unsecured credit lines from correspondent banks totaling $75.0 million. The lines are subject to annual review. There were no outstanding borrowings under these lines at March 31, 2024 and December 31, 2023.

Southern California Bancorp

The primary sources of liquidity of the Company, on a stand-alone holding company basis, are derived from dividends from the Bank, borrowings, and its ability to issue debt and raise capital. The Company’s primary uses of liquidity are operating expenses and payments of interest and principal on borrowings.

On May 28, 2020, we issued $18 million of 5.50% Fixed-to-Floating Rate Subordinated Notes Due 2030 (the “Notes”). The Notes which mature March 25, 2030 accrue interest at a fixed rate of 5.50% through the fixed rate period to March 26, 2025, after which interest accrues at a floating rate of 90-day SOFR plus 350 basis points, until maturity, unless redeemed early, at our option, after the end of the fixed rate period. Issuance costs of $475 thousand were incurred and are being amortized over the first 5-year fixed term of the Notes; unamortized issuance costs at March 31, 2024 and December 31, 2023, were $111 thousand and $135 thousand, respectively. The net unamortized issuance costs are netted against the balance and recorded in the borrowings in the consolidated balance sheets. The amortization expenses are recorded in interest expense on the consolidated statements of income. At March 31, 2024, we were in compliance with all covenants and terms of the Notes.

At March 31, 2024, consolidated cash and cash equivalents totaled $86.5 million, a decrease of $251 thousand from $86.8 million at December 31, 2023. The decrease in cash and cash equivalents is the result of $8.1 million in net cash provided by operating cash flows, $62.5 million net cash provided by investing cash flows and $70.8 million of net cash flows used in financing cash flows.

Our operating cash flows are comprised of net income, adjusted for certain non-cash transactions, including but not limited to, depreciation and amortization, provision for loan losses, loans originated for sale and related gains and proceeds from sales, stock-based compensation, and amortization of net deferred loan costs and premiums. Net cash flows from operating cash flows were $8.1 million for the three months ended March 31, 2024, compared to $18.3 million for the same 2023 period. The $10.2 million decrease was primarily due to a decrease in net income generated during the three months ended March 31, 2024 and a $4.3 million decrease in net cash provided by sales of loans held for sale, net of originations.

Our investing cash flows are primarily comprised of cash inflows and outflows from our debt securities and loan portfolios, net cash used for business combinations, as applicable, and to a lesser extent, purchases of stock investments, purchases and proceeds from bank-owned life insurance, and capital expenditures. Net cash provided by investing activities was $62.5 million for the year ended March 31, 2024, compared to net cash used in investing activities $6.5 million for the same 2023 period. The $69.0 million decrease in cash provided by investing activities was primarily due to a decrease in net loan fundings of $57.5 million, and a decrease in net investment securities purchased of $11.5 million.

Our financing cash flows are primarily comprised of inflows and outflows of deposits, borrowing activity, proceeds from the issuance of common shares, and to a lesser extent, repurchases of common shares and cash flows from share-based compensation arrangements. Net cash used in financing activities was $70.8 million for the three months ended March 31, 2024, compared to net cash provided by financing activities of $3.6 million for the same 2023 period. The $74.5 million decrease in financing cash flows was primarily due to an $8.0 million increase in net repayment activity on FHLB advances, coupled with a $67.0 million net decrease in deposit cash flows.

We believe that our liquidity sources are stable and are adequate to meet our day-to-day cash flow requirements as of March 31, 2024.

Commitments and Contractual Obligations

The following table presents information regarding our outstanding commitments and contractual obligations as of March 31, 2024:

(Dollars in thousands)	**One Year of Less**	**Over One Year to Three Years**	**Over Three Years to Five Years**	**More than Five Years**	**Total**
Commitments to extend credit	$ 199,520	$ 105,603	$ 20,891	$ 58,621	$ 384,635
Letters of credit issued to customers	3,764	40	—	—	3,804
Total commitments	$ 203,284	$ 105,643	$ 20,891	$ 58,621	$ 388,439
FHLB advances	$ 27,000	$ —	$ —	$ —	$ 27,000
Subordinated notes	—	—	—	17,889	17,889
Certificates of deposit	242,163	15,761	196	—	258,120
Lease obligations	2,081	4,067	3,536	1,756	11,440
Total contractual obligations	$ 271,244	$ 19,828	$ 3,732	$ 19,645	$ 314,449

At March 31, 2024 and December 31, 2023, we also had unfunded commitments of $3.2 million and $3.2 million, respectively, for investments in other equity investments.

Capital Resources

Maintaining adequate capital is always an important objective of the Company. Abundant and high quality capital helps weather economic downturns and market volatility, protect depositors' funds, and support growth, such as expanding the operations or acquisitions. Capital is also a source of funds for loan demand and enables the Company to effectively manage its assets and liabilities. We are authorized to issue 50,000,000 shares of common stock of which 18,527,178 have been issued as of March 31, 2024. We are also authorized to issue

50,000,000 shares of preferred stock, of which none have been issued as of March 31, 2024. On June 14, 2023, we announced an authorized share repurchase plan, providing for the repurchase of up to 550,000 shares of our outstanding common stock, or approximately 3% of our then outstanding shares.

As of March 31, 2024 and December 31, 2023, we qualified for treatment under the Small Bank Holding Company Policy Statement (Regulation Y, Appendix C) and, therefore, are not subject to consolidated capital rules at the bank holding company level.

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

Banks considered to be “adequately capitalized” are required to maintain a minimum total capital ratio of 8.0%, a minimum Tier 1 capital ratio of 6.0%, a minimum common equity Tier 1 capital ratio of 4.5%, and a minimum leverage ratio of 4.0%. Banks considered to be “well capitalized” must maintain a minimum total capital ratio of 10.0%, a minimum Tier 1 capital ratio of 8.0%, a minimum common equity Tier 1 capital ratio of 6.5%, and a minimum leverage ratio of 5.0%. As of March 31, 2024 and December 31, 2023, the Bank's regulatory capital ratios exceeded the regulatory capital requirements and the Bank is considered to be “well capitalized” under the regulatory framework for prompt corrective action (PCA). There are no changes to the Bank's categories since March 31, 2024.

As of March 31, 2024 and December 31, 2023, the Bank's regulatory capital ratios exceeded the regulatory capital requirements and the Bank is considered to be “well capitalized” under the regulatory framework for prompt corrective action (PCA). There are no changes to the Bank's categories since March 31, 2024. Management believes, as of March 31, 2024 and December 31, 2023, that the Bank met all capital adequacy requirements to which it is subject.

To be categorized as well-capitalized, the Bank must maintain minimum ratios as set forth in the table below. The following table also sets forth the Bank's actual capital amounts and ratios:

			Amount of Capital Required			
	Actual		To be Adequately Capitalized		To be Well-Capitalized under PCA Provisions	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of March 31, 2024:						
Total Capital (to Risk-Weighted Assets)	$ 294,620	14.12 %	$ 166,873	8.0 %	$ 208,592	10.0 %
Tier 1 Capital (to Risk-Weighted Assets)	274,183	13.14 %	125,155	6.0 %	166,873	8.0 %
CET1 Capital (to Risk-Weighted Assets)	274,183	13.14 %	93,866	4.5 %	135,584	6.5 %
Tier 1 Capital (to Average Assets)	274,183	12.03 %	91,196	4.0 %	113,995	5.0 %
As of December 31, 2023:						
Total Capital (to Risk-Weighted Assets)	$ 289,743	13.51 %	$ 171,575	8.0 %	$ 214,469	10.0 %
Tier 1 Capital (to Risk-Weighted Assets)	270,341	12.61 %	128,681	6.0 %	171,575	8.0 %
CET1 Capital (to Risk-Weighted Assets)	270,341	12.61 %	96,511	4.5 %	139,405	6.5 %
Tier 1 Capital (to Average Assets)	270,341	11.65 %	92,818	4.0 %	116,022	5.0 %

On January 1, 2023, we adopted the current expected credit losses (“CECL”) accounting standard that requires management's estimate of credit losses over the expected contractual lives of the Company's relevant financial assets. We elected the CECL phase-in option provided by regulatory capital rules, which delays the impact of CECL on regulatory capital over a three-year transition period.

Dividend Restrictions

The primary source of funds for the Company is dividends from the Bank. Under federal law, the Bank may not declare a dividend in excess of its undivided profits and, absent the approval of the OCC, the Bank's primary banking regulator, if the total amount of dividends declared by the Bank in any calendar year exceeds the total of the Bank's retained net income of that current period, year to date, combined with its retained net income for the preceding two years. The Bank also is prohibited from declaring or paying any dividend if, after making the dividend, the Bank would be considered "undercapitalized" (as defined by reference to other OCC regulations). Federal bank regulatory agencies have authority to prohibit banking institutions from paying dividends if those agencies determine that, based on the financial condition of the bank, such payment will constitute an unsafe or unsound practice.

The Bank did not pay dividends to the Company during the three months ended March 31, 2024 and 2023.

The Federal Reserve limits the amount of dividends that bank holding companies may pay on common stock to income available over the past year, and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. Additionally, in consideration of the current financial and economic environment, the Federal Reserve has indicated that bank holding companies should carefully review their dividend policies.

During the three months ended March 31, 2024 and 2023, there were no dividends declared to shareholders by the Company.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk Management

Market risk represents the risk of loss due to changes in market values of assets and liabilities. We incur market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. Our primary market risk is interest rate risk, which is the risk of loss of net interest income or net interest margin resulting from changes in market interest rates.

Interest Rate Risk

Interest rate risk results from the following risks:

- Repricing risk — timing differences in the repricing and maturity of interest-earning assets and interest-bearing liabilities;
- Option risk — changes in the expected maturities of assets and liabilities, such as borrowers' ability to prepay loans at any time and depositors' ability to redeem certificates of deposit before maturity;
- Yield curve risk — changes in the yield curve where interest rates increase or decrease in a nonparallel fashion; and
- Basis risk — changes in spread relationships between different yield curves, such as U.S. Treasuries, U.S. Prime Rate, Constant Maturity Treasury Rates ("CMT").

Because our earnings are primarily dependent on our ability to generate net interest income, we focus on actively monitoring and managing the effects of adverse changes in interest rates on our net interest income. Our interest rate risk is overseen by our management Asset Liability Committee (“ALCO”). ALCO monitors our compliance with regulatory guidance in the formulation and implementation of our interest rate risk program. ALCO reviews the results of our interest rate risk modeling quarterly to assess whether we have appropriately measured our interest rate risk, mitigated our exposures appropriately and any residual risk is acceptable. In addition to our annual review of this policy, our Board of Directors explicitly reviews the interest rate risk policy limits at least annually.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints. Changes in interest rates may result in interest-earning assets and interest-bearing liabilities maturing or repricing at different times, on a different basis or in unequal amounts. In addition, it is not uncommon for rates on certain assets or liabilities to lag behind changes in the market rates of interest. Additionally, prepayments of loans and early withdrawals of certificates of deposit could cause interest sensitivities to vary.

Our interest rate risk exposure is measured and monitored through various risk management tools, including a simulation model that performs interest rate sensitivity analysis under multiple scenarios. The simulation model is based on the actual maturities and re-pricing characteristics of the Bank’s interest-rate sensitive assets and liabilities. The simulated interest rate scenarios include an instantaneous parallel shift in the yield curve. In order to model and evaluate interest rate risk, we use two approaches: Net Interest Income at Risk (“NII at Risk”), and Economic Value of Equity (“EVE”). Under NII at Risk, the impact on net interest income from changes in interest rates on interest-earning assets and interest-bearing liabilities is modeled over the next 12 months from immediate and sustained changes in interest rates utilizing various assumptions for assets and liabilities. EVE measures the period end market value of assets minus the market value of liabilities and the change in this value as rates change. EVE is a period end measurement.

The following table presents the projected changes in NII at Risk and EVE that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change at March 31, 2024 and December 31, 2023:

	Change in Interest Rates in Basis Points (bps)					
	Market Value of Equity			Net Interest Income (NII)		
(Dollars in thousands)	**Amount**	**Change ($)**	**Change (%)**	**Amount**	**Change ($)**	**Change (%)**
March 31, 2024						
+300bps	$ 333.2	$ 23.5	7.6 %	$ 84.4	$ 0.6	0.7 %
+200bps	328.5	18.8	6.1 %	84.8	0.9	1.1 %
+100bps	321.1	11.4	3.7 %	84.6	0.7	0.9 %
Base case	309.7			83.9		
-100bps	293.0	(16.7)	(5.4)%	80.9	(3.0)	(3.6) %
-200bps	267.7	(42.0)	(13.6)%	79.5	(4.4)	(5.2) %
December 31, 2023						
+300bps	$ 359.1	$ 37.1	11.5 %	$ 86.9	$ (0.4)	(0.4) %
+200bps	351.1	29.1	9.0 %	87.6	0.3	0.3 %
+100bps	339.5	17.5	5.4 %	87.7	0.4	0.5 %
Base case	322.0			87.3		
-100bps	295.4	(26.6)	(8.3)%	84.4	(2.9)	(3.3) %
-200bps	252.8	(69.2)	(21.5)%	83.1	(4.2)	(4.8) %

The modeled NII results at March 31, 2024 and December 31, 2023 indicate we would sustain a decrease in NII if interest rates declined due primarily to adjustable-rate loans repricing lower at a faster pace than the decline in deposit rates. In a rising rate environment at March 31, 2024, our NII results indicated there would be a modest increase in the net interest income in all scenarios, compared to an increase in the net interest income in the +100 and +200 rate shock scenarios, and a slight decrease in the net interest income in the +300 rate shock scenario at December 31, 2023. The changes in NII in a rising rate environment are primarily attributed to the adjustable-rate loans repricing higher, offset by the higher costs associated with increasing liquidity and deposit pressures in the banking industry.

The modeled EVE results at March 31, 2024 and December 31, 2023 indicate we would benefit from an increase in interest rates and would be adversely impacted by a decrease in interest rates. The results of these analyses do not contemplate all of the actions that we may undertake in response to changes in interest rates. In response to actual or anticipated changes in interest rates, we have various alternatives for managing and reducing exposure such as using FHLB Advances and/or certain derivatives such as swaps to align maturities and repricing terms, managing the percentage of fixed rate loans in our portfolio, managing the level of investments and duration of investment securities and managing our deposit relationships.

The projected changes are forecasts based on estimates of historical behavior and assumptions that may change over time and may turn out to be different. Factors affecting our estimates and assumptions include, but are not limited to, competitor behavior, economic conditions both locally and nationally, actions taken by the Federal Reserve, customer behavior and our management's responses. Changes that vary significantly from our assumptions and estimates significantly affect our earnings and EVE.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation is carried out by our management with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial

Officer concluded that the disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the Company's quarter ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are parties to various claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, even if it resolved adversely to the Company, will have a material adverse effect on the Company's consolidated financial position.

Item 1A. Risk Factors

There were no material changes to the Company's risk factors described under Item 1A. "Risk Factors" disclosed in Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 15, 2024.

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

On June 14, 2023, we announced an authorized share repurchase plan, providing for the repurchase of up to 550,000 shares of our outstanding common stock, or approximately 3% of our then outstanding shares. The repurchase program has no expiration date and may be suspended, modified, or terminated at any time without prior notice. There were no shares repurchased under this share repurchase plan during the three months ended March 31, 2024.

The following table presents information with respect to purchases made by or on behalf of us or any "affiliated purchases" (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the periods indicated:

Period	(a) Total number of shares (or units) purchased	(b) Average price paid per share (or unit)	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number of shares (or units) that may yet be purchased under the plans or programs
January 1 - 31, 2024	—	$ —	—	550,000
February 1 - 29, 2024	—	$ —	—	550,000
March 1 - 31, 2024	—	$ —	—	550,000
Total	—	$ —	—	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None of our directors or executive officers adopted or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement (as defined in Item 408(c) of Regulation S-K) during the quarter ended March 31, 2024.

Item 6. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger and Reorganization, dated as of January 30, 2024 by and between Southern California Bancorp and California BanCorp (incorporated by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K, filed on January 30, 2024)
3.1	Articles of Incorporation of Southern California Bancorp (incorporated by reference to Exhibit 3.1 to the Company’s Registration Statement on Form 10, as amended, filed on April 24, 2023)
3.2	Certificate of Amendment of Articles of Incorporation of Southern California Bancorp (incorporated by reference to Exhibit 3.2 to the Company’s Annual Report on Form 10-K for the year ending December 31, 2023)
3.3	Bylaws of Southern California Bancorp (incorporated by reference to Exhibit 3.2 to the Company’s Registration Statement on Form 10, as amended, filed on April 24, 2023)
10.1	Employment Agreement by and among David Rainer, Southern California Bancorp and Bank of Southern California, N.A. dated as of January 30, 2024(incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K, filed on January 30, 2024)
10.2	Employment Agreement by and among Steven Shelton, Southern California Bancorp and Bank of Southern California, N.A. dated as of January 30, 2024(incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed on January 30, 2024)
10.3	Termination and Waiver Agreement by and among Thomas A. Sa, Southern California Bancorp and Bank of Southern California, N.A. dated as of January 30, 2024(incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K, filed on January 30, 2024)
31.1	Rule 13a-14(a) Certification (Principal Executive Officer)
31.2	Rule 13a-14(a) Certification (Principal Financial Officer)
32	Rule 13a-14(b) and 18 U.S.C. 1350 Certification
101	The following financial statements and footnotes from the Registrant’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Changes in Shareholders’ Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

*	Indicates a management contract or compensatory plan.

SIGNATURES

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

	SOUTHERN CALIFORNIA BANCORP
Date: May 8, 2024	/s/ David I. Rainer
	David I. Rainer
	Chairman of the Board and Chief Executive Officer
	(Principal Executive Officer)
Date: May 8, 2024	/s/ Thomas Dolan
	Thomas Dolan
	Chief Financial Officer
	(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, David I. Rainer, certify that:

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

Date: May 8, 2024

/s/ David I. Rainer

David I. Rainer

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Thomas Dolan, certify that:

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

Date: May 8, 2024

/s/ Thomas Dolan

Thomas Dolan
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.0

SECTION 1350 CERTIFICATION

Each of the undersigned hereby certifies in his capacity as an officer of Southern California Bancorp (the "Company") that this Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2024 fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: May 8, 2024	/s/ David I. Rainer
	David I. Rainer
	Chairman of the Board and Chief Executive Officer
	(Principal Executive Officer)
Date: May 8, 2024	/s/ Thomas Dolan
	Thomas Dolan
	Chief Financial Officer
	(Principal Financial Officer)