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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OF 15(d)
OR THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31 , 2023

Commission File Number 001-39242

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

California	82-1751097
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $ 136.8 million on June 30, 2023 based on the closing price per common share of $15.00 on that date.

Number of shares outstanding of the registrant's common stock as of March 1, 2024: 8,413,312

Table of Contents

CALIFORNIA BANCORP
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2023

Forward Looking Statements

Certain statements contained in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include statements relating to our projected growth, anticipated future financial performance, financial condition, credit quality and management's long-term performance goals, as well as statements relating to the anticipated effects on our business, financial condition and results of operations from expected developments or events, our business, growth and strategies. These statements, which are based on certain assumptions and estimates and describe our future plans, results, strategies and expectations, can generally be identified by the use of the words and phrases "may," "will," "should," "could," "would," "goal," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target," "aim," "predict," "continue," "seek," "projection" and other variations of such words and phrases and similar expressions. With respect to any such forward-looking statements, the Company claims the protection provided for in the Private Securities Litigation Reform Act of 1995.

We have made the forward-looking statements in this 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, financial condition, results of operations and future growth prospects can be found in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this report and elsewhere in this report. These factors include, but are not limited to, the following:

- risks related to our proposed merger with Southern California Bancorp including, among others, the risks that the proposed merger may disrupt our business; the merger may make it difficult for us retain employees or customers; the completion of the merger may be delayed; we may not complete the merger and the combined company may not achieve the anticipated benefits of the merger;
- business and economic conditions nationally, regionally and in our target markets, particularly in the greater San Francisco Bay Area and other areas in which we operate;
- concentration of our loan portfolio in commercial and industrial 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 real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the concentration of our business activities within the geographic areas of Northern California;
- credit and lending risks associated with our commercial real estate, commercial and industrial, and construction and development portfolios;
- disruptions to the credit and financial markets, either nationally or globally;
- increased competition in the banking industry, nationally, regionally or locally;
- our ability to execute our business strategy to achieve profitable growth;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets;
- risks that our cost of funding could increase, in the event we are unable to continue to attract and retain stable, low-cost deposits and/or reduce our cost of deposits;
- our ability to improve our operating efficiency;
- failure to keep pace with technological change or difficulties when implementing new technologies;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;

- our ability to attract sufficient loans that meet prudent credit standards, including in our commercial and industrial and owner-occupied commercial real estate loan categories;
- 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 risks, such as credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk;
- our ability to develop new, and grow our existing, streams of noninterest income;
- our dependence on our management team and our ability to motivate and retain our management team;
- risks related to any future acquisitions, including failure to realize anticipated benefits from future acquisitions;
- system failures, data security breaches, including as a result of cyber-attacks, or failures to prevent breaches of our network security;
- data processing system failures and errors;
- our heavy reliance on communications and information systems to conduct business and reliance on third parties and 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 financial reporting controls and procedures' ability to prevent or detect all errors or fraud;
- our ability to maintain expenses in line with current projections;
- unrealized losses resulting from fluctuations in the market value of the securities held in our securities portfolio;
- the adequacy of our reserves (including the allowance for loan and lease losses and the appropriateness of our methodology for calculating such reserves);
- 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;
- interest rate changes and their impact on our financial condition and results of operations;
- the institution and outcome of litigation and other legal proceeding to which we become subject;
- changes in our accounting standards;
- 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 loan losses, 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;
- governmental monetary and fiscal policies;
- changes in the scope and cost of Federal Deposit Insurance Corporation insurance and other insurance coverage; and
- other factors and risks described under the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections herein.

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 the forward-looking statements in this Annual Report on Form 10-K. 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

Item 1. Business

Overview

California BanCorp (the “Company” or “we”) was organized in 2017 to serve as the holding company for California Bank of Commerce (the “Bank”) and is headquartered in Oakland, California. The Company commenced operation on June 30, 2017 following a reorganization transaction in which it became the Bank’s holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of the Company. As a bank holding company, the Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the “Federal Reserve”). The Company has no operations other than ownership and management of the Bank.

The Bank is a California-chartered commercial bank founded in 2007. The Bank is headquartered in Walnut Creek, California, approximately 15 miles east of Oakland, California. In addition to its headquarters, the Bank has a full service branch in California located in Contra Costa County and 4 loan production offices in California located in Alameda County, Contra Costa County, Sacramento County, and Santa Clara County. The Bank is supervised and regulated by the California Department of Financial Protection and Innovation (the “DFPI”) and the Federal Deposit Insurance Corporation (the “FDIC”).

We primarily serve business and professional corporations with a variety of business focused financial services. Some of the products and services that we offer include commercial checking, savings and money market accounts, certificates of deposit, treasury and cash management services, foreign exchange services, commercial and industrial loans, asset-based loans, loans to dental and veterinary professionals, commercial real estate loans, residential and commercial construction and development loans, online banking, and mobile banking. As of December 31, 2023, we had total consolidated assets of $1.99 billion, total gross loans of $1.56 billion, total deposits of $1.63 billion and total shareholders’ equity of $196.5 million.

Proposed Merger with Southern California Bancorp

On January 30, 2024, we entered into a merger agreement with Southern California Bancorp (“SCB”), the bank holding company for Bank of Southern California, N.A. (“BSC”). The merger agreement provides that, subject to the receipt of required regulatory and shareholders approvals and the satisfaction of other conditions, we will merge with and into SCB and the Bank will merge with and into BSC. As a result of the merger, each outstanding share of California BanCorp common stock will convert into the right to receive 1.590 shares of SCB common stock. Immediately after the merger, we expect that our shareholders will own approximately 43% of the combined company and SCB’s shareholders will own approximately 57% of the combined company. For additional information about this transaction, please see “Note 1 of the Consolidated Financial Statements – Summary of Significant Accounting Policies – Subsequent Events” included in Item 8 of this report .

Our Strategy

The Bank is a relationship-based commercial business bank focused on providing innovative products and services that are value-driven. We maintain a strong credit culture as a foundation of sound asset quality, and we embrace innovation and strive to provide the solutions our customers need and expect. We focus on creating value for the communities and clients we serve to provide exceptional return for our shareholders, and also growing relationship deposits and lending those funds to invest in and support the communities we serve, with the ultimate goal of yielding superior growth in earnings per share.

Our strategic plan includes the following measures of long-term success: (i) earnings per share growth; (ii) return on assets; (iii) return on tangible common equity; (iv) total risk-based capital ratio; (v) core deposit growth; and (vi) nonperforming assets to total assets ratio.

Our Market Area

We are headquartered in the San Francisco Bay Area in Oakland, California. The Bank maintains its headquarters in Walnut Creek, California, where it offers full banking services. We also operate loan production offices in Walnut Creek, Oakland, San Jose and Sacramento, California.

Our market areas cover primarily the greater San Francisco Bay Area and Sacramento. Our branch and loan production offices are located in three contiguous counties in the San Francisco Bay Area: Alameda, Contra Costa and Santa Clara; and Sacramento County. The economic base of this market area is heavily dependent on small and medium-sized businesses, providing us with a market rich in potential customers.

The economies of the San Francisco Bay Area are primarily driven by the technology, real estate, financial services, tourism, shipping and manufacturing industries. Sacramento is the capitol of the State of California and government-related activities are a significant portion of the region's economy. The Sacramento area also includes a number of higher education centers, including state universities and technical colleges.

Competition

The banking business is highly competitive, and we face competition in our market areas from many other local, regional, and national financial institutions. Competition among financial institutions is based on interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services rendered, the convenience of banking facilities, among other factors. We compete with commercial banks, credit unions, savings institutions, mortgage banking firms, finance companies, including "fintech" lenders, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as regional and national financial institutions that operate offices in our market areas and elsewhere. The competing major commercial banks have greater resources that may provide them a competitive advantage by enabling them to maintain numerous branch offices, mount extensive advertising campaigns and invest in new technologies, for example. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer most types of financial services, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Some of our non-banking competitors, such as fintech lenders, have fewer regulatory constraints and may have lower cost structures. In addition, some of our competitors have assets, capital and lending limits greater than that of the Bank, have greater access to capital markets and offer a broader range of products and services than the Bank. These institutions may have the ability to offer lower rates on loans and higher rates on deposits than we can offer. Some of these institutions offer services, such as international banking, which we do not directly offer, except for a limited suite of services such as international wires and currency exchange.

We compete with these institutions by focusing on our position as an independent, commercial business bank and rely upon local promotional activities, personal relationships established by our officers, directors, and employees with our customers, and specialized services tailored to meet the needs of the customers we serve. We strive to provide innovative products to our customers that are value-driven. We actively cultivate relationships with our customers that extend beyond a single loan to a full suite of products that serve the needs of our commercial customers. Our goal is to develop long-standing connections with our customers and the communities that we serve. While our position varies by market, our management believes that we can compete effectively as a result of local market knowledge, local decision making, and awareness of customer needs.

Our Business

General

We provide a range of commercial lending services, including commercial and industrial loans, commercial real estate loans, and residential and commercial construction and development loans. Our specialty commercial lending niches include dental and veterinary lending, commercial contractors, asset-based lending, commercial and residential construction and emerging businesses. Our customers are generally small to medium-sized businesses and professional firms that are located in or conduct a substantial portion of their business in our market areas. The majority of our customer-facing offices are loan production offices.

Credit Administration and Loan Review

Historically, we believe we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated.

As part of our credit administration, we document the borrower's business, purpose of the loan, our evaluation of the repayment source and the associated risks, our evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale. Our strategy for approving or disapproving loans is to follow conservative loan policies and consistent underwriting practices which include:

- maintaining close relationships among our customers and their designated banker to enable ongoing credit monitoring and loan servicing;
- granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit;
- confirming that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for our loan portfolio as a whole and for loans within each category; and
- properly documenting each loan and confirming that any insurance coverage requirements are satisfied.

For loan approvals, a loan is first recommended by a line of business manager and then is directed to the appropriate officer within credit administration for approval, subject to specified limits. This process ensures that the loan is supported by both the line of business and credit administration and allows us to respond to customer credit requests in an expeditious manner. Proposed loans above the specified limit must be approved by the Bank's board of directors.

Managing credit risk is a company-wide process. Our strategy for credit risk management includes centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our bankers. Our Chief Credit Officer provides company-wide credit oversight and periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to assist in the identification of problem assets and to confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses inherent in the loan portfolio.

Our loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower's income. Our loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate.

In addition, our loan policies provide guidelines for: personal guarantees; environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for loan losses and other matters relating to lending practices. We do not make loans to any director, executive officer of the Bank, or the related interests of each, unless the loan is approved by the full board of directors of the Bank.

Lending Limits

Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2023, the Bank's limit on aggregate secured loans-to-one-borrower was $42.1 million and unsecured loans-to-one borrower was $38.7 million. At December 31 2023, the Bank's highest aggregate balance of secured loans-to-one-borrower was $26.4 million and the highest aggregate balance of unsecured loans-to-one borrower was $19.0 million. The Bank's legal lending limit will increase or decrease as the Bank's level of capital increases or decreases. In addition, the Bank has established internal loan limits, which are lower than the legal lending limits for a California bank. Our board of directors will adjust the internal lending limit as deemed necessary to continue to mitigate risk and serve the Bank's customers. We are also able to sell participations in our larger loans to other financial institutions, which allow us to manage the risk involved in these loans and to meet the lending needs of our customers requiring extensions of credit in excess of these limits.

Commercial Loans

We have significant expertise in small to middle market commercial lending, with an emphasis on the dental and veterinary industries, contractors and emerging companies. Our success is the result of our product and market expertise, and our focus on delivering high-quality, customized and quick turnaround service for our customers due to our focus on maintaining an appropriate balance between prudent, disciplined underwriting, on the one hand, and flexibility in our decision making and responsiveness to our customers, on the other hand, which has allowed us to grow our commercial and industrial loan portfolio while maintaining asset quality. As of December 31, 2023, commercial and industrial loans made up approximately $626.6 million or 40% of our loan portfolio.

We provide a mix of variable and fixed rate commercial and industrial loans. We extend commercial business loans for working capital, accounts receivable and inventory financing and other business purposes. Generally, short-term loans have maturities ranging from 12 months to 3 years, and "term loans" have maturities ranging from 5 to 10 years. Loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Repayment of commercial loans depends substantially on the borrower's underlying business, financial condition and cash flows, as well as the sufficiency of the collateral. Compared to real estate, the collateral may be more difficult to monitor, evaluate and sell. Where the borrower is a corporation, partnership or other entity, we typically require personal guarantees from significant equity holders. Our maximum loan-to-value ratio for commercial and industrial loans is dependent on the collateral.

Asset-Based Lending (ABL) Loans

A subset of our commercial and industrial loans are structured as asset based lending ("ABL") loans, which are secured by the borrower's accounts receivable or inventory. Our ABL loans are structured as callable and cancelable transactions. The ABL loans are originated through and managed by our Business Credit division. Repayment of ABL loans depends substantially on the ability of the borrower to monetize the assets in a defined borrowing base. Generally, the borrowing base has a maximum advance rate of 80% against eligible receivables and may include a lower advance rate against inventory. Therefore, the quality and collectability of accounts receivable, concentrations among account debtors, financial strength of the account debtors, and quality and transferability of inventory can impact repayment. At December 31, 2023, ABL loans totaled approximately $35.8 million or approximately 2% of our loan portfolio.

Construction and Development Loans

We offer adjustable rate residential and commercial construction loan financing to builders and developers and to consumers who wish to build their own home. The term of construction and development loans generally is limited to 12 to 36 months. Most loans will mature and require payment in full upon the sale or refinance of the property. We believe that construction and development loans generally carry a higher degree of risk than long-term financing of stabilized, rented, and owner-occupied properties because repayment depends on the ultimate completion of the project and usually on the subsequent sale or refinance of the property. Specific risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;
- rising interest rates which may prevent sale of the property; and
- failure to sell or stabilize completed projects in a timely manner.

We attempt to reduce risk associated with construction and development loans by obtaining personal guarantees and by keeping the maximum loan-to-value ratio at or below 50%-75% depending on the project type with a maximum loan-to-cost ratio of 80%. Many of our loans will include interest reserves built into the loan commitment. Generally, for owner occupied commercial construction loans, we will require periodic cash payments for interest from the borrower’s cash flow. As of December 31 2023, construction and development loans made up approximately $44.2 million or 3% of our loan portfolio.

Real Estate Loans

A significant component of our loan portfolio is loans secured by real estate. These loans include both commercial real estate loans and other loans secured by real estate. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Fluctuations in the value of real estate and rising interest rates, as well as other factors arising after a loan has been made, could negatively affect a borrower’s cash flow, creditworthiness, and ability to repay the loan. We obtain a security interest in real estate where feasible, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. As of December 31, 2023, commercial real estate loans made up approximately $849.3 million or 54% of our loan portfolio.

Our commercial real estate loans consist primarily collateralized by industrial, office, and retail properties. These loans generally have terms of 10 years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine their business risks and credit profile. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied industrial, office, and retail buildings where the loan-to-value ratio, established by independent appraisals, generally does not exceed 70% of cost or appraised value. We also generally require that a borrower’s cash flow exceed 130% of monthly debt service obligations. In order to ensure secondary sources of payment and liquidity to support a loan request, we typically review all of the personal financial statements of the principal owners and require their personal guarantees. Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and depend on cash flows from the owner's business or the property to service the debt. Because our loan portfolio contains a number of commercial real estate 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.

Small Business Administration Loans

We offer U.S. Small Business Administration, or SBA, loans for qualifying businesses for loan amounts up to $5 million. The Bank primarily extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing or to purchase or construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for loans not secured by real estate and up to 25 years for real estate secured loans. SBA loans are fully amortizing with monthly payments of principal and interest. SBA 7(a) loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of $5 million and a maximum SBA guaranteed amount of $3.75 million.

We are generally able to sell the guaranteed portion of the SBA 7(a) loans in the secondary market at a premium, while earning servicing fee income on the sold portion over the remaining life of the loan. In addition to the interest yield earned on the unguaranteed portion of the SBA 7(a) loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA 7(a) loans that are sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied commercial real estate or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company ("CDC"). Generally, these loans are structured to give the Bank a 50% first deed of trust and the CDC a 40% second deed of trust, with the remaining 10% funded by the borrower. Interest rates for the first deed of trust loans are subject to normal bank commercial rates and terms and the second deed of trust CDC loans are fixed for the life of the loans based on certain indices.

Our SBA 7(a) loans are originated through our SBA Loan Department. The SBA Loan Department is staffed by loan officers who provide assistance to qualified businesses. The Bank is designated as an SBA Preferred Lender, whereby the SBA has delegated its authority to us to make, service and liquidate loans. This designation generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide.

As of December 31, 2023, our SBA loan portfolio totaled approximately $4.0 million or approximately 1% of our loan portfolio.

Consumer Loans

We occasionally make 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. Our installment loans typically amortize over periods up to 5 years. Although we typically require monthly payments of interest and a portion of the principal on our loan products, we 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. Also included in our consumer loan portfolio are two pools of consumer solar panel loans that were purchased in prior years. The pools consist of residential solar panel loans to consumers with an average individual term of 20 years and are primarily collateralized by the related equipment. As of December 31, 2023, consumer loans totaled approximately $35.4 million or approximately 2% of our loan portfolio.

Deposit Products

We offer a range of commercially focused deposit and treasury management services at our branch locations that are similar to those typically available in the commercial divisions of the larger regional and national banking institutions, including commercial analysis and other cash management accounts, ranging from money market accounts to long-term certificates of deposit. Transaction accounts and time deposits are tailored to and offered at rates competitive to those offered in our primary market areas. Our customers primarily include businesses, associations, organizations and governmental authorities. Our deposits are insured by the FDIC up to statutory limits.

Securities

We manage our securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Specific goals of our investment portfolio are as follows:

- provide a ready source of balance sheet liquidity, ensuring adequate availability of funds to meet fluctuations in loan demand, deposit balances and other changes in balance sheet volumes and composition;
- serve as a means for diversification of our assets with respect to credit quality, maturity and other attributes;
- serve as a tool for modifying our interest rate risk profile pursuant to our established policies; and
- provide collateral to secure local governmental agency and business deposits.

Our investment portfolio is comprised primarily of U.S. government agency securities and mortgage-backed securities issued by government-sponsored entities, though we may hold other securities, such as corporate debt securities.

Our investment policy is reviewed annually by our board of directors. The Bank's board of directors has delegated the responsibility of monitoring our investment activities to the Asset Liability Committee of the Bank's board of directors. Day-to-day activities pertaining to the securities portfolio are conducted under the supervision of our Chief Financial Officer and Chief Executive Officer. We actively monitor our investments on an ongoing basis to identify any material changes in the securities. We also review our securities for potential other-than-temporary impairment at least quarterly.

Implications of Being an Emerging Growth Company

We qualify as an emerging growth company as that term is used in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

- a requirement to have only two years of audited financial statements and only two years of related management's discussion and analysis of financial condition and results of operations;
- exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002;
- reduced disclosure about the emerging growth company's executive compensation arrangements; and
- no non-binding advisory votes on executive compensation or golden parachute arrangements.

We could remain an emerging growth company until March of 2025, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.24 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three year period. We expect to take advantage of certain of the reduced reporting and other requirements of the JOBS Act with respect to the periodic reports we will file with the SEC and proxy statements that we use to solicit proxies from our shareholders.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We plan to elect to use the extended period for compliance and, as a result, our financial statements may not be comparable to companies that comply with public company effective dates. See our discussion in "Risk Factors".

Human Capital Resources

As of December 31, 2023, we had 169 full-time equivalent employees ("FTE"). None of our employees are represented by any collective bargaining unit or is a party to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements. Our relationship banking strategy is largely dependent on the personal relationships of our employees and the quality of service they provide. We strive to attract, develop and retain employees who can further our strategic goals and build long-term shareholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees to further our growth strategy, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our needs.

General Corporate Information

Our principal executive offices are located at 1300 Clay Street, Suite 500, Oakland, California and our telephone number at that address is (510) 457-3615.

We file reports with the Securities and Exchange Commission (the "SEC"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy and information statements in connection with our shareholders' meetings. The SEC maintains a website that contains the reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of the website is www.sec.gov. Our website address is www.californiabankofcommerce.com. Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information and reports we file with the SEC and amendments to those reports, are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are electronically filed with the SEC.

Economic Conditions, Government Policies and Legislation

Our profitability, like that of most financial institutions, depends, among other things, on interest rate differentials. In general, the difference between the interest expense on interest bearing liabilities, such as deposits, borrowings, and debt, and the interest income on our interest earning assets, such as loans we extend to our customers and securities held in our investment portfolio, as well as the level of noninterest bearing deposits, have a significant impact on our profitability. Interest rates are highly sensitive to many factors that are beyond our control, such as the economy, inflation, unemployment, consumer spending, and political changes and events. The impact that future changes in domestic and foreign economic and political conditions might have on our performance cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve").

The Federal Reserve implements national monetary policies (with objectives such as curbing inflation or preventing recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the targeted federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest earning assets and paid on interest bearing liabilities. The nature and impact on the Company, and the Bank, of future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation and regulations are enacted or adopted which have the effect of increasing the cost of doing business, limiting, or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, financial holding companies, and other financial institutions and financial services providers are frequently made in the U.S. Congress, in state legislatures, and by various regulatory agencies. These proposals may result in changes in banking statutes and regulations and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase the cost of doing business, limit permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. See “Supervision and Regulation.”

Supervision and Regulation

As a financial institution, we are extensively regulated under both federal and state law. This supervisory framework could materially impact the conduct and profitability of our activities. These laws restrict permissible activities and investments and require that we comply with law relating to lending, deposit, brokerage, and fiduciary activities. They also impose capital adequacy requirements and conditions on our ability to pay dividends to our shareholders, to repurchase our stock and to receive dividends from our subsidiary bank. Banking regulation is intended to protect depositors and consumers and not our shareholders.

As a bank holding company, the Company is subject to supervision and regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”). The Company is also a bank holding company within the meaning of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the Federal Reserve and the DFPI. As a California state-chartered commercial bank the Bank is subject to supervision, periodic examination and regulation by the DFPI and the FDIC. The Company’s and the Bank’s regulators generally have broad discretion to impose restrictions and limitations on our operations. Banking regulation is intended to protect depositors and consumers and not shareholders.

The following discussion explains the major pieces of legislation and regulation affecting the banking industry and how that legislation and regulation affects our business. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws, regulations and the policies of regulatory authorities may have a material effect on the business and prospects of the Company and the Bank and may significantly affect our operations. We cannot predict the effect that fiscal or monetary policies, or new federal or state legislation or regulation may have on our future business and earnings.

Capital Adequacy

Bank holding companies and depository institutions are required to maintain minimum levels of capital and are subject to consolidated risk-based and leverage capital rules. The federal banking agencies have adopted minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital (“CET1”) and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. Financial institutions are expected to maintain a level of capital commensurate with the risk profile assigned to their assets in accordance with the guidelines.

In addition to the minimum risk-based capital and leverage ratios, bank holding companies and depository institutions must maintain a "capital conservation buffer" consisting of CET1 in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. To avoid those restrictions, the capital conservation buffer effectively increases the minimum CET1 capital, Tier 1 capital, and total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer must limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments.

As a banking organization with less than $3.0 billion in assets, the Company is exempt from the consolidated capital rules under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. The following table presents the risk-based and leverage capital requirements applicable to the Bank.

	Adequately Capitalized	Well Capitalized	Well Capitalized With Buffer
Leverage Ratio	4.00%	5.00%	5.00%
Common Equity Tier I Capital Ratio	4.50%	6.50%	7.00%
Tier I Capital Ratio	6.00%	8.00%	8.50%
Total Capital Ratio	8.00%	10.00%	10.50%

The capital rules require that goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities ("DTLs"), be deducted from CET1 capital. Additionally, deferred tax assets ("DTAs") that arise from net operating loss and tax credit carryforwards, net of associated DTLs and valuation allowances, are fully deducted from CET1 capital. However, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, along with mortgage servicing assets and "significant" (defined as greater than 10% of the issued and outstanding common stock of the unconsolidated financial institution) investments in the common stock of unconsolidated "financial institutions" are partially includible in CET1 capital, subject to deductions defined in the rules.

Federal banking regulators also consider interest rate risk (arising when the interest rate sensitivity of a bank's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in the evaluation of a bank's capital adequacy. Banks with excessive interest rate risk exposure are required to hold additional amounts of capital against their exposure to losses resulting from that risk. Through the risk-weighting of assets, the regulators also require banks to incorporate market risk components into their risk-based capital. Under these market risk requirements, capital is allocated to support the amount of market risk related to a bank's lending and trading activities.

Regulatory Enforcement Powers

If a federal banking agency determines that a bank holding company's or a bank's financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of its operations are unsatisfactory or that it or its management was in violation of any law or regulation, that agency would have the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power to enjoin any "unsafe or unsound" banking practices; to require that affirmative action be taken to correct any conditions resulting from any violation of law or unsafe or unsound practice; to issue an administrative order that can be judicially enforced; to require that it increase its capital; to restrict its growth; to assess civil monetary penalties against it or its officers or directors; to remove officers and directors; and if the federal banking agency concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate a bank's deposit insurance, which in the case of a California state chartered bank would result in revocation of its charter and require it to cease its banking operations. Under California law the DFPI has many of these same remedial powers with respect to the Bank.

Regulation of the Company

As a bank holding company, the Company is subject to supervision, regulation and examination by the Federal Reserve under the Bank Holding Company Act and the regulations of the Federal Reserve. The Company is required to file quarterly reports with the Federal Reserve and to provide additional information as the Federal Reserve may require. The Federal Reserve regularly examines the Company, may examine any of our subsidiaries and charges us for the cost of the examinations. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved in the transaction. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed above.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act of 1978, as amended, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control exists if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Under the Federal Reserve's regulations, control may be presumed to exist if a person or company acquires more than 5% but less than 25%, of any class of voting securities of a bank holding company, depending on the circumstances as set forth in the regulations, and the regulations also provide a procedure for challenging presumptions of control.

Permitted Activities. The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Gramm-Leach-Bliley Act expanded the permissible activities of a bank holding company that qualifies as a financial holding company to engage in activities that are financial in nature or incidental or complementary to financial activities. Those activities include, among others, certain insurance, advisory and securities activities. The Company has not elected to be financial holding company and we have no plans to do so.

Imposition of Liability for Undercapitalized Subsidiaries: Source of Strength. Under the Federal Deposit Insurance Act (the "FDIA") federal banking agencies are required to take "prompt corrective action" should an insured depository institution fail to meet certain capital adequacy standards. In the event an institution becomes “undercapitalized,” it must submit a capital restoration plan, which must be guaranteed by each company “having control of” the undercapitalized institution. For purposes of this statute, the Company controls the Bank. The FDIA grants greater powers to bank regulators in situations where an institution becomes “significantly” or “critically” undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed distributions, or might be required to consent to a merger or to divest the troubled institution or other affiliates. See “Regulation of the Bank — Prompt Corrective Action” below.

Federal law and Federal Reserve policy require that the Company act as a source of financial and managerial strength to the Bank, committing resources to the Bank, including at times when it may not be in a financial position to provide it. As discussed above, the Company could be required to guarantee a capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. The Bank Holding Company Act provides that, in the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Restrictions on Dividends and Stock Repurchases . The Company’s ability to pay dividends to its shareholders is limited by both general corporate law and the regulations and policies of the Federal Reserve applicable to bank holding companies. It is the Federal Reserve’s policy that a bank holding company should generally pay dividends on common stock only out of income available over the past four quarters, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition, and current Federal Reserve policy further calls for a bank holding company to consult with the Federal Reserve before repurchasing shares during a quarter in an amount that exceeds its earnings for the quarter. It is also the Federal Reserve’s policy that a bank holding company should not maintain dividend levels that undermine its ability to be a source of strength to its banking subsidiaries. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Bank holding companies must consult with the Federal Reserve before redeeming any equity or other capital instrument included in regulatory capital prior to stated maturity, if such redemption could have a material effect on the level or composition of the organization’s capital base. Bank holding companies experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the Federal Reserve before redeeming or repurchasing common stock or other regulatory capital instruments.

As a California corporation, the Company is subject to the limitations of the California Corporations Code, which allows a California corporation to distribute cash or property to shareholders, including as a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a “balance sheet” test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test. In addition, the Company may not make distributions if it is, or as a result of the distribution would be, likely to be unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature.

The primary source of capital for the Company’s payment of any dividend or its repurchase of stock is expected to be the Bank, through the payment of dividends or management fees to the Company. The ability of the Bank to pay cash dividends or fees to the Company is limited by law and regulation, as described in "*Regulation of the Bank — Dividend Restrictions Applicable to the Bank*," below.

Regulation of the Bank

The Bank is a California-chartered bank. The deposit accounts of the Bank are insured by the FDIC to the maximum extent provided under federal law. As a California-chartered bank, the Bank is subject to supervision and regulation by the DFPI, the chartering authority for California banks, and as an FDIC-insured bank that is not a member of the Federal Reserve System, the FDIC. The FDIC and DFPI regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The FDIC and the DFPI also have the power to prohibit the continuance or development of unsafe or unsound banking practices or other violations of law. The Bank is also subject to numerous state and federal statutes and regulations that affect the Bank, its business, activities, and operations.

Prompt Corrective Action

The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. For this purpose, federal banking regulations define five capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." At December 31, 2023 and 2022, the Bank's capital levels exceeded the minimum levels required to be considered "well capitalized", which means it had a common equity Tier 1 capital ratio of 6.5% or higher; a Tier I risk-based capital ratio of 8.0% or higher; a total risk-based capital ratio of 10.0% or higher; and a leverage ratio of 5.0% or higher. The following table sets forth the minimum regulatory capital levels for each category.

	Leverage Ratio	Common Equity Tier I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
Well Capitalized	5.00%	6.50%	8.00%	10.00%
Adequately Capitalized	4.00%	4.50%	6.00%	8.00%
Under Capitalized	< 4.00%	< 4.50%	< 6.00%	< 8.00%
Significantly Under Capitalized	< 3.00%	< 3.00%	< 4.00%	< 6.00%

An institution's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution's overall financial condition or prospects for other purposes. An institution may be downgraded to a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories: undercapitalized, significantly undercapitalized, and critically undercapitalized. The severity of the actions depends upon the capital category in which the institution is placed. As an institution's capital decreases, the regulators' enforcement powers become more severe.

If an institution becomes undercapitalized, it must submit a capital restoration plan. The federal banking regulators require that each company having control of the undercapitalized institution guarantee the depository institution's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The banking regulators have greater power in situations where an institution becomes significantly undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition to the federal regulatory capital requirements described above, the DFPI has authority to take possession of the business and properties of a California-chartered bank in the event that the bank's tangible shareholders' equity is less than the greater of 4% of the bank's total assets or $1.0 million.

Dividend Restrictions Applicable to the Bank

The primary source of funds for the Company is expected to be dividends from the Bank. California and federal laws and regulations limit the Bank's payment of dividends to the Company.

Under the California Financial Code, the Bank is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DFPI or the Bank's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of the Bank; or (b) the net income of the Bank for its last three fiscal years, less the amount of any distributions made during such period; (ii) with the prior approval of the DFPI, in an amount not exceeding the greatest of: (a) the retained earnings of the Bank; (b) the net income of the Bank for its last fiscal year; or (c) the net income for the Bank for its current fiscal year; and (iii) with the prior approval of the DFPI and the Bank's shareholders (i.e., the Company) in connection with a reduction of its contributed capital.

The Bank's ability to pay dividends to the Company is further limited by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a depository institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, in order to avoid restrictions on the payment of dividends under the capital rules, the Bank is generally required to maintain a capital conservation buffer of 2.5% in CET1. See "—Capital Adequacy Requirements" above.

Further, the FDIC has the authority to enjoin the Bank from engaging in any an unsafe or unsound practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice.

Branching

California law permits California banks, such as the Bank, to establish additional banking offices with notice to the DFPI. Deposit-taking banking offices must be approved by the FDIC, which considers a number of factors, including a bank's financial condition and management. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") permits insured state banks to engage in interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by a bank in such state. A bank may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

FDIC Insurance Assessments

The Bank's deposits are insured by the Deposit Insurance Fund of the FDIC up to the maximum amount permitted by law. As an FDIC insured financial institution, the Bank is subject to deposit insurance assessments as determined by the FDIC.

Under the FDIC's risk-based deposit premium assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements that measure the risk each institution poses to the Deposit Insurance Fund. As a result of the Dodd-Frank Act, the calculated assessment rate is applied to average consolidated assets less the average tangible equity of the insured depository institution during the assessment period to determine the dollar amount of the quarterly assessment. Premiums are assessed quarterly and could increase if, for example, criticized loans and leases and/or other higher risk assets increase or balance sheet liquidity decreases. In addition, the FDIC can impose special assessments in certain instances.

Concentrations in Commercial Real Estate Lending

The federal banking regulators have issued guidance to identify institutions that may be exposed to potential significant commercial real estate lending risks and may therefore warrant greater supervisory scrutiny. The guidance includes the following numerical tests:

- total reported loans for construction, land development and other land represent 100% or more of the institution's total capital, or
- total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more.

The guidance does not limit a bank's levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Banking regulators expect banks with concentrations of commercial real estate loans to maintain appropriate underwriting discipline, risk-management and capital commensurate with the level and nature of their commercial real estate risks.

Community Reinvestment Act

The Community Reinvestment Act requires that the federal banking agencies evaluate the record of each financial institution in meeting the credit needs of its local community, including low-and moderate-income neighborhoods. If the Bank fails to adequately comply with the Community Reinvestment Act, the FDIC could impose remedial requirements and limitations on the Bank. In addition, the federal banking agencies must consider an institution's Community Reinvestment Act compliance in evaluating applications for mergers, acquisitions, and to establish branches. Additionally, the Bank must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Transactions with Affiliates and Insiders

We are subject to the provisions of Regulation W promulgated by the Federal Reserve, which implements Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount and terms of the Bank's loans or extensions of credit to, investments in, or certain other transactions with the Company or any other affiliated entity. Regulation W also prohibits, among other things, a depository institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Federal law also places restrictions on the Bank's ability to extend credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act of 1970 as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Bank Secrecy Act"), which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. For example, the Bank Secrecy Act and related regulations require that the Bank report currency transactions that exceed certain thresholds and transactions determined to be suspicious, establish due diligence requirements for accounts and take certain steps to verify customer identification when accounts are opened. The Bank Secrecy Act requires financial institutions to develop and maintain a program reasonably designed to ensure and monitor compliance with its requirements, to train employees to comply with and to test the effectiveness of the program. Any failure to meet the requirements of the Bank Secrecy Act can result in the imposition of substantial penalties and in adverse regulatory enforcement action against the noncompliant bank.

The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the Bank Secrecy Act, was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for Bank Secrecy Act compliance; expands enforcement-and investigation-related authority, including increasing available sanctions for certain Bank Secrecy Act violations and instituting whistleblower incentives and protections.

Office of Foreign Assets Control Regulations and International Sanctions

The United States Treasury Department's Office of Foreign Assets Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. The Bank is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Our failure to comply with these sanctions and requirements could have serious financial, legal and reputational consequences. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Data Privacy and Cybersecurity

The Gramm-Leach-Bliley Act (the "GLBA") and the implementing regulations issued by federal regulatory agencies require financial institutions (including banks, insurance agencies, and broker/dealers) to adopt policies and procedures regarding the disclosure of nonpublic personal information about their customers to non-affiliated third parties. In general, financial institutions are required to explain to customers their policies and procedures regarding the disclosure of such nonpublic personal information and, unless otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. Specifically, the GLBA established certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Recent cyber-attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution is expected to have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution.

Consumer Laws and Regulations

The Bank is subject to consumer laws and regulations intended to protect consumers in transactions with depository institutions, as well as other laws or regulations affecting customers of financial institutions generally. These laws and regulations include, among others, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement and Procedures Act, the Fair Credit Reporting Act and the Federal Trade Commission Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans.

The Dodd-Frank Act centralized responsibility for federal consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws with the Consumer Financial Protection Bureau (the “CFPB”). Depository institutions with less than $10 billion in assets, such as the Bank, are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

Future Legislation and Regulation

Regulators have increased their focus on the regulation of the financial services industry in recent years, leading in many cases to greater uncertainty and compliance costs for regulated entities. Proposals that could substantially intensify the regulation of the financial services industry have been and may be expected to continue to be introduced in the United States Congress, in state legislatures, and by applicable regulatory authorities. These proposals may change banking statutes and regulations and our operating environment in substantial and unpredictable ways. If enacted, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of these proposals will be enacted and, if enacted, the effect that these proposals, or any implementing regulations, would have on our business, results of operations, or financial condition.

Item 1A. Risk Factors

Our business is subject to certain risks, including those described below. The following discussion addresses the most significant risks that could affect our business, financial condition, liquidity, results of operations, and capital position. If any of the events described in the following risk factors actually occurs then our business, results of operations and financial condition could be materially adversely affected. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations may be materially and adversely effected. In that event, the market price for our common stock would likely decline. More detailed information concerning these risks is contained in other sections of this report, including “Business” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Risks Related to our Proposed Merger with Southern California Bancorp

We are subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the proposed merger with SCB on our employees, customers and vendors may have an adverse effect on our business, financial condition and results of operations. These uncertainties may impair our ability to attract, retain and motivate key personnel and customers pending the consummation of the merger, because such personnel and customers may experience uncertainty about their future roles and relationships following the consummation of the merger. Additionally, these uncertainties could cause customers and others who deal with us to seek to change or terminate their business relationships with us. Competitors may target our existing employees or customers by highlighting potential uncertainties and integration difficulties that may result from the merger.

Our pursuit of the merger and the preparation for the integration may distract or burden management and internal resources. Any significant diversion of management attention away from ongoing business concerns and any difficulties encountered in the transition and integration process could have a material adverse effect on our and ultimately the combined company’s business, financial condition and results of operations.

In addition, the merger agreement restricts us and SCB from taking certain actions without the other party’s consent while the merger is pending. These restrictions could have a material adverse effect on the Company’s business, financial condition and results of operations.

It may take longer than expected to complete the merger or the merger may not be completed at all.

Before we may complete the merger, we and SCB must obtain the approvals of our shareholders, SCB must obtain approvals from bank regulatory authorities, and we and SCB must satisfy other conditions described in the merger agreement. It may take longer than expected to obtain the required approvals for and to satisfy all the conditions to the merger, and it is possible that the merger many not be completed in a timely basis or at all.

In determining whether to grant the required approvals, bank regulatory authorities consider a variety of factors, including the financial, managerial and other supervisory considerations of each party; the convenience and needs of the communities to be served and the record of the insured depository institution subsidiaries under the Community Reinvestment Act of 1977; the effectiveness of the parties in combating money laundering activities; and any significant outstanding supervisory matters. Regulatory authorities may impose conditions on the granting of such approvals. The regulatory approvals may not be received at all, may not be received in a timely fashion, or may contain conditions on the completion of the merger that are not anticipated or cannot be met.

If the merger is not completed by January 30, 2025, either we or SCB may choose to terminate the merger agreement at any time after that date, unless the party electing to terminate the merger agreement has caused the delay by breaching the merger agreement.

If the merger is not completed, our ongoing business, financial condition and results of operations may be materially adversely affected. If the merger agreement is terminated, the market price of our common stock may decline significantly, particularly to the extent that the current market price reflects a market assumption that the merger will be consummated.

In addition, we have incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement. If the merger is not completed, we will have incurred these expenses without realizing the expected benefits of the merger.

Risks Related to the Banking Business and our Strategy

We may suffer losses in our loan portfolio.

Loan defaults and losses on the loans we make are an inherent risk of the banking business. As a lender, we are exposed to the risk that our borrowers will not repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. Although we believe that our underwriting criteria are, and historically have been, appropriate for the various kinds of loans we make, we have incurred losses on loans that have met these criteria, and may experience higher than expected losses depending on economic factors and our borrowers' behavior. The risks of loan losses are exacerbated by adverse changes in economic, operating and other conditions, which are beyond our control, and may cause our actual loan losses to exceed our current allowance estimates.

We may be required to increase our allowance for credit losses, which would adversely affect our financial performance in the future.

We maintain an allowance for credit losses to provide a reserve for loan defaults and non-performance. There is no precise method of predicting credit losses. We regularly evaluate and conduct an analysis to determine the probable and estimable losses inherent in our loan and securities portfolios and the adequacy of our allowance for credit losses. This evaluation requires us to make estimates and judgments regarding the financial condition and creditworthiness of a significant number of our borrowers, the creditworthiness of the issuers of our securities, the value and sufficiency of the collateral securing our loans, economic conditions and other factors, all of which are difficult to assess and may change over time.

On January 1, 2023, in accordance with GAAP, we adopted a new accounting standard for establishing allowances for loan and lease losses referred to as the Current Expected Credit Loss ("CECL"). CECL replaces the legacy approach under GAAP, which generally considered only past events and current conditions, with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first originated or acquired. In contrast, the CECL standard requires us to record, at the time of origination, credit losses expected throughout the life of the asset portfolio on loans and held-to-maturity securities rather than recording losses when it is probable that a loss event has occurred. The CECL standard may create more volatility in the level of allowance for loan losses. If we are required to materially adjust the level of our allowance for loan losses for any reason, such an adjustment could have an adverse effect on our business, financial condition, and results of operations.

If our estimates or judgments prove to be incorrect due to circumstances outside our control, the ineffectiveness of our credit administration or for other reasons, if the assumptions and inputs underlying our CECL model change, or if the Bank's regulators come to a different conclusion regarding the adequacy of our allowance for credit losses, we could be required to increase the provisions we make for credit losses, which could reduce our income or could cause us to incur operating losses in the future. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans or the issuers of securities, identification of additional problem loans and other factors, or unanticipated credit losses results from other circumstances, both within and outside of our control. These additions may require increased provision expense, which could negatively impact our results of operations.

Our focus on lending to small to medium-sized businesses may increase our credit risk.

Most of our commercial business and commercial real estate loans are made to small to medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, and may have a heightened vulnerability to economic conditions and greater customer concentration risk. If general economic conditions in the markets in which we operate negatively impact this customer segment, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. The deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

Our business concentration in Northern California imposes risks resulting from any regional or local economic downturn affecting Northern California.

We conduct our banking operations primarily in the greater San Francisco Bay Area of Northern California and we recently expanded to Sacramento, California. As a result, a significant majority of the loans in our loan portfolios as of December 31, 2023 were secured by properties and collateral located in California. As of such date, approximately 65% of the loans in our loan portfolio were made to borrowers who primarily conduct business or live in Northern California. The balance of our other loans were made primarily to borrowers located in other areas of California and were secured by properties located in the state. This geographic concentration imposes risks from lack of geographic diversification, as adverse economic developments in Northern California, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects California or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2023, approximately 57% of our loan portfolio was comprised of commercial real estate and other loans with real estate as a primary or secondary component of collateral. This includes collateral consisting of income producing and residential construction properties, which properties tend to be more sensitive to general economic conditions and downturns in real estate markets. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in our markets could increase the credit risk associated with our loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have a material adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses, which could adversely affect our financial condition, results of operations and cash flows.

We are exposed to higher credit risk by commercial real estate, commercial and industrial and construction and development-based lending as well as relationship exposure with a number of large borrowers.

Commercial real estate, commercial and industrial and construction and land development based lending usually involve higher credit risks than 1-4 family residential real estate lending. At December 31, 2023 the following loan types accounted for the stated percentages of our loan portfolio: commercial real estate (both owner-occupied and non-owner occupied) 54%; commercial and industrial 40%; and construction and land 3%. These types of loans also involve larger loan balances to a single borrower or groups of related borrowers. These higher credit risks are further heightened when the loans are concentrated in a small number of larger borrowers leading to relationship exposure. As of December 31, 2023, we had 22 relationships with over $15 million of outstanding borrowings with us. While we are not dependent on any of these relationships and while none of these large relationships have directly impacted our allowance for loan losses, a deterioration of any of these large credits could require us to increase our allowance for loan losses or result in significant losses to us.

Non-owner occupied commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial and industrial loans and owner-occupied commercial real estate loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (i) they depreciate over time, (ii) they are difficult to appraise and liquidate, and (iii) they fluctuate in value based on the success of the business.

A subset of our commercial and industrial loans are structured as Asset Based Lending ("ABL") loans. Generally, our ABL loans are structured as callable and cancelable transactions. Generally the borrowing base has a maximum advance rate of 80% against eligible receivables and may include a lower advance rate against inventory. Repayment of ABL loans depends substantially on the ability of the borrower to monetize the assets in a defined borrowing base. Therefore, the quality and collectability of accounts receivable, concentrations among account debtors, financial strength of the account debtors, and quality and transferability of inventory can impact repayment. At December 31, 2023, ABL loans totaled approximately $35.8 million, or 2% of our loan portfolio.

Risk of loss on a construction and development loan depends largely upon whether our initial estimate of the property's value at completion of construction or development equals or exceeds the cost of the property construction or development (including interest), the availability of permanent take-out financing and the builder's ability to ultimately sell the property. During the construction or development phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Additionally, commercial real estate loans, commercial and industrial loans and construction and development loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

Banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. In recent years, commercial real estate markets have been particularly impacted by the economic disruption resulting from the COVID-19 pandemic, which has been a catalyst for the evolution of various remote work options which could impact the long-term performance of some types of office properties within our commercial real estate portfolio. The federal banking regulatory agencies have expressed concerns about weaknesses in the current commercial real estate market. Given conditions in the commercial real estate market, we face a heightened risk that some of our commercial real estate loans may be susceptible to a risk of loss. Therefore, we could experience losses or be required to raise additional capital or restrict our future growth as a result of our higher level of commercial real estate loans.

A significant percentage of our loans are attributable to a relatively small number of borrowers.

Our 10 largest borrowing relationships accounted for approximately 13% of our loans at December 31, 2023. Our largest single borrowing relationship accounted for approximately 2% of our loans at December 31, 2023. The loss of any combination of these borrowers, or a significant decline in their borrowings due to fluctuations related to their business needs, could adversely affect our results of operations if we are unable to replace their borrowings with similarly priced new loans or investments. In addition, with this concentration of credit risk among a limited number of borrowers, we may face a greater risk of material credits losses if any one or several of these borrowers fail to perform in accordance with their loans, compared to a bank with a more diversified loan portfolio.

We face strong competition from other companies that offer banking and financial services.

We conduct our banking operations primarily in Northern California. Many of our competitors offer the same, or a wider variety of, banking services within our market areas. These competitors include banks with nationwide operations, regional banks and community banks. In many instances these national and regional banks have greater resources than we do and some community banks may have stronger ties in local markets than we do, which may put us at a competitive disadvantage. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial institutions have opened production offices, or otherwise solicit deposits and loans, in our market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking clients, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition and results of operations may be adversely affected.

We follow a relationship-based operating model and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining bankers and other associates who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Furthermore, maintaining our reputation also depends on our ability to protect our brand name and associated trademarks.

However, reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our Company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including business and lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract customers and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers and communities, this risk will always be present given the nature of our business.

If our reputation is negatively affected by the actions of our employees or otherwise, our business and operating results may be materially adversely affected.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest-earning assets, such as loans and investment securities, and interest paid by us on our interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" will negatively impact our earnings. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to re-price downward while our interest-bearing liability rates could fail to decline in tandem. Such an occurrence would have a material adverse effect on our net interest income and our results of operations.

Although we believe that we have implemented effective asset and liability management strategies to mitigate the potential adverse effects of changes in interest rates on our results of operations, any substantial or unexpected change in, or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities in our portfolio are generally subject to decreases in market value when interest rates rise, as they did in 2023 and 2022. Other factors that may influence the value of securities we hold include but are not limited to rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities and instability in the credit markets. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

As a result of increases in interest rates over the last two years, the market values of previously issued government and other debt securities have declined significantly, resulting in unrealized losses in our securities portfolio. While we do not expect or intend to sell these securities, if we were required to sell these securities to meet liquidity needs, we may realize and incur significant losses.

Our deposit portfolio includes significant concentrations and a large percentage of our deposits are attributable to a relatively small number of customers.

As a commercial bank, we provide services to a number of customers whose deposit levels vary considerably. Our 10 largest depositor relationships accounted for approximately 18% of our deposits at December 31, 2023.

Our largest depositor relationship accounted for approximately 3% of our deposits at December 31, 2023. These deposits can and do fluctuate substantially. The loss of any combination of these depositors, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, could adversely affect our liquidity and require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, Federal Home Loan Bank ("FHLB") advances, the sale of loans, and other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If our customers move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Any decline in available liquidity could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain compliance with regulatory capital requirements, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to support our growth, absorb any losses and to meet our commitments and business needs. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

We may pursue acquisitions in the future, which would expose us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may pursue acquisitions of other financial institutions, bank branches and or financial services businesses in target markets. Such an acquisition strategy would involve significant risks, including our success in integrating the acquired operations, retaining key employees and customers, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits; litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards;

personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. Failure to successfully integrate the entities we acquire into our existing operations may increase our operating costs significantly and adversely affect our business and earnings.

Risks Related to Technology

System failure or breaches of our network security, including as a result of cyber-attacks or data security breaches, could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use may be vulnerable to physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes breakdowns or disruptions in our customer relationship management, general ledger, deposit, loan and other systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny for failure to comply with required information security standards, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on us.

Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure. Information security risks have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of the Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt the Bank's or our customers' or other third parties' business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

The Bank is under continuous threat of loss due to hacking and cyber-attacks especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. Attempts to breach sensitive customer data, such as account numbers and social security numbers, are less frequent but would present significant reputational, legal and/or regulatory costs to us if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. We cannot assure that we will not be the victim of successful hacking or cyberattacks in the future that could cause us to suffer material losses. The occurrence of any cyber-attack or information security breach could result in potential liability to customers, reputational damage and the disruption of our operations, and regulatory concerns, all of which could adversely affect our business, financial condition or results of operations.

We have a continuing need to stay current with technological changes to compete effectively and increase our efficiencies. We may not have the resources to implement new technology to stay current with these changes.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to provide secure electronic environments and create additional efficiencies in our operations as we continue to grow and expand our market area. In connection with implementing new technology enhancements or products in the future, we may experience certain operational challenges (e.g. human error, system error, incompatibility, etc.) which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements and have invested significantly more than us in technological improvements. As a result, they may be able to offer additional or more convenient products compared to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers, which could impair our growth and profitability.

We rely on third parties to provide key components of our business infrastructure.

We rely on third parties to provide key components for our business operations, such as data processing and storage, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. While we select these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason, or poor performance of services by a vendor, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor’s ability to serve us. Replacing these third-party vendors could create significant delays and expense that adversely affect our business and performance.

Other Risks Related to Our Operations

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended. Whether a misrepresentation is made by the applicant or another third party, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses we may suffer.

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.

A significant portion of our loan portfolio is secured by real estate. In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

We may be adversely affected by the lack of soundness of other financial institutions or market utilities.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial institutions or market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions. During 2023, the high-profile failures of several depository institutions negatively impacted customer confidence in the safety and soundness of some regional and community banks. As a result, we faced and may face that risk that some customers may prefer to maintain deposits with larger financial institutions or invest in short-term fixed income securities instead of deposits with the Bank, either of which could materially adversely impact our liquidity, cost of funding, capital, and results of operations.

We face risks related to severe weather, natural disasters and other external events that could adversely affect our business.

Our operations and our customers are primarily located in the Northern California where natural and other disasters may occur. The region is vulnerable to natural disasters, such as earthquakes, fires, droughts and floods. These types of natural catastrophic events may disrupt the local economies, our business and customers in these regions. These events could affect the stability of the Bank’s deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans and cause significant property damage, any of which could materially adversely affect our business and operating results.

There are substantial risks and uncertainties associated with the introduction or expansion of lines of business or new products and services within existing lines of business.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove attainable. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations, and financial condition.

Climate change could have a material negative impact on us and our clients.

Concerns over the long-term impacts of climate change have led to governmental efforts to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. As a result, we and our customers may face cost increases, asset value reductions and operating process changes. We could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, may not be effective in mitigating the negative impacts of new laws, changes in consumer or business behavior or other result of climate change.

Climate change presents multi-faceted risks, including operational risk from the physical effects of climate events on us, our customers and other assets; credit risk from borrowers with significant exposure to climate risk; risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, our carbon footprint, and our business relationships with clients who operate in carbon-intensive industries.

The risks associated with climate change are constantly evolving and difficult to assess, but a could have a material negative impact on our business, financial condition and results of operations.

Risks Related To Our Common Stock

Laws and regulations restrict our ability to pay dividends.

Both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends. These restrictions are described in greater detail in “Item 1 – Business—Supervision and Regulation—Regulation of the Company” and “Item 1 – Business—Supervision and Regulation—Regulation of the Bank.”

For the foreseeable future, the majority, if not all, of the Company’s revenue will be from any dividends paid to the Company by the Bank. Accordingly, our ability to pay dividends also depends on the ability of the Bank to pay dividends to the Company. Furthermore, our present and future dividend policy is subject to the discretion of our board of directors.

We cannot guarantee that the Company or the Bank will be permitted by financial condition or applicable regulatory restrictions to pay dividends or, that our board of directors will ever decide that we should pay dividends.

We have the ability to incur debt and pledge our assets, including our stock in the Bank, to secure that debt.

We have the ability to incur debt and pledge our assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of common stock. For example, interest must be paid to the lender before dividends can be paid to the shareholders, and loans must be paid off before any assets can be distributed to shareholders if we were to liquidate. Furthermore, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis even if the Bank were profitable.

Our board of directors may issue shares of preferred stock that could adversely affect the rights of our common shareholders.

Our authorized capital stock includes 10,000,000 shares of preferred stock, none of which are issued and outstanding. Our board of directors, in its sole discretion, may designate and issue one or more series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our Articles of Incorporation, our board of directors is empowered to determine:

- the designation of, and the number of, shares constituting each series of preferred stock;
- the dividend rate for each series;
- the terms and conditions of any voting, conversion and exchange rights for each series;
- the amounts payable on each series on redemption or our liquidation, dissolution or winding-up;
- the provisions of any sinking fund for the redemption or purchase of shares of any series; and
- the preferences and the relative rights among the series of preferred stock.

We could issue preferred stock with voting and conversion rights that could adversely affect the voting power of the shares of our common stock and with preferences over the common stock with respect to dividends and in liquidation.

The Company's internal controls and procedures may fail or be circumvented and the accuracy of our management's judgments and estimates about financial and accounting matters may impact operating results and financial condition.

The Company's management regularly reviews and updates its internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures, or failure to comply with regulations related to controls and procedures, could result in materially inaccurate reported financial statements and/or have a material adverse effect on the Company's business, results of operations, and financial condition. Similarly, the Company's management makes certain estimates and judgments in preparing the Company's financial statements. The quality and accuracy of those estimates and judgments will impact the Company's operating results and financial condition.

We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can take advantage of certain exemptions from various reporting requirements that are applicable to other public companies including, without limitation, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a non-binding advisory shareholder vote on executive compensation and golden parachute payments, exemption from the requirement of auditor attestation in the assessment of our internal control over financial reporting and exemption from any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit partner rotation or a supplement to the auditor's report providing additional information about our audit and the financial statements (auditor discussion and analysis). As a result of the foregoing, the information that we provide shareholders may be different than what is available with respect to other public companies.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We plan to elect to use the extended period for compliance and, as a result, our financial statements may not be comparable to companies that comply with public company effective dates.

Our securities are not FDIC insured.

Our securities, including our common stock, are not savings or deposit accounts or other obligations of the Bank, are not insured by the Deposit Insurance Fund, the FDIC or any other governmental agency and are subject to investment risk, including the possible loss of your entire investment in our stock.

Risks Related to Regulations, the Business Environment, and Our Industry

We are subject to extensive government regulation and supervision, which may interfere with our ability to conduct our business and may negatively impact our financial results.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect consumers, depositors' funds and the safety and soundness of the banking system as a whole, not our shareholders. These regulations affect the Bank's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company and/or the Bank in substantial and unpredictable ways. Such changes could subject the Company and/or the Bank to additional costs, limit the types of financial services and products the Company and/or the Bank may offer, and/or limit the pricing the Company and/or the Bank may charge on certain banking services, among other things. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings.

Our failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See "Item 1 – Business—Supervision and Regulation."

Bank regulatory agencies, including the Federal Reserve, FDIC and the DFPI, periodically conduct examinations of our business, including for compliance with laws and regulations, and could subject us to regulatory enforcement actions or other negative consequences.

Bank regulatory agencies, including the Federal Reserve, the FDIC and the DFPI, periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against a bank's officers or directors, and to remove officers and directors. The CFPB also has authority to take enforcement actions, including cease-and desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws.

If a bank regulatory agency determines that we have violated a law or engaged in an unsafe or unsound practice, we could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, memoranda of understanding and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. The Company could also be required to raise additional capital, or dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility and overall financial condition.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution's deposit insurance assessment is based on that institution's risk classification under an FDIC risk-based assessment system. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Past market developments and bank failures significantly depleted the FDIC's Deposit Insurance Fund and reduced the ratio of reserves to insured deposits. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay higher FDIC premiums. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB, the federal banking agencies and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. If our policies, procedures and systems are deemed deficient we could be subject to liability, including fines, regulatory actions and regulatory restrictions on our ability to proceed with certain aspects of our business plan or expansionary activities, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering could also have serious reputational consequences for us. See “Item 1 – Business—Supervision and Regulation—Regulation of the Company” and “Item 1 – Business—Supervision and Regulation—Regulation of the Bank.”

General Risk Factors

We depend on our executive officers and other key individuals to continue the implementation of our long-term business strategy and could be harmed by the loss of their services and our inability to make up for such loss with qualified replacements.

We believe that our continued growth and future success will depend in large part on the skills of our management team and our ability to motivate and retain these individuals and other key individuals. The loss of any of their service could reduce our ability to successfully implement our long-term business strategy, our business could suffer and the value of our common stock could be materially adversely affected. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We believe our management team possesses valuable knowledge about the banking industry and that their knowledge and relationships would be very difficult to replicate. Our success also depends on the experience of our bankers and lending officers and on their relationships with the customers and communities they serve. The loss of key personnel, or the inability to recruit and retain qualified and talented personnel in the future, could have an adverse effect on our business, financial condition or operating results.

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board (“FASB”) or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, are difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Our stock price may be volatile, which could result in losses to our investors and litigation against us.

Many factors could cause our stock price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts’ recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non-traditional competitors, news reports of trends, irrational exuberance on the part of investors, new or expected changes to federal banking regulations, our limited number of shares and shareholders, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Moreover, in the past, securities class action lawsuits have been instituted against some companies following periods of volatility in the market price of its securities. We could in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management’s attention and resources from our normal business.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Cybersecurity Risk Management and Strategy

As a financial institution, our business depends on the continuous operation of its information and data processing systems and the security of information received from customers, employees and others. We have developed and implemented a cybersecurity program intended to protect the reliability of our critical systems and the confidentiality of nonpublic information.

Our cybersecurity program is designed to assess, identify and manage the material risks from cybersecurity threats, including threats associated with third-party service providers, such as technology providers and cloud-based platforms. Our program is based on the National Institute of Standards and Technology Cybersecurity Framework (“NIST CSF”) and the guidance of banking and other regulatory agencies. As part of the program, we have adopted a cybersecurity incident response plan that includes procedures for responding to cybersecurity incidents and facilitates coordination and communication across multiple parts of our organization.

Our cybersecurity risk management process is integrated as part of our overall risk management program. Our information security professionals have primary responsibility for overall cybersecurity risk management. Our cybersecurity professionals are led by our Chief Technology Officer, who has over 30 years of experience in the information technology field, including over 20 years of experience focusing solely in the cybersecurity space. Our Chief Technology Officer, works in conjunction with the Compliance Manager, Information Security Manager/Information Security Officer and Enterprise Risk Manager to develop and maintain the cybersecurity program. In addition to our own employees, we engage third parties to provide security products and services as needed, using their technology and expertise to evaluate and enhance its cybersecurity program and to inform employees regarding evolving threats, risks and defensive measures. Generally, these third-party service providers are managed by the Information Security Manager/Officer.

We periodically review, test and assess our cybersecurity systems, using both internal resources and third-party service providers with cybersecurity expertise. We periodically (at least once per year) review and test our incident response plan through simulations and assessments.

We require periodic cybersecurity training for our employees to learn about data security, how to identify and mitigate potential cybersecurity risks and how to protect our resources and information. Members of the risk management, cybersecurity and technology teams receive specialized training about evolving cybersecurity threats and new risk mitigation and detection technologies.

We have developed processes to identify and oversee risks from cybersecurity threats associated with third-party service providers, which includes the Information Security Manager/Officer assisting with and evaluating cybersecurity readiness during vendor selection and onboarding as well as risk-based monitoring of vendors on an ongoing basis.

Cybersecurity Governance

Our Board of Directors and its Audit Committee are responsible for overseeing the cybersecurity program and policies. The Company’s management, led by the Chief Technology Officer, is responsible for designing and implementing the program. The Information Security Manager/Officer and Chief Technology Officer regularly report to the Audit Committee regarding management’s implementation of the cybersecurity program, cybersecurity risks and threats, assessments of our cybersecurity systems and the planning and status project to strength our information security. Our cybersecurity incident response plan requires that management promptly advise the Audit Committee of any material cybersecurity incident. The Chair of the Audit Committee regularly reports to the Board on cybersecurity risks and other matters reviewed by the Committee. Board members may attend Audit Committee meetings where cybersecurity issues are discussed and have access to the materials for management's Risk and Technology and Enterprise Risk Management Committee meetings.

Cybersecurity Incidents

Like many financial institutions, we have experienced cyber-based attacks and other attempts to compromise our information systems and we expect that we will continue to experience these attacks and attempts in the future. While we have not identified cybersecurity threats that have materially affected or are reasonably likely to materially affect us, like all financial institutions, we face ongoing risks from cybersecurity threats that, if realized, are reasonably likely to materially affect our business, results of operations, or financial condition. See Item 1A – Risk Factors – "Risks Related to Technology—System failure or breaches of our network security, including as a result of cyber-attacks or data security breaches, could subject us to increased operating costs as well as litigation and other liabilities."

Item 2. Properties

The Company's principal executive offices are located at 1300 Clay Street, Suite 500, Oakland, California. The Bank operates a branch office in Walnut Creek, California and loan production offices in Walnut Creek, San Jose, Sacramento and Oakland. All of our offices are leased.

Item 3. Legal Proceedings

The Company is not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

The Company's common stock began trading on the NASDAQ Global Select Market under the symbol "CALB" on March 1, 2020. The closing price for our common stock on December 31, 2023 was $24.76 per share.

As of December 31, 2023, there were approximately 205 shareholders of record. This number does not include shareholders who maintain their shares in the name of brokerage firms or other financial institutions.

Dividends

We have not paid dividends in recent years. It has been our policy to retain earnings to support our future growth rather than paying dividends.

As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, the Bank, to pay cash dividends. The ability of the Bank (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines.

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to shareholder and on the Bank to pay dividends to the Company see "Item 1 — Business — Supervision and Regulation—Regulation of the Company" and "Item 1 -- Business —Supervision and Regulation—Regulation of the Bank."

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and accompanying notes presented elsewhere in this Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A "Risk Factors" and elsewhere in this Report. Please see the "Forward Looking Information" immediately preceding Part I of this Report.

Critical Accounting Policies

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

Allowance for Credit Losses ("ACL") on Loans

On January 1, 2023, the Company adopted the current expected losses accounting standard (ASC 326) ("CECL"). Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

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

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

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

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

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

Other Significant Accounting Policies

Our most significant accounting policies are described in Note 1 to our audited financial statements for the year ended December 31, 2023, included elsewhere in this Report.

Results of Operations:

<u>Overview</u>

For the years ended December 31, 2023 and 2022, net income was $21.6 million and $21.1 million, respectively. The increase of $525,000, or 2%, was primarily attributable to an increase in net interest income of $3.6 million and a decrease in the provision for credit losses of $2.5 million, partially offset by a decrease in non-interest income of $2.5 million, an increase in non-interest expense of $2.9 million and an increase in income tax expense of $187,000.

<u>Net Interest Income and Margin</u>

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

Net interest income for the year ended December 31, 2023, was $74.5 million, an increase of $3.6 million, or 5% over $70.9 million for the year ended December 31, 2022. The increase in net interest income was primarily attributable to an increase in interest income as the result of a more favorable mix of earning assets combined with higher yields on those assets.

For the year ended December 31, 2023 average total interest-earning assets were $1.90 billion compared to $1.87 billion for the year ended December 31, 2022. The yield on average earning assets increased 135 basis points to 5.75% for the year ended December 31, 2023 from 4.40% for the year ended December 31, 2022. The yield on total average gross loans in the year ended December 31, 2023 was 6.00%, representing an increase of 104 basis points compared to 4.96% for the same period one year earlier. For the year ended December 31, 2023, the yield on average investment securities increased 89 basis points to 3.79% from 2.90% for the year ended December 31, 2022.

For the year ended December 31, 2023, average loans increased $74.8 million from the year ended December 31, 2022, while average deposit balances increased $51.5 million for the same period. As a result, the average loan to deposit ratio for the year ended December 31, 2023 was 92.34% compared to 90.69% for the same period in the prior year.

Of the $74.8 million increase in average loan balances year over year, average commercial and real estate other loans increased by $47.7 million, $65.1 million, respectively, as a result of organic growth. These increases were primarily offset by a decrease in construction and land, SBA, and other loans of $4.7 million, $21.1 million, and $12.2 million, respectively.

Of the $51.5 million increase in average total deposit balances year over year, $118.7 million was attributable to an increase in time deposits, offset by a decrease in total demand deposits of $45.2 million and a decrease in money market and savings accounts of $22.0 million. The cost of interest-bearing deposits was 3.22% for the year ended December 31, 2023 compared to 0.87% for the same period one year earlier. In addition, the overall cost of average total deposit balances increased by 139 basis points to 1.86% for the year ended December 31, 2023 compared to 0.47% for the year ended December 31, 2022.

As a result, the net interest margin increased by 13 basis points to 3.92% for the year ended December 31, 2023, compared to 3.79% for the year ended December 31, 2022.

Table of Contents

The following table shows the composition of average earning assets and average funding sources, average yields and rates, and the net interest margin for the years ended December 31, 2023 and 2022.

	Twelve months ended December 31,					
	2023			2022		
(Dollars in thousands)	Average Balance	Yields or Rates	Interest Income/ Expense	Average Balance	Yields or Rates	Interest Income/ Expense
ASSETS						
Interest earning assets:						
Loans (1)	$1,570,810	6.00%	$ 94,275	$1,495,981	4.96%	$74,240
Federal funds sold	178,540	5.15%	9,198	220,084	1.60%	3,519
Investment securities	151,328	3.79%	5,737	155,748	2.90%	4,519
Total interest earning assets	1,900,678	5.75%	109,210	1,871,813	4.40%	82,278
Noninterest-earning assets:						
Cash and due from banks	19,500			19,838		
All other assets (2)	63,786			61,517		
TOTAL	$1,983,964			$1,953,168		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Demand	$ 30,436	0.21%	64	$ 40,054	0.08%	31
Money market and savings	629,419	2.63%	16,529	651,429	0.70%	4,544
Time	324,439	4.66%	15,117	205,681	1.57%	3,235
Other	67,984	4.33%	2,945	121,464	2.88%	3,496
Total interest-bearing liabilities	1,052,278	3.29%	34,655	1,018,628	1.11%	11,306
Noninterest-bearing liabilities:						
Demand deposits	716,752			752,348		
Accrued expenses and other liabilities	28,920			21,256		
Shareholders' equity	186,014			160,936		
TOTAL	$1,983,964			$1,953,168		
Net interest income and margin (3)		3.92%	$ 74,555		3.79%	$70,972

(1) Nonperforming loans are included in average loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of net deferred loan (costs) fees of $(535,000) and $1.5 million, respectively.
(2) Other noninterest-earning assets includes the allowance for loan losses of $16.0 million and $15.4 million, respectively.
(3) Net interest margin is net interest income divided by total interest-earning assets.

The following table shows the effect of the interest differential of volume and rate changes for the years ended December 31, 2023 and 2022. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

	For the Years Ended December 31, 2023 vs. 2022		
	Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Average Volume	Average Rate	Net Change
Interest income:			
Loans	$ 4,491	$15,544	$20,035
Federal funds sold	(2,140)	7,819	5,679
Investment securities	(168)	1,386	1,218
Interest expense:			
Deposits			
Demand	(20)	53	33
Money market and savings	(578)	12,563	11,985
Time	5,533	6,349	11,882
Borrowings	(2,317)	1,766	(551)
Net interest income	$ (435)	$ 4,018	$ 3,583

Interest Income

Interest income increased by $26.9 million in for the year ended December 31, 2023 compared to the same period of 2022 as a result of a more favorable mix of average earning assets combined with a rising rate environment. The increase in interest earned on our loan portfolio of $20.0 million for year ended December 31, 2023 compared to the same period of 2022 was comprised of $4.5 million attributable to an approximate $74.8 million increase in average loans outstanding and $15.5 million attributable to the increase in the yield earned on loans to 6.00% from 4.96%.

Interest Expense

Interest expense increased by $23.3 million during the year ended December 31, 2023 compared to the same period of 2022, primarily due to a rising rate environment. The average rate paid on interest-bearing liabilities for the year ended December 31, 2023 compared to the same period one year earlier increased 218 basis points to 3.29% from 1.11%.

Provision for Credit Losses

The provision for credit losses of $1.3 million for the year ended December 31, 2023 was comprised of $1.0 million pertaining to the ACL on loans and $340,000 pertaining to the ACL for unfunded loan commitments, partially offset by a release of reserves pertaining to the ACL for held to maturity securities of $55,000.

The provision for credit losses on loans of $1.0 million for the year ended December 31, 2023 compared to a provision for loan losses of $3.8 million for the same period in the prior year. The Company had net loan charge-offs of $149,000 and $851,000 during the years ended December 31, 2023 and 2022, respectively. The allowance for credit losses on loans as a percentage of outstanding loans was 1.03% at December 31, 2023 and 1.07% at December 31, 2022. On January 1, 2023, the Company adopted the current expected losses (CECL) accounting standard (ASC 326). The Company's allowance for credit losses on loans was 0.95% upon adoption of the standard on January 1, 2023.

Table of Contents

Non-interest Income

The following table reflects the major components of the Company's non-interest income for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	For the Years Ended December 31, 2023	2022	Increase (Decrease) Amount	Percent
Service charges and other fees	$ 3,788	$ 4,913	$(1,125)	-23%
Gain on sale of SBA loans	—	1,393	(1,393)	-100%
Earnings on BOLI	705	665	40	6%
Other	382	403	(21)	-5%
Total non-interest income	$ 4,875	$ 7,374	$(2,499)	-34%

Non-interest income decreased by $2.5 million or 34% for the year ended December 31, 2023 compared to the same period of 2022. The decrease in non-interest income from prior year was the result of a decrease in service charges and loan related fees combined with a $1.4 million gain recognized in the first quarter of 2022 on the sale of a portion of our solar loan portfolio.

Non-interest Expense

The following table reflects the major components of the Company's non-interest expense for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	For the Years Ended December 31, 2023	2022	Increase (Decrease) Amount	Percent
Salaries and benefits	$32,394	$29,097	$ 3,297	11%
Premises and equipment	5,057	5,093	(36)	-1%
Professional fees	1,759	2,179	(420)	-19%
Data processing	2,184	2,647	(463)	-17%
Other	6,121	5,649	472	8%
Total non-interest expense	$47,515	$44,665	$ 2,850	6%

During the year ended December 31, 2023, non-interest expenses increased by $2.9 million or 6% to $47.5 million compared to $44.6 million in the same period of 2022. Excluding the capitalized loan origination costs that are included in salaries and benefits, non-interest expense was $50.4 million for the twelve months ended December 31, 2023 and $48.8 million for the same period in 2022, representing an increase of $1.6 million, or 3%.

Salaries and benefits for the twelve months ended December 31, 2023 were $32.4 million, representing an increase of $3.3 million, or 11%, compared to $29.1 million for the twelve months ended December 31, 2022. The increase in salaries and benefits expense was primarily due to investments to support the continued growth of the business combined with a reduction in capitalized loan origination costs.

For the years ended December 31, 2023 and 2022, the Company's efficiency ratio, the ratio of non-interest expense to revenues, was 59.82% and 57.01%, respectively.

Provision for Income Taxes

Income tax expense was $9.0 million for the year ended December 31, 2023 compared to $8.8 million for the same period one year earlier. The effective tax rates for those time periods were 29.3% and 29.4%, respectively.

Financial Condition:

Overview

Total assets of the Company were $1.99 billion as of December 31, 2023 compared to $2.04 billion as of December 31, 2022. The decrease in total assets was primarily due to conservative new loan production during 2023 and decreased liquidity as a result of a reduction in total deposits, partially offset by an increase in short-term borrowings.

Loan Portfolio

Our loan portfolio consists almost entirely of loans to customers who have a full banking relationship with us. Gross loan balances decreased by $33.9 million, or 2%, from December 31, 2022 to December 31, 2023 primarily due to the result of construction and land loans decreasing by $19.5 million, or 31%, due to the completion of a large construction project, combined with conservative new loan production.

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

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

	December 31,	
(Dollars in thousands)	2023	2022
Commercial and industrial	$ 626,615	$ 634,535
Real estate - other	849,306	848,241
Real estate - construction and land	44,186	63,730
SBA	4,032	7,220
Other	35,394	39,695
Total loans, gross	1,559,533	1,593,421
Deferred loan origination costs, net	1,107	2,040
Allowance for credit losses	(16,028)	(17,005)
Total loans, net	$1,544,612	$1,578,456
Commercial and industrial	40%	40%
Real estate - other	54%	53%
Real estate - construction and land	3%	4%
SBA	1%	1%
Other	2%	2%
Total loans, gross	100%	100%

Table of Contents

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

(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years But Less Than Fifteen Years	Over Fifteen Years	Total
Commercial and industrial	$203,532	$313,967	$ 109,116	$ —	$ 626,615
Real estate - other	44,623	487,966	305,325	11,392	849,306
Real estate - construction and land	40,586	2,580	1,020	—	44,186
SBA	71	835	2,316	810	4,032
Other	408	1,658	—	33,328	35,394
Total loans, gross	$289,220	$807,006	$ 417,777	$45,530	$1,559,533

(Dollars in thousands)	Loans With		Total
	Fixed Rates (1)	Variable Rates	
Commercial and industrial	$158,257	$468,358	$ 626,615
Real estate - other	579,017	270,289	849,306
Real estate - construction and land	3,556	40,630	44,186
SBA	16	4,016	4,032
Other	34,966	428	35,394
Total loans, gross	$775,812	$783,721	$1,559,533

(1) Excludes variable rate loans on floors

Nonperforming Assets

Nonperforming assets are comprised of loans on nonaccrual status, loans 90 days or more past due and still accruing interest, and other real estate owned. We had no other real estate owned at December 31, 2023. A loan is placed on nonaccrual status if there is concern that principal and interest may not be fully collected or if the loan has been past due for a period of 90 days or more, unless the obligation is both well secured and in process of legal collection. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are returned to accrual status when they are brought current with respect to principal and interest payments and future payments are reasonably assured.

Table of Contents

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

(Dollars in thousands)	December 31, 2023	December 31, 2022
Nonaccrual loans	$ 3,781	$ 1,250
Loans over 90 days past due and still accruing	—	—
Total nonperforming loans	3,781	1,250
Foreclosed assets	—	—
Total nonperforming assets	$ 3,781	$ 1,250
Modified loans	$ 9,737	$ —
Nonperforming loans / gross loans	0.24%	0.08%
Allowance for credit losses on loans / nonperforming loans	423.91%	1360.40%

Allowance for Credit Losses

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

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

The following tables provide information on the activity within the allowance for credit losses as of and for the periods indicated. For additional information, please see "Item 8 – Note 3 – Loans and Allowance for Credit Losses".

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Year ended December 31, 2023:						
Beginning balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Adoption of new accounting standard	(1,566)	(1,725)	1	(91)	1,541	(1,840)
Provision for credit losses	1,986	(379)	(393)	442	(644)	1,012
Charge-offs	(403)	—	—	—	—	(403)
Recoveries	216	—	—	38	—	254
Ending balance	$ 10,853	$ 3,218	$ 492	$ 521	$ 944	$16,028
Alowance for credit losses / gross loans	1.73%	0.38%	1.11%	12.92%	2.67%	1.03%
Net recoveries (charge-offs) / gross loans	-0.03%	0.00%	0.00%	0.94%	0.00%	-0.01%

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Year ended December 31, 2022:						
Beginning balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Provision for loan losses	2,717	798	203	25	32	3,775
Charge-offs	(650)	—	—	(202)	—	(852)
Recoveries	1	—	—	—	—	1
Ending balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Alowance for loan losses / gross loans	1.67%	0.63%	1.39%	1.83%	0.12%	1.07%
Net recoveries (charge-offs) / gross loans	-0.10%	0.00%	0.00%	-2.80%	0.00%	-0.05%

Investment Portfolio

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

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

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

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Estimated Fair Value
At December 31, 2023:				
Mortgage backed securities	$ 15,882	$ 25	$ (758)	$15,149
Government agencies	29,916	—	(505)	29,411
Total available for sale securities	$ 45,798	$ 25	$ (1,263)	$44,560
Mortgage backed securities	$ 56,928	$ —	$ (6,140)	$50,788
Government agencies	3,072	—	(513)	2,559
Corporate bonds	40,841	—	(4,158)	36,683
Total held to maturity securities, net	$100,841	$ —	$ (10,811)	$90,030

(Dollars in thousands)	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Estimated Fair Value
At December 31, 2022:				
Mortgage backed securities	$ 18,629	$ 26	$ (897)	$ 17,758
Government agencies	29,809	—	(1,043)	28,766
Corporate bonds	430	58	—	488
Total available for sale securities	$ 48,868	$ 84	$ (1,940)	$ 47,012
Mortgage backed securities	$ 61,363	$ —	$ (7,647)	$ 53,716
Government agencies	3,083	—	(627)	2,456
Corporate bonds	44,420	30	(3,739)	40,711
Total held to maturity securities	$108,866	$ 30	$ (12,013)	$ 96,883

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

Deposits

Our deposits are primarily generated through core customer relationships, related predominantly to business relationships. Many of our business customers maintain high levels of liquid balances in their demand deposit accounts and use the Bank’s treasury management services. An additional source of deposits is periodically obtained through third-party brokers. At December 31, 2023 and December 31, 2022, the Company held wholesale brokered time deposits of $244.0 million and $180.3 million, respectively.

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

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

Table of Contents

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

(Dollars in thousands)	Balance	% of Total
At December 31, 2023:		
Demand noninterest-bearing	$ 657,302	40%
Demand interest-bearing	26,715	2%
Money market and savings	631,015	39%
Time	310,212	19%
Total deposits	$1,625,244	100%
At December 31, 2022:		
Demand noninterest-bearing	$ 811,671	45%
Demand interest-bearing	37,815	2%
Money market and savings	671,016	38%
Time	271,238	15%
Total deposits	$1,791,740	100%

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

	December 31,	
(Dollars in thousands)	2023	2022
3 months or less	$ 5,827	$33,344
Over 3 months through 6 months	28,022	10,254
Over 6 months through 12 months	6	—
Over 12 months	—	—
Total uninsured time deposits	$33,855	$43,598

Liquidity

Our primary source of funding is deposits from our core banking relationships. However, the majority of the Bank's deposits are transaction accounts or money market accounts that are payable on demand. Additionally, a small number of customers represent a large portion of the Bank's deposits, as evidenced by the fact that approximately 18% and 17% of deposits were represented by the 10 largest depositors at both December 31, 2023 and December 31, 2022 respectively. We strive to manage our liquidity in a manner that enables us to meet expected and unexpected liquidity needs under both normal and adverse conditions. The Bank maintains significant on-balance sheet and off-balance liquidity sources, including a marketable securities portfolio, the ability to supplement core deposits with brokered time deposits combined with the stability provided by utilizing reciprocal deposit networks (see "Deposits"), and our borrowing capacity through various secured and unsecured sources. Our borrowing capacity includes lines of credit with the FRB, FHLB, and correspondent banks that enable us to borrow funds as described in Note 6 to the consolidated financial statements included in Item 8 of this Report.

Interest Rate Risk Management

We measure our interest rate sensitivity through the use of a simulation model. The model incorporates the contractual cash flows and re-pricing characteristics from each financial instrument, as well as certain management assumptions. The model also captures the estimated impacts of optionality and duration and their expected change due to changes in interest rates and the shape of the yield curve. We manage our interest rate risk through established policies and procedures. We measure both the potential short-term change in earnings and the long term change in market value of equity on a quarterly basis. Both measurements use immediate rate shocks that assume parallel shifts in interest rates up and down the yield curve in 100 basis point increments. There are eight scenarios comprised of rate changes up or down to 400 basis points. We have established policy thresholds for each of these eight scenarios. In the current interest rate environment, however, we do not consider a decrease in interest rates that is greater than 25 basis points. The impact on earnings for one year and the change in market value of equity are limited to a change of no more than (7.5)% for rate changes of 100 basis points, no more than (15.0)% for changes of 200 basis points, and no more than (20.0)% for rate changes of 300 basis points. The objective of these various simulation scenarios is to optimize the risk/reward equation for our future earnings and capital. Based upon the results of these various simulations and evaluations, we are positioned to be moderately asset sensitive, with earnings increasing in a rising rate environment.

The following table sets forth the estimated changes on the Company’s annual net interest income that would result from the designated instantaneous parallel shift in interest rates noted, as of December 31, 2023.

(Dollars in thousands)	Estimated Net Interest Income	Percent Change From Actual
Change in interest rates (basis points):		
+300	$ 81,117	1.7%
+200	$ 80,734	1.2%
+100	$ 80,286	0.7%
-100	$ 78,287	-1.8%
-200	$ 76,736	-3.8%

Capital Resources

We are subject to various regulatory capital requirements administered by federal and state banking regulators. Our capital management consists of providing equity to support our current operations and future growth. Failure to meet minimum regulatory capital requirements may result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and off-balance sheet items as calculated under regulatory accounting policies. At December 31, 2023 and December 31, 2022, we were in compliance with all applicable regulatory capital requirements, including the capital conservation buffer, and the Bank’s capital ratios exceeded the minimums necessary to be considered ‘‘well-capitalized’’ for purposes of the FDIC’s prompt corrective action regulations. At December 31, 2023, the capital conservation buffer was 4.96%.

At December 31, 2023, the Bank had a Tier 1 risk-based capital ratio of 12.04%, a total capital to risk-weighted assets ratio of 12.96%, and a leverage ratio of 12.14%. At December 31, 2022, the Bank had a Tier 1 risk-based capital ratio of 10.54%, a total capital to risk-weighted assets ratio of 11.40%, and a leverage ratio of 10.23%.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Item 8. Financial Statements and Supplementary Data

CALIFORNIA BANCORP
INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
FOR THE YEAR ENDED DECEMBER 31, 2023

elliott davis

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
California BanCorp

Opinion on the Financial Statements

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

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ Elliott Davis, LLC

We have served as the Company's auditor since 2023.

Greenville, South Carolina
March 21, 2024

Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
California BanCorp
Oakland, California

Opinion on the Financial Statements

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

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We served as the Company's auditor from 2011 to 2023.

Sacramento, California
March 24, 2023

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

	December 31, 2023	December 31, 2022
ASSETS:		
Cash and due from banks	$ 27,520	$ 16,686
Federal funds sold	184,834	215,696
Total cash and cash equivalents	212,354	232,382
Investment securities:		
Available for sale, at fair value	44,560	47,012
Held to maturity, at amortized cost and net of allowance for credit losses of $ 55 ,000 and $ 0 at December 31, 2023 and December 31, 2022, respectively	100,841	108,866
Total investment securities	145,401	155,878
Loans, net of allowance for credit losses of $ 16,028 and $ 17,005 at December 31, 2023 and December 31, 2022, respectively	1,544,612	1,578,456
Premises and equipment, net	2,207	3,072
Bank owned life insurance (BOLI)	25,878	25,127
Goodwill and other intangible assets	7,432	7,472
Accrued interest receivable and other assets	48,021	39,828
Total assets	$ 1,985,905	$ 2,042,215
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits		
Non-interest bearing	$ 657,302	$ 811,671
Interest bearing	967,942	980,069
Total deposits	1,625,244	1,791,740
Other borrowings	75,000	—
Junior Subordinated debt securities	54,291	54,152
Accrued interest payable and other liabilities	34,909	24,069
Total liabilities	1,789,444	1,869,961
Commitments and Contingencies (Note 7)		
Shareholders' equity		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding at December 31, 2023 and 2022	—	—
Common stock, no par value; 40,000,000 shares authorized; 8,402,482 and 8,332,479 issued and outstanding at December 31, 2023 and December 31, 2022, respectively	113,227	111,257
Retained earnings	84,165	62,297
Accumulated other comprehensive loss, net of taxes	(931)	(1,300)
Total shareholders' equity	196,461	172,254
Total liabilities and shareholders' equity	$ 1,985,905	$ 2,042,215

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

Table of Contents

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

	For the Years Ended December 31, 2023	For the Years Ended December 31, 2022
Interest income		
Loans	$ 94,275	$ 74,240
Federal funds sold	9,198	3,519
Investment securities	5,737	4,519
Total interest income	109,210	82,278
Interest expense		
Deposits	31,710	7,810
Borrowings and subordinated debt	2,945	3,496
Total interest expense	34,655	11,306
Net interest income	74,555	70,972
Provision for credit losses	1,297	3,775
Net interest income after provision for credit losses	73,258	67,197
Non-interest income		
Service charges and other fees	3,788	4,913
Gain on the sale of loans	—	1,393
Other	1,087	1,068
Total non-interest income	4,875	7,374
Non-interest expense		
Salaries and benefits	32,394	29,097
Premises and equipment	5,057	5,093
Professional fees	1,759	2,179
Data processing	2,184	2,647
Other	6,121	5,649
Total non-interest expense	47,515	44,665
Income before provision for income taxes	30,618	29,906
Provision for income taxes	8,985	8,798
Net income	$ 21,633	$ 21,108
Earnings per common share		
Basic	$ 2.58	$ 2.54
Diluted	$ 2.56	$ 2.51
Average common shares outstanding	8,374,614	8,306,282
Average common and equivalent shares outstanding	8,453,423	8,404,317

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

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

	For the Years Ended December 31,	
	2023	**2022**
Net Income	$21,633	$21,108
Other comprehensive income (loss)		
Unrealized gains (losses) on securities available for sale, net	618	(1,715)
Unrealized losses on securities transferred from available for sale to held to maturity, net	—	(281)
Reclassification adjustment for securities transferred from available for sale to held to maturity in prior year, net	(61)	—
Amortization of unrealized losses on securities transferred from available for sale to held to maturity, net	(4)	9
Tax effect	(184)	595
Total other comprehensive income (loss)	369	(1,392)
Total comprehensive income	$22,002	$19,716

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

Table of Contents

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock				
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2021	8,264,300	$109,473	$41,189	$ 92	$ 150,754
Stock awards issued and related compensation expense	76,121	2,065	—	—	2,065
Shares withheld to pay taxes on stock based compensation	(16,047)	(302)	—	—	(302)
Stock options exercised	11,550	97	—	—	97
Shares withheld to pay exercise price on stock options	(3,445)	(76)	—	—	(76)
Net income	—	—	21,108	—	21,108
Other comprehensive loss	—	—	—	(1,392)	(1,392)
Balance at December 31, 2022	8,332,479	$111,257	$62,297	$ (1,300)	$ 172,254
Adoption of new accounting standard	—	—	235	—	235
Stock awards issued and related compensation expense	89,620	2,317	—	—	2,317
Shares withheld to pay taxes on stock based compensation	(20,620)	(360)	—	—	(360)
Stock options exercised	1,003	13	—	—	13
Net income	—	—	21,633	—	21,633
Other comprehensive income	—	—	—	369	369
Balance at December 31, 2023	8,402,482	$113,227	$84,165	$ (931)	$ 196,461

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

Table of Contents

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

	For the Years Ended December 31, 2023	2022
Cash flows from operating activities:		
Net income	$ 21,633	$ 21,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,297	3,775
Provision for deferred taxes	(92)	(1,281)
Depreciation	945	1,477
Deferred loan costs, net	933	(352)
Stock based compensation, net	1,957	1,763
Increase in cash surrender value of life insurance	(705)	(665)
Discount on retained portion of sold loans, net	(36)	(35)
Gain on sale of loans, net	—	(1,393)
Net changes in accrued interest receivable and other assets	(8,542)	3,215
Net changes in accrued interest payable and other liabilities	10,805	1,051
Net cash provided by operating activities	28,195	28,663
Cash flows from investing activities:		
Purchase of investment securities	—	(78,780)
Proceeds from principal payments on investment securities	10,590	23,418
Proceeds from sale of loans	—	37,271
Purchase of loans, net	—	(56,439)
Net decrease (increase) in loans	33,775	(197,026)
Capital calls on low income tax credit investments	(304)	(669)
(Purchase) redemption of Federal Home Loan Bank stock	(675)	455
Purchase of premises and equipment	(79)	(153)
Purchase of bank-owned life insurance policies	(46)	(50)
Net cash provided by (used for) investing activities	43,261	(271,973)
Cash flows from financing activities:		
Net (decrease) increase in customer deposits	(166,497)	111,602
Paydown of long term borrowings, net	—	(56,387)
Proceeds from (paydown of) short term and overnight borrowings, net	75,000	(50,000)
Proceeds from exercised stock options, net	13	21
Net cash (used for) provided by financing activities	(91,484)	5,236
Decrease in cash and cash equivalents	(20,028)	(238,074)
Cash and cash equivalents, beginning of period	232,382	470,456
Cash and cash equivalents, end of period	$ 212,354	$ 232,382
Supplemental disclosure of cash flow information:		
Securities transferred from available for sale to the held to maturity classification	$ —	$ 49,889
Recording of right to use assets and operating lease liabilities	$ 6,127	$ —
Cash paid during the year for:		
Interest	$ 33,041	$ 10,488
Income taxes	$ 9,782	$ 7,410

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

CALIFORNIA BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

The Company's common stock trades on the Nasdaq Global Select marketplace under the symbol CALB.

Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting policies and standards generally accepted in the United States of America (GAAP), as well as prevailing practices within the banking industry. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, California Bank of Commerce. All intercompany accounts have been eliminated. The Company has no significant business activities other than its investment in the Bank.

Use of Estimates

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

Reclassifications

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

Subsequent Events

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, amounts held at the Federal Reserve Bank, and Federal funds sold. The Company is required to maintain reserves against certain of the deposit accounts with the Federal Reserve Bank. Federal funds are generally sold and purchased for one-day periods.

Investment Securities

The Company's investment securities are classified into the following categories:

- Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.
- Held-to-maturity securities, which management has the positive intent and ability to hold, are reported at amortized cost adjusted for the accretion of discounts and amortization of premiums.

Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. Premiums and discounts are amortized, or accreted, over the life of the related security as an adjustment to income using the level yield method adjusted for changes in principal prepayment speeds. Realized gains and losses on the sale of investment securities are reported in non-interest income and computed using the specific identification method.

Investment securities are placed on nonaccrual status when principal or interest is contractually past due more than ninety days, or management does not expect full payment of principal and interest. There were no nonaccrual investments securities at December 31, 2023 and 2022.

The Company's policy regarding the allowance for credit losses ("ACL") on investment securities is as follows:

- For available for sale securities in an unrealized loss position, the Company initially assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost is written down to fair value through income. For available for sale securities that do not meet this criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. If a credit loss exists an allowance for credit losses is recorded, through a charge to the provision to credit losses, to the extent that the fair value is less than the amortized cost basis. Accrued interest receivable on available for sale securities is excluded from the estimate of credit losses. The Company did not have any available for sale securities that required an ACL at December 31, 2023.
- The Company measures expected credit losses on held to maturity investment securities on a collective basis by major security type. Accrued interest receivable on held to maturity investment securities is excluded from the estimate of credit losses. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Changes in the ACL for held to maturity securities are recorded through the provision for credit losses in the consolidated statements of income. For additional information, see "Note 2 of the Consolidated Financial Statements – Investment Securities" included in Item 8 of this report.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances net of unamortized deferred origination fees and costs, any unamortized premiums or discounts on purchased or acquired loans, and the allowance for credit losses.

Interest on loans is accrued on the unpaid principal balance and is credited to income using the effective yield interest method. Interest receivable is only accrued if deemed collectible. It is the Company's policy to place a loan on nonaccrual status in the event that the borrower is 90 days or more delinquent (unless the loan is well secured and in the process of collection), or earlier if the timely collection of contractual payments appears doubtful. At the time a loan is placed on nonaccrual, accrued interest is reversed out of interest income. Cash payments subsequently received on nonaccrual loans are recognized as income only where the future collection of the remaining principal is considered by management to be probable. Loans are restored to accrual status only when the loan is less than 90 days delinquent and not in foreclosure, and the borrower has demonstrated the ability to make future payments of principal and interest.

Allowance for Credit Losses on Loans

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

Management's determination of the ACL on loans is based on an evaluation of the composition of the loan portfolio, current economic conditions, historical loan loss experience, reasonable and supportable forecasts, and other risk factors. Loans with similar risk characteristics are collectively assessed within pools (or segments). Loans that do not share risk characteristics are evaluated on an individual basis.

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

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

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

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company is party to financial instruments with off-balance sheet risk, such as commitments to make loans and commercial letters of credit, in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. The Company uses the same credit policies in making these types of commitments as it does for loans included on the balance sheet. Such financial instruments are recorded on the balance sheet at the time they are funded.

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

Loan Sales and Servicing

The Company has the ability to hold for sale the conditionally guaranteed portion of certain loans that are guaranteed by the Small Business Administration ("SBA loans"). At the time that the Company deems a loan to be held for sale, it is carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. At December 31, 2023 and 2022, the Company did not have any loans held for sale.

Gains or losses on SBA loans held for sale are recognized upon completion of the sale, based on the difference between the selling price and the carrying value of the related loan sold.

SBA loans are generally sold with loan servicing retained by the Company. Servicing assets or liabilities are initially recorded at fair value and are subsequently amortized in proportion to, and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Impairment is determined by stratifying the servicing rights based on interest rates and terms. The amount of the impairment recognized is the amount by which the servicing assets for a stratum exceed their fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. At December 31, 2023 and 2022, the Company had servicing assets of $ 194,000 and $ 221,000 , respectively.

Premises and Equipment

The Company's premises and equipment are carried at cost, less accumulated depreciation and amortization. Premises and equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 5 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 14 years.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases

At inception, contracts are evaluated to determine whether the contract constitutes a lease agreement. For contracts that are determined to be an operating lease, the Company recognizes on the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. In discounting the lease payments, the Company uses an incremental borrowing rate represented by the rate it could borrow from the Federal Home Loan Bank of San Francisco plus an appropriate credit spread. The Company's lease agreements include options to renew at the Company's option. No lease extensions are reasonably certain to be exercised, therefore none were considered in the calculation of the ROU asset and lease liability.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (the "FHLB"). The investment, which is reported in other assets, is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. No impairment has been recorded to date. Both cash and stock dividends from the FHLB are reported as income.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain current and former executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Low Income Housing Tax Credits

The Company accounts for low income housing tax credits and the related qualified affordable housing projects using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). As the Company disburses cash to satisfy capital calls, other assets are increased. Over time, as the tax credits and other tax benefits of the project are realized by the Company, the investment recorded in other assets is reduced using the proportional amortization method.

The Company had investments in low income housing tax credits with gross commitments (including amounts funded and unfunded) of $ 13.6 million at December 31, 2023 and 2022. During 2023 and 2022, the Company did not add any new investments and had $ 304,000 and $ 669,000 in capital calls throughout the year, respectively.

The investment balances outstanding were $ 5.0 million and $ 6.2 million at December 31, 2023 and 2022, respectively, and are reflected in other assets on the consolidated balance sheet. Total commitments remaining for future capital calls were $ 738,000 and $ 1.0 million, at December 31, 2023 and 2022, respectively and are reflected in other liabilities on the consolidated balance sheet.

For the years ended December 31, 2023 and 2022, the Company recognized tax benefits of $ 203,000 and $ 208,000 , respectively, which were included within income tax expense on the consolidated statements of income.

For tax purposes, the Company recorded tax credits and other benefits of $ 1.2 million for the both of the years ended December 31, 2023 and 2022. The Company recorded low income housing credit investment amortization of $ 1.2 million for both of the years ended December 31, 2023 and 2022.

Other Real Estate Owned

Other real estate owned consists of properties acquired through foreclosure. The Company values these properties at fair value less estimated costs to sell at the time it acquires them, which establishes the new cost basis. After it acquires them, the Company carries such properties at the lower of cost or fair value less estimated selling costs. If the Company records any income from the properties after acquiring them, it includes this amount in other non-interest income. If the Company records any write-downs, or incurs any operating expenses, on such properties after acquiring them, it includes this amount in other non-interest expense. At December 31, 2023 and 2022, the Company did not have any properties acquired through foreclosure.

Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. The Company utilizes various valuation techniques including discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and the liabilities assumed is recorded as goodwill.

Goodwill and Other Intangibles

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill determined to have an indefinite useful life is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. If the carrying amount of the goodwill exceeds its fair value, an impairment loss is recognized in the amount of the excess, and the carrying value of the goodwill is reduced accordingly. The Company’s goodwill resulted from a past acquisition in 2015, and is the only intangible asset with an indefinite life on the consolidated balance sheet.

Goodwill impairment exists when a reporting unit’s carrying value exceeds its fair value, which is determined through a qualitative assessment whether it is more likely than not that the fair value of equity of the reporting unit exceeds the carrying value. The Company completed an impairment analysis of goodwill as of December 31, 2023 and determined there was no impairment.

Other intangible assets consist of a core deposit intangible asset resulting from the 2015 acquisition. Core deposit intangible assets are initially measured at fair value and then amortized over their estimated useful life, in this case ten years on a straight-line basis. The Company considers the remaining useful life of its core deposit intangible asset each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset’s remaining life were to change, the carrying amount is amortized prospectively over the revised remaining useful life. The Company has not revised its estimate of the useful life of its core deposit intangible asset for the years ended December 31, 2023 and 2022. At December 31, 2023 the Company’s core deposit intangible asset was valued at $ 82,000 with a remaining useful life of 2 years. Assuming no events or circumstances require a revision to the remaining useful life, the future amortization of the Company’s core deposit intangible asset will be approximately $ 41,000 per year through 2025.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

The Company considers all tax positions recognized in its consolidated financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of the tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 9. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Share-Based Compensation

The Company issues awards of equity instruments, such as stock options and restricted stock units, to employees and certain non-employee directors. Compensation expense related to these awards is based on the fair value of the underlying stock on the award date and is amortized over the service period, defined as the vesting period, using the straight-line method. The vesting period is generally five years. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock units. Compensation expense is reduced for actual forfeitures as they occur.

Earnings Per Share ("EPS")

Basic earnings per common share represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Basic EPS is computed based upon net income divided by the weighted average number of common shares outstanding during the period. In determining the weighted average number of shares outstanding, vested restricted stock units are included. Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding including common stock that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during each reporting period. Diluted EPS is computed based upon net income divided by the weighted average number of common shares outstanding during each period, adjusted for the effect of dilutive potential common shares, such as restricted stock awards and units, calculated using the treasury stock method. Anti-dilutive shares are not included in the calculation of diluted earnings per share.

	For the Years Ended December 31,	
(Dollars in thousands, except per share data)	2023	2022
Net income available to common shareholders	$ 21,633	$ 21,108
Weighted average basic common shares outstanding	8,374,614	8,306,282
Add: dilutive potential common shares	78,809	98,035
Weighted average diluted common shares outstanding	8,453,423	8,404,317
Basic earnings per share	$ 2.58	$ 2.54
Diluted earnings per share	$ 2.56	$ 2.51

Related Party Transactions

Principal shareholders, directors, and executive officers of the Company, their immediate family members, and companies they control or own more than a 10 % interest in, are considered to be related parties. In the ordinary course of business, the Company engages in various related party transactions, including extending credit and bank service transactions. All related party transactions are subject to review and approval pursuant to the Company's Related Party Transaction policy.

Table of Contents

Federal banking regulations require that any extension of credit to insiders and their related interests not be offered on terms more favorable than would be offered to non-related borrowers of similar credit worthiness. The following table summarizes the aggregate activity in such loans for the periods indicated:

	For the Years Ended December 31,	
(Dollars in thousands, except per share data)	2023	2022
Balance, beginning	$25,344	$25,759
New loans	—	—
Advances	—	—
Repayments and other	(432)	(415)
Balance, ending	$24,912	$25,344

None of these loans are past due, on nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2023 and 2022. The interest income associated with these loans was $ 1.0 million and $ 970,000 for the years ended December 31, 2023 and 2022, respectively.

Loan commitments outstanding with related parties were $ 40,000 and $ 10.0 million at both December 31, 2023 and 2022, respectively.

The Company also accepts deposits from related parties, which totaled $ 53.1 million and $ 58.3 million at December 31, 2023 and 2022, respectively. The interest expense associated with these deposits was $ 2.2 million and $ 1.3 million for the years ended December 31, 2023 and 2022, respectively.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ***ASU 2022-02, Financial Instruments—Credit Losses (Topic 326)*** . The amendments in this update eliminate the accounting guidance and related disclosures for Troubled Debt Restructurings (TDRs) by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. The adoption of this accounting guidance did not have a material impact on the Company’s Consolidated Financial Statements.

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

The Company adopted ASC 326, and all related subsequent amendments thereto, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included a decrease in the allowance for credit losses on loans of $ 1.8 million, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $ 1.4 million, which is recorded within other liabilities. Additionally, the Company recorded an allowance for credit losses for held to maturity securities of $ 110,000 , which is presented as a reduction to held to maturity securities outstanding. The Company recorded a net increase to retained earnings of $ 235,000 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of related taxes. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

In December 2023, the FASB issued ***ASU No. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures*** . The amendments require disaggregated information about the effective tax rate reconciliation and additional disclosures on reconciling items and taxes paid that meet a quantitative threshold. The amendments are effective for annual reporting periods beginning after December 15, 2024, and may be adopted either prospectively or retrospectively. Early adoption is permitted. We are currently evaluating the impact of the amendments on our financial statement disclosures upon adoption.

2. INVESTMENT SECURITIES

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

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

The Company did not purchase any investment securities during the year ended December 31, 2023. The Company purchased 8 available for sale securities for $ 36.0 million and 11 held to maturity securities for $ 42.8 million during the year ended December 31, 2022. The Company did no t sell any investment securities during the years ended December 31, 2023 and 2022.

Table of Contents

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

	Available for Sale		Held to Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	$ 26,668	$26,374	$ 12,277	$12,204
One to five years	9,943	9,673	19,993	19,493
Five to ten years	—	—	19,631	16,717
Beyond ten years	1,483	1,353	20,262	16,523
Securities not due at a single maturity date	7,704	7,160	28,678	25,093
Total investment securities	$ 45,798	$44,560	$100,841	$90,030

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

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

	Available for Sale		Held to Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Aaa	$ 29,916	$29,411	$ 11,382	$ 9,473
Aa1/Aa2/Aa3	—	—	3,072	2,559
A1/A2	—	—	4,770	3,543
BBB	—	—	—	—
Not rated	15,882	15,149	81,617	74,455
Total investment securities	$ 45,798	$44,560	$100,841	$90,030

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

	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2023:						
Mortgage backed securities	$ —	$ —	$13,314	$ (758)	$13,314	$ (758)
Government agencies	—	—	29,411	(505)	29,411	(505)
Total available for sale securities	$ —	$ —	$42,725	$ (1,263)	$42,725	$ (1,263)
Mortgage backed securities	$ —	$ —	$50,788	$ (6,140)	$50,788	$ (6,140)
Government agencies	—	—	2,559	(513)	2,559	(513)
Corporate bonds	—	—	36,683	(4,158)	36,683	(4,158)
Total held to maturity securities	$ —	$ —	$90,030	$(10,811)	$90,030	$(10,811)
At December 31, 2022:						
Mortgage backed securities	$10,920	$ (537)	$ 4,347	$ (360)	$15,267	$ (897)
Government agencies	28,765	(1,043)	—	—	28,765	(1,043)
Total available for sale securities	$39,685	$ (1,580)	$ 4,347	$ (360)	$44,032	$ (1,940)
Mortgage backed securities	$32,271	$ (5,244)	$21,445	$ (2,403)	$53,716	$ (7,647)
Government agencies	—	—	2,456	(627)	2,456	(627)
Corporate bonds	14,607	(1,143)	22,880	(2,596)	37,487	(3,739)
Total held to maturity securities	$46,878	$ (6,387)	$46,781	$ (5,626)	$93,659	$(12,013)

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

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

The following table presents the balance and activity in the allowance for credit losses on held to maturity securities for the years ended December 31, 2023 and 2022.

	For the Years Ended December 31,	
(Dollars in thousands)	2023	2022
Beginning balance	$ —	$ —
Adoption of new accounting standard	110	—
Provision for credit losses	(55)	—
Net charge-offs	—	—
Balance at December 31, 2023	$ 55	$ —

On a quarterly basis, the Company utilizes a comprehensive risk assessment which includes an external rating methodology to identify, measure, and monitor risks associated with our held to maturity loan portfolio. The provision for credit losses for the year ended December 31, 2023 was primarily driven by an increase in the risk of default pertaining to certain securities in the held to maturity portfolio, an d was identified as part of the comprehensive quarterly analysis.

3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Outstanding loans as of December 31, 2023 and December 31, 2022 are summarized below. Certain loans have been pledged to secure borrowing arrangements (see Note 6).

	December 31,	
(Dollars in thousands)	2023	2022
Commercial and industrial	$ 626,615	$ 634,535
Real estate - other	849,306	848,241
Real estate - construction and land	44,186	63,730
SBA	4,032	7,220
Other	35,394	39,695
Total loans, gross	1,559,533	1,593,421
Deferred loan origination costs, net	1,107	2,040
Allowance for credit losses	(16,028)	(17,005)
Total loans, net	$1,544,612	$1,578,456

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

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

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

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

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

Table of Contents

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

(Dollars in thousands)	Term Loans by Year of Origination 2023	2022	2021	Prior	Revolving	Total
Commercial and industrial						
Pass	$ 86,292	$136,525	$ 55,779	$ 78,218	$206,037	$ 562,851
Special mention	124	3,700	1,940	1,568	24,048	31,380
Substandard	751	10,888	1,319	554	18,872	32,384
Total	$ 87,167	$151,113	$ 59,038	$ 80,340	$248,957	$ 626,615
Current period gross charge-offs	$ —	$ 136	$ —	$ 20	$ 247	$ 403
Real estate - other						
Pass	$ 44,570	$181,849	$186,142	$303,379	$ 83,755	$ 799,695
Special mention	—	4,293	33,356	5,150	—	42,799
Substandard	—	—	1,649	5,163	—	6,812
Total	$ 44,570	$186,142	$221,147	$313,692	$ 83,755	$ 849,306
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —
Real estate - construction and land						
Pass	$ 3,982	$ 10,134	$ 25,544	$ —	$ —	$ 39,660
Special mention	2,871	—	—	—	—	2,871
Substandard	—	—	—	1,655	—	1,655
Total	$ 6,853	$ 10,134	$ 25,544	$ 1,655	$ —	$ 44,186
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —
SBA						
Pass	$ —	$ 747	$ 17	$ 2,291	$ 108	$ 3,163
Special mention	—	—	—	102	—	102
Substandard	—	—	—	767	—	767
Total	$ —	$ 747	$ 17	$ 3,160	$ 108	$ 4,032
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —
Other						
Pass	$ —	$ 1,511	$ —	$ 33,498	$ 385	$ 35,394
Special mention	—	—	—	—	—	—
Substandard	—	—	—	—	—	—
Total	$ —	$ 1,511	$ —	$ 33,498	$ 385	$ 35,394
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —
Total						
Pass	$134,844	$330,766	$267,482	$417,386	$290,285	$1,440,763
Special mention	2,995	7,993	35,296	6,820	24,048	77,152
Substandard	751	10,888	2,968	8,139	18,872	41,618
Total	$138,590	$349,647	$305,746	$432,345	$333,205	$1,559,533
Current period gross charge-offs	$ —	$ 136	$ —	$ 20	$ 247	$ 403

Table of Contents

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

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

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

(Dollars in thousands)	30 Days	60 Days	90+ Days	Nonaccrual	Current	Total
As of December 31, 2023:						
Commercial and industrial	$ —	$ —	$ —	$ 3,728	$ 622,887	$ 626,615
Real estate - other	1,824	—	—	—	847,482	849,306
Real estate - construction and land	—	—	—	—	44,186	44,186
SBA	—	—	—	53	3,979	4,032
Other	260	167	140	—	34,827	35,394
Total loans, gross	$2,084	$ 167	$ 140	$ 3,781	$1,553,361	$1,559,533
As of December 31, 2022:						
Commercial and industrial	$ —	$ —	$ —	$ 1,028	$ 633,507	$ 634,535
Real estate - other	3,160	—	—	—	845,081	848,241
Real estate - construction and land	—	—	—	—	63,730	63,730
SBA	—	—	—	222	6,998	7,220
Other	—	—	—	—	39,695	39,695
Total loans, gross	$3,160	$ —	$ —	$ 1,250	$1,589,011	$1,593,421

The following table reflects nonaccrual loans by portfolio segment as of December 31, 2023 under ASC 326 and as of December 31, 2022 under the previous accounting standard, respectively.

	CECL			Incurred Loss
	December 31, 2023			December 31, 2022
(Dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Commercial and industrial	$ 3,708	$ 20	$ 3,728	$ 1,028
SBA	53	—	53	222
Total individually evaluated loans	$ 3,761	$ 20	$ 3,781	$ 1,250

Interest forgone on nonaccrual loans totaled $ 313,000 and $ 199,000 for the years ended December 31, 2023 and 2022, respectively. There was no interest recognized on a cash-basis on loans individually evaluated for expected credit losses/impairment during the years ended December 31, 2023 and 2022 under ASC 326 and the previous accounting standard, respectively.

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

The Company designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management designates as having higher risk. 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. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. For collateral dependent loans, the Company has adopted the practical expedient under ASC 326 to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table reflects the Company's collateral dependent loans by portfolio segment and by type of collateral as of December 31, 2023.

(Dollars in thousands)	Residential Property	Business Assets	Total Collateral Dependent Loans
As of December 31, 2023:			
Commercial and industrial	$ —	$ 3,728	$ 3,728
SBA	53	—	53
Total collateral dependent loans	$ 53	$ 3,728	$ 3,781

Prior to the adoption of ASC 326 on January 1, 2023, loans that did not share similar risk characteristics were individually evaluated for impairment. Loans were considered impaired when, based on current information and events, it was probable the Company would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. The following table reflects information related to loans individually evaluated for impairment and the related allowance for loan losses as of December 31, 2022.

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

Table of Contents

The following table reflects the recorded investment and unpaid principal balance for loans individually evaluated for impairment at December 31, 2022.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Average Recorded Investment
As of December 31, 2022:			
Commercial and industrial	$ 1,028	$ 1,678	$ 1,028
SBA	222	896	227
Total individually evaluated loans	$ 1,250	$ 2,574	$ 1,255

The recorded investment in loans individually evaluated for impairment at December 31, 2022 excludes interest receivable and net deferred origination costs due to their immateriality.

The following tables reflect the changes in, and allocation of, the allowance for credit losses and allowance for loan losses by portfolio segment for the years ended December 31, 2023 and 2022, respectively. The provision for credit losses of $ 1.0 million for the year ended December 31, 2023 was primarily the result of changes in the forecast assumptions utilized in the CECL model, combined with net charge-offs during the period of $ 149,000 and a specific reserve of $ 484,000 pertaining to a previously charged-off SBA loan for which the SBA is unlikely to cover the portion participated to another lender.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Year ended December 31, 2023:						
Beginning balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Adoption of new accounting standard	(1,566)	(1,725)	1	(91)	1,541	(1,840)
Provision for credit losses	1,986	(379)	(393)	442	(644)	1,012
Charge-offs	(403)	—	—	—	—	(403)
Recoveries	216	—	—	38	—	254
Ending balance	$ 10,853	$ 3,218	$ 492	$ 521	$ 944	$16,028
Alowance for credit losses / gross loans	1.73%	0.38%	1.11%	12.92%	2.67%	1.03%
Net recoveries (charge-offs) / gross loans	- 0.03%	0.00%	0.00%	0.94%	0.00%	- 0.01%
Year ended December 31, 2022:						
Beginning balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Provision for loan losses	2,717	798	203	25	32	3,775
Charge-offs	(650)	—	—	(202)	—	(852)
Recoveries	1	—	—	—	—	1
Ending balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Alowance for loan losses / gross loans	1.67%	0.63%	1.39%	1.83%	0.12%	1.07%
Net recoveries (charge-offs) / gross loans	- 0.10%	0.00%	0.00%	- 2.80%	0.00%	- 0.05%

Modifications Made to Borrowers Experiencing Financial Difficulty

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

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

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

During the year ended December 31, 2023, the Company had three loans with recorded investments or commitments with terms that had been modified due to the borrower experiencing financial difficulties. These loans had no payments that were considered past due as of the reporting date. The following table reflects the type of concession granted and the financial effect of the modifications.

(Dollars in thousands)	Amortized Cost	% of Total Portfolio Segment	Financial Effect
Commercial and industrial	$ 572	0.09%	Term extention from October 15 , 2023 to February 15 , 2024
Commercial and industrial	9,115	1.45%	Term extension from December 29 , 2023 to March 30 , 2024
SBA	50	1.24%	Term extension from March 31 , 2023 to April 1 , 2024
Total modified loans	$ 9,737		

The Company had no loan modifications resulting from a borrower experiencing financial difficulties with a subsequent payment default within twelve months following the modification during the year ended December 31, 2023.

4. PREMISES AND EQUIPMENT

The following table reflects the Company's premises and equipment as of the years ended December 31, 2023 and 2022.

	December 31,	
(Dollars in thousands)	2023	2022
Furniture, fixtures, and equipment	$ 6,291	$ 6,211
Leashold improvements	6,707	6,707
	12,998	12,918
Accumulated depreciation and amortization	(10,791)	(9,846)
Total premises and equipment	$ 2,207	$ 3,072

Depreciation and amortization included in occupancy and equipment expense totaled $ 945,000 and $ 1.5 million for the years ended December 31, 2023 and 2022, respectively.

5. DEPOSITS

The following table reflects the Company's deposit portfolio for the years ended December 31, 2023 and 2022.

	December 31,	
(Dollars in thousands)	2023	2022
Demand noninterest- bearing	$ 657,302	$ 811,671
Demand interest-bearing	26,715	37,815
Money market and savings	631,015	671,016
Certificates of deposit	310,212	271,238
Total deposits	$1,625,244	$1,791,740

The following table reflects the contractual maturities of the Company's certificates of deposit as of December 31, 2023 for the years ended December 31, 2024 through 2026 (dollars in thousands).

Amounts Maturing During The Year Ended December 31,	Total
2024	$306,341
2025	229
2026	3,642
Total certificates of deposit	$310,212

Total deposits include deposits that are periodically obtained through third-party brokers. At December 31, 2023 and December 31, 2022, the Company held wholesale brokered time deposits of $ 244.0 million and $ 180.3 million, respectively. The Company is also a participant in the Certificate of Deposit Account Registry Service (CDARS), IntraFi Network (ICS), and Reich & Tang Deposit Solutions (R&T) network, all of which provide reciprocal deposit placement services to fully qualify large customer deposits for FDIC insurance among other participating banks. At December 31, 2023 and December 31, 2022, the Company had $ 460.0 million and $ 46.9 million of reciprocal deposits, respectively.

6. BORROWING ARRANGEMENTS

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

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

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

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

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

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

7. COMMITMENTS AND CONTINGENT LIABILITES

Financial Instruments with Off-Balance Sheet Risk

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

At December 31, 2023 and December 31, 2022, the Company had outstanding unfunded commitments for loans of approximately $ 676.1 million and $ 644.1 million, respectively.

The outstanding unfunded commitments for loans at December 31, 2023 was comprised of fixed rate commitments of approximately $ 34.5 million and variable rate commitments of approximately $ 641.6 million. The following table reflects the interest rate and maturity ranges for the unfunded fixed rate loan commitments as of December 31, 2023.

(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Unfunded fixed rate loan commitments:				
Interest rate less than or equal to 4.00 %	$19,547	$ 2,822	$ 76	$22,445
Interest rate between 4.00 % and 5.00 %	—	4,300	181	4,481
Interest rate greater than or equal to 5.00 %	2,953	2,615	1,997	7,565
Total unfunded fixed rate loan commitments	$22,500	$ 9,737	$ 2,254	$34,491

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

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	For the Years Ended December 31, 2023	2022
Beginning balance	$ 430	$ 380
Adoption of new accounting standard	1,396	—
Provision for credit losses	340	50
Balance at December 31, 2023	$ 2,166	$ 430

Operating Leases

The Company leases various office premises under long-term operating lease agreements. These leases expire between 2024 and 2030, with certain leases containing either three, five, or seven-year renewal options.

The following table reflects the quantitative information for the Company's leases for the year ended, and as of, December 31, 2023.

(Dollars in thousands)	December 31, 2023
Operating lease cost (cost resulting from lease payments)	$ 2,176
Operating lease - operating cash flows (fixed payments)	$ 1,569
Operating lease right-of-use assets (other assets)	$ 8,807
Operating lease liabilities (other liabilities)	$ 10,587
Weighted average lease term - operating leases	5.3 years
Weighted average discount rate - operating leases	3.38%

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

(Dollars in thousands)	December 31, 2023
2024	$ 2,414
2025	2,486
2026	2,451
2027	1,402
2028	1,078
Thereafter	2,063
Total undiscounted cash flows	11,894
Discount on cash flows	(1,307)
Total lease liability	$ 10,587

Rent expense included in premises and equipment expense totaled $ 2.2 million and $ 1.9 million for the years ended December 31, 2023 and 2022, respectively.

Contingencies

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

Correspondent Banking Agreements

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

At December 31, 2023, uninsured deposits at financial institutions were approximately $ 3.0 million. At December 31, 2022, uninsured deposits at financial institutions were approximately $ 2.9 million.

8. INCOME TAXES

The following table reflects the federal and state components of the Company's provision for income taxes for the years ended December 31, 2023 and 2022.

	For the Years Ended December 31,	
(Dollars in thousands)	2023	2022
Federal:		
Current	$ 5,896	$ 6,568
Deferred	(41)	(921)
Federal provision for income taxes	5,855	5,647
State:		
Current	3,181	3,511
Deferred	(51)	(360)
State provision for income taxes	3,130	3,151
Provision for income taxes	$ 8,985	$ 8,798

Table of Contents

The Company's reported amount of income tax expense differs from federal statutory income rate for the years ended December 31, 2023 and 2022 primarily due to California franchise taxes, low income housing credits and tax exempt income. The following table reflects a reconciliation of the effective tax rate for the years ended December 31, 2023 and 2022.

	For the Years Ended December 31,	
(Dollars in thousands)	2023	2022
Statutory federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	8.1%	8.3%
Low income housing credits, net of investment losses	- 0.7%	- 0.3%
Increase in cash surrender value of life insurance	- 0.5%	- 0.5%
Share-based compensation	0.3%	0.2%
Other, net	1.1%	0.7%
Effective tax rate	29.3%	29.4%

Deferred tax assets and liabilities result from the tax effects of temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their related amounts used for income tax reporting purposes. The following table reflects the Company's deferred tax assets, net of deferred liabilities, included in other assets in the consolidated financial statements.

	December 31,	
(Dollars in thousands)	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 5,347	$ 5,027
Lease liability	3,102	1,757
Accrued expenses	1,873	1,876
Share-based compensation	417	370
Deferred compensation	1,086	1,072
Net operating loss carryforwards	788	977
Loan discounts	115	19
Unrealized loss on available for sale investment securities	387	549
State tax deduction	661	743
Other	969	1,134
Total deferred tax assets	14,745	13,524
Deferred tax liabilities:		
Deferred loan origination costs	(1,765)	(1,679)
Right of use asset	(2,580)	(1,347)
Core deposit intangible	(36)	(36)
Other	(97)	(31)
Total deferred tax liabilities	(4,478)	(3,093)
Net deferred tax assets	$10,267	$10,431

As a result of a past acquisition in 2015, the Company has net operating loss carryforwards. Pursuant to Sections 382 of the Internal Revenue Code, annual use of net operating loss carryforwards may be limited in the event of a change in ownership. The net operating losses absorbed as a result of the acquisition are subject to Section 382 annual limitations in the amount of approximately $ 640,000 per year. At December 31, 2023, the net operating loss carryforwards for Federal and California income tax reporting purposes totaled $ 2.3 million and $ 3.5 million, respectively, and will begin to expire at various dates from 2033 to 2037 if unused. At December 31, 2022, the net operating loss carryforwards for Federal and California income tax reporting purposes totaled $ 3.0 million and $ 4.2 million, respectively.

For the tax years 2023 and 2022, the Company filed income tax returns in the U.S. Federal and various state jurisdictions. There are currently no pending U.S. Federal or state income tax or non-U.S. income tax examinations by tax authorities. The Company is no longer subject to tax examinations by U.S. Federal and state taxing authorities for years prior to 2020 for Federal tax returns and 2019 for state tax returns.

The Company is required to record a valuation allowance if it is more likely than not that some portion, or all, of the net deferred tax asset will not be realized. The Company evaluated both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions and determined that a valuation allowance was not needed to reduce the net deferred tax asset as it is more likely than not that the results of future operations will generate sufficient taxable income to realize the recorded balance. At December 31, 2023 and 2022, there were no unrecognized tax benefits or interest and penalties accrued by the Company.

9. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

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

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

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

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

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

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

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

(Dollars in thousands)	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3	Total
As of December 31, 2023:					
Financial assets:					
Cash and cash equivalents	$ 212,354	$ 212,354	$ —	$ —	$ 212,354
Investment securities:					
Available for sale	44,560	—	44,560	—	44,560
Held to maturity	100,841		82,806	7,224	90,030
Loans, net	1,544,612	—	—	1,470,794	1,470,794
Accrued interest receivable	8,847	—	982	7,865	8,847
Financial liabilities:					
Deposits	$1,625,244	$1,315,032	$311,213	$ —	$1,626,245
Other borrowings	75,000	—	—	75,000	75,000
Subordinated debt	54,291	—	—	50,248	50,248
Accrued interest payable	3,292	—	2,593	699	3,292
As of December 31, 2022:					
Financial assets:					
Cash and due from banks	$ 232,382	$ 232,382	$ —	$ —	$ 232,382
Investment securities:					
Available for sale	47,012	—	47,012	—	47,012
Held to maturity	108,866		89,433	7,450	96,883
Loans, net	1,578,456		—	1,519,903	1,519,903
Accrued interest receivable	7,769	—	926	6,843	7,769
Financial liabilities:					
Deposits	$1,791,740	$1,520,502	$271,178	$ —	$1,791,680
Subordinated debt	54,152	—	—	49,027	49,027
Accrued interest payable	1,678	—	1,007	671	1,678

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

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

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

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

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

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

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

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

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

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

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

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

Accrued Interest Payable—The carrying amounts of accrued interest payable approximate fair value resulting in a Level 2 classification for accrued interest payable on time certificates of deposits and a Level 3 classification for accrued interest payable on junior subordinated debt securities since time certificates of deposits are generally classified using Level 2 inputs and junior subordinated debt securities are generally classified using Level 3 inputs.

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

Assets Recorded at Fair Value on a Recurring Basis

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

(Dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
As of December 31, 2023:				
Investments available for sale:				
Mortgage backed securities	$ 15,149	$ —	$15,149	$ —
Government agencies	29,411	—	29,411	—
Total assets measured at fair value on a recurring basis	$ 44,560	$ —	$44,560	$ —
As of December 31, 2022:				
Investments available for sale:				
Mortgage backed securities	$ 17,758	$ —	$17,758	$ —
Government agencies	28,766	—	28,766	—
Corporate bonds	488	—	488	—
Total assets measured at fair value on a recurring basis	$ 47,012	$ —	$47,012	$ —

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

Assets Recorded at Fair Value on a Non-Recurring Basis

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

	Carrying	Fair Value Measurements		
(Dollars in thousands)	Amount	Level 1	Level 2	Level 3
As of December 31, 2023:				
Individually evaluated loans - Commercial	$ 3,728	$ —	$ —	$3,728
Individually evaluated loans - SBA	53	—	—	53
Total assets measured at fair value on a non-recurring basis	$ 3,781	$ —	$ —	$3,781
As of December 31, 2022:				
Impaired loans - Commercial	$ 1,028	$ —	$ —	$1,028
Impaired loans - SBA	222	—	—	222
Total assets measured at fair value on a non-recurring basis	$ 1,250	$ —	$ —	$1,250

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

10. EQUITY INCENTIVE PLAN

Stock-Based Compensation

In an effort to attract, retain and motivate eligible employees and non-employee directors, the Company implemented an equity incentive plan to provide potential additional future compensation based on the performance of the Company. The equity incentive plan aligns the interests of employees and non-employee directors with the interests of shareholders and reinforces the relationship between shareholder gains and compensation.

On May 18, 2017, the Company's shareholders approved the 2017 Equity Incentive Plan which supersedes the Equity Incentive Plan that was established in 2014. On August 6, 2020, the Company's shareholders approved an amendment and restatement of the 2017 Equity Incentive Plan increasing the number of shares that may be granted under the plan from 420,000 shares to a maximum of 920,000 shares. On May 18, 2023, the Company's shareholders approved an additional amendment and restatement of the 2017 Equity Incentive Plan (as amended and restated, the "Amended 2017 Plan") to increase the number of shares that may be granted under the plan from 920,000 shares to 1.4 million shares. The Amended 2017 Plan provides for the following types of stock-based awards: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. The amount, frequency, and terms of stock-based awards may vary based upon competitive practices, the Company's operating results and government regulations. As of December 31, 2023, the Company has issued incentive stock options, restricted stock units, and other stock-based awards under the 2017 Amended Plan.

Stock options issued under the Amended 2017 Plan may be granted to employees and non-employee directors and may be either incentive or nonqualified stock options as defined under current tax laws. The exercise price of each option must equal the market price of the Company's stock on the date of the grant. The term of the option may not exceed 10 years and generally vests over a five year period.

Restricted stock and restricted stock units issued under the Amended 2017 Plan may be granted to employees and non-employee directors. The grant price of each award equals the market price of the Company's stock on the date of the grant. The awards generally vest over a five year period.

Other stock-based awards may be granted to employees and non-employee directors, and include stock awards that vest immediately without restriction.

The 2017 Equity Incentive Plan replaced the 2014 Equity Incentive Plan (the "2014 Plan"). No further awards may be issued under the 2014 Plan, but awards issued under the 2014 Plan continue to be outstanding and governed by its terms.

As of December 31, 2023, there were 738,157 shares of outstanding awards under the Company's stock-based compensation plans and 616,442 shares available for future grants under the Amended 2017 Plan.

Total compensation cost that was charged against income pertaining to the 2014 Plan and the Amended 2017 Plan was $ 2.0 million and $ 1.8 million for the years ended December 31, 2023 and 2022, respectively.

Table of Contents

Stock Option Awards

The following table reflects a summary of the stock option activity under the 2014 Plan and the Amended 2017 Plan for the years ended December 31, 2023 and 2022.

	Stock Option Awards Outstanding	
	Number of Shares	Weighted Average Exercise Price
Stock option awards outstanding, December 31, 2021	445,256	$ 17.75
Granted	64,000	$ 22.09
Exercised	(11,550)	$ 8.34
Forfeited or expired	(54)	$ 18.48
Stock option awards outstanding, December 31, 2022	497,652	$ 18.53
Granted	36,000	$ 22.03
Exercised	(1,003)	$ 13.19
Forfeited or expired	(55,738)	$ 18.45
Stock option awards outstanding, December 31, 2023	476,911	$ 18.80

The weighted remaining life and aggregate intrinsic value related to the stock options outstanding under the stock-based compensation plans at December 31, 2023 was 5.63 years and $ 2.9 million, respectively.

The following table reflects information related to stock options exercised and granted during the years ended December 31, 2023 and 2022.

	For the Years Ended December 31,	
(Dollars in thousands)	2023	2022
Options exercised:		
Intrinsic value	$ 8	$ 150
Cash received, net	$ 13	$ 21
Tax benefit realized	$ —	$ —
Options granted:		
Weighted average fair value	$ 8.64	$ 7.60

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The following table reflects the assumptions used by management in the Black-Scholes option pricing model for the years ended December 31, 2023 and 2022.

	For the Years Ended December 31,	
	2023	2022
Expected life	10 years	10 years
Stock price volatility	37.5%	35.2%
Risk free interest rate	4.1%	2.2%
Dividend yield	0.0%	0.0%

As of December 31, 2023, there was $ 970,000 of total unrecognized compensation cost related to non-vested stock options granted under the 2014 Plan and the Amended 2017 Plan. The cost is expected to be recognized on a straight-line basis over a weighted average period of 4.6 years and will be adjusted for subsequent changes related to forfeitures.

Restricted Stock Units

The following table reflects a summary of the restricted stock activity under the 2014 Plan and the Amended 2017 Plan for the years ended December 31, 2023 and 2022.

	Non-vested Restricted Stock Units	
	Number of Shares	Weighted Average Grant Value
Non-vested restricted stock units, December 31, 2021	222,157	$ 17.59
Granted	92,969	$ 21.64
Vested	(69,592)	$ 18.11
Forfeited or expired	(3,433)	$ 18.29
Non-vested restricted stock units, December 31, 2022	242,101	$ 19.00
Granted	127,657	$ 22.15
Vested	(89,620)	$ 18.73
Forfeited or expired	(18,892)	$ 18.24
Non-vested restricted stock units, December 31, 2023	261,246	$ 20.52

As of December 31, 2023, there was $ 3.8 million of total unrecognized compensation cost related to non-vested restricted stock units granted under the 2014 Plan and the Amended 2017 Plan. The cost is expected to be recognized on a straight-line basis over a weighted average period of 5.0 years and will be adjusted for subsequent changes in estimated forfeitures. The Company estimates the impact of forfeitures on historical experience. Should the Company's current estimate change, additional expense could be recognized or reversed in future periods.

11. OTHER EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2007, the Company adopted the California Bank of Commerce Profit Sharing 401(k) Plan. All full-time employees 21 years of age or older with 3 months of service are eligible to participate in the 401(k) Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Company may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions may vest at a rate of 20 % annually for all employees. The Company made a fully vested contribution to the 401(k) Plan for the years ended December 31, 2023 and 2022 in the amount of $ 853,000 and $ 792,000 , respectively.

Salary Continuation and Retirement Plan

The Board of Directors approved a salary continuation plan for certain executives. Under the plan, once these certain executives reach age 65, the Company is obligated to provide them with annual benefits after retirement. The estimated present value of these future benefits has been accrued from the effective date of the plan. The discount rate used to estimate the present value of future benefits was 4.80 % and 4.30 % for the years ended December 31, 2023 and 2022 respectively.

The expense recognized under this plan for the years ended December 31, 2023 and 2022 totaled $ 210,000 and $ 298,000 , respectively. Accrued compensation payable under the salary continuation plan totaled $ 3.7 million and $ 3.6 million at December 31, 2023 and 2022, respectively, and is included in accrued interest payable and other liabilities on the balance sheet.

Table of Contents

12. REGULATORY CAPITAL REQUIREMENTS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (as defined in the regulations) of Common Tier I Capital, Tier I Capital, and Total Capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2023, that the Company meets all capital adequacy requirements to which they are subject.

The following tables reflect the consolidated Company's and the Bank's capital adequacy ratios at December 31, 2023 and 2022 as well as the minimum capital ratios required to be deemed "adequately capitalized" and "well capitalized" under the regulatory framework. Under Federal Reserve policy, as a bank holding company with less than $ 3 billion in total assets, the Company is not subject to these consolidated regulatory capital adequacy requirements and therefore, the Company's capital ratios are provided for informational purposes.

	As of December 31, 2023					
	Actual		Adequately Capitalized		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company Capital Ratios:						
Tier I Capital	$189,959	9.61%	$ 79,076	4.00%	$ 98,845	5.00%
(to Average Assets)						
Tier I Common Capital	$189,959	9.53%	$ 89,719	4.50%	$129,594	6.50%
(to Risk Weighted Assets)						
Tier I Capital	$189,959	9.53%	$ 119,625	6.00%	$159,500	8.00%
(to Risk Weighted Assets)						
Total Capital	$262,444	13.16%	$ 159,500	8.00%	$199,375	10.00%
(to Risk Weighted Assets)						
Bank Capital Ratios:						
Tier I Capital	$239,674	12.14%	$ 78,987	4.00%	$ 98,734	5.00%
(to Average Assets)						
Tier I Capital	$239,674	12.04%	$ 89,565	4.50%	$129,371	6.50%
(to Risk Weighted Assets)						
Tier I Common Capital	$239,674	12.04%	$ 119,419	6.00%	$159,226	8.00%
(to Risk Weighted Assets)						
Total Capital	$257,868	12.96%	$ 159,226	8.00%	$199,032	10.00%
(to Risk Weighted Assets)						

(Dollars in thousands)	As of December 31, 2022					
	Actual		Adequately Capitalized		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company Capital Ratios:						
Tier I Capital	$166,082	7.98%	$ 83,229	4.00%	$104,036	5.00%
(to Average Assets)						
Tier I Common Capital	$166,082	8.23%	$ 90,836	4.50%	$131,207	6.50%
(to Risk Weighted Assets)						
Tier I Capital	$166,082	8.23%	$ 121,114	6.00%	$161,485	8.00%
(to Risk Weighted Assets)						
Total Capital	$237,669	11.77%	$ 161,485	8.00%	$201,857	10.00%
(to Risk Weighted Assets)						
Bank Capital Ratios:						
Tier I Capital	$213,670	10.23%	$ 83,552	4.00%	$104,440	5.00%
(to Average Assets)						
Tier I Capital	$213,670	10.54%	$ 91,190	4.50%	$131,718	6.50%
(to Risk Weighted Assets)						
Tier I Common Capital	$213,670	10.54%	$ 121,586	6.00%	$162,115	8.00%
(to Risk Weighted Assets)						
Total Capital	$231,105	11.40%	$ 162,115	8.00%	$202,643	10.00%
(to Risk Weighted Assets)						

13. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following table reflects the summary parent company only Statements of Condition for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Assets:		
Cash and due from banks	$ 1,916	$ 8,977
Investment in bank subsidiary	246,176	219,842
Other assets	3,423	8,213
Total assets	$251,515	$237,032
Liabilities:		
Junior subordinated debt	$ 54,291	$ 54,152
Other Liabilities	763	10,626
Total liabilities	55,054	64,778
Shareholders’ equity	196,461	172,254
Total liabilities and shareholders’ equity	$251,515	$237,032

Table of Contents

The following table reflects the summary parent company only Statements of Income for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Interest expense	$(2,232)	$(2,240)
Non-interest expense	(786)	(727)
Income (loss) before provision for income taxes	(3,018)	(2,967)
Provision for income taxes	892	877
Income (loss) before equity in undistributed subsidiary income	(2,126)	(2,090)
Equity in undistributed subsidiary income	23,759	23,198
Net income	$21,633	$21,108

The following table reflects the summary parent company only Statements of Cash Flows for the years ended December 31, 2023 and 2022.

(Dollars in thousands)	December 31, 2023	December 31, 2022
Cash flow from operating activities:		
Net income	$ 21,633	$ 21,108
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (earnings) of subsidiary income	(23,759)	(23,198)
Change in other assets and other liabilities, net	(4,948)	1,078
Net cash used for operating activities	(7,074)	(1,012)
Cash flow from financing activities:		
Proceeds from issuance of subordinated debt, net	—	—
Proceeds from exercised stock options	13	21
Net cash provided by financing activities	13	21
Decrease in cash and cash equivalents	(7,061)	(991)
Cash and cash equivalents, beginning of period	8,977	9,968
Cash and cash equivalents, end of period	$ 1,916	$ 8,977

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

As of December 31, 2023, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2023.

Elliott Davis LLC, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part II, Item 8, under the heading "Report of Independent Registered Public Accounting Firm."

Attestation Report of the Independent Registered Public Accounting Firm

Pursuant to SEC rules applicable to emerging growth companies, this Annual Report on Form 10-K does not include an audit report on internal control over financial reporting from the Company's independent registered public accounting firm.

Item 9B. 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 fourth quarter of 2023.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Board of Directors

The Company's Board of Directors consists of 10 directors, who are listed below.

Andrew J. Armanino, age 59, has served on our Board of Directors since 2013. Mr. Armanino was the managing Partner and Chief Executive Officer of Armanino LLP, a public accounting firm, from 2005 to 2018, at which time he retired and is no longer affiliated with the firm. He is chairman of the board for Moore Global International, an accounting and business advisory network of independent accounting firms. Mr. Armanino is also a board member of Better Therapeutics, a digital health company, and Good Lab, an ESG software company. Additionally, he is a board member of the Armanino Foundation, a community service organization, and serves on the American Institute of CPAs council. Mr. Armanino's significant accounting experience provides in-depth knowledge of generally accepted accounting principles and auditing standards to the Board. With years of providing services to small and medium-sized businesses, he brings valuable insights to the Board regarding these businesses, which are similar to the Bank's business customers.

Stephen A. Cortese, age 63, has served on our Board of Directors since 2007. Mr. Cortese has worked in commercial real estate development and management since 1987. He is the general partner of Cortese Real Property, LP, a commercial real estate development and management firm, since 2003. Mr. Cortese has significant experience in real estate management, investment and construction, particularly in the greater San Francisco Bay Area, enabling him to bring valuable insights regarding these matters to our Board.

Kevin J. Cullen, age 57, has served on our Board of Directors since 2007. Mr. Cullen is the Chief Financial Officer and co-owner of Olson & Company Steel, Inc., a construction company, a position he has held since 2013. He is also a director of Steel Bar Fresno and California Steel Captive. He previously served as Chief Financial Officer of Guarantee Glass, Inc., a general contractor, from 2008 to 2012, and as Chief Financial Officer and a co-owner of MDC Vacuum, a manufacturing company, from 1998 to 2008. Mr. Cullen's business experience, including as the owner of and Chief Financial Officer for construction and manufacturing companies, enables him to bring valuable insights to the Board regarding these small to medium sized construction and industrial businesses, which are similar to the Bank's customers.

Stephen R. Dathe, age 62, has served on our Board of Directors since 2007. Mr. Dathe has been the President and CEO of A&B Die Casting Company since 2017 and the President and majority shareholder of Benda Tool and Model Works, Inc. since 2006. Mr. Dathe's significant experience as an executive of manufacturing companies enables him to bring valuable insights to the Board regarding small to medium-sized industrial businesses, which are the Bank's predominant commercial customers.

Rochelle G. Klein, age 62, has served on our Board of Directors since 2007. She is one our founders and worked to organize the Bank since its inception in 2006. Ms. Klein served as Vice President in the Fixed Income Currency and Commodities Division at Goldman Sachs, in New York, Los Angeles and San Francisco, from 1987 to 2002. She continues to privately invest and consult and was most recently an Advisory Business Development Director for Ocean Gate Capital Management, L.P., in San Francisco and Boston, from 2006 to 2009. Ms. Klein has a Bachelor of Arts degree with honors and distinction in Economics from Stanford University and a Master's in Business Administration and a Juris Doctor degree from University of California, Los Angeles. Ms. Klein strives to give back to her community using her financial and development expertise in chairing and serving on numerous philanthropic and higher education boards and foundations. As a longtime member of our Board as well as the local and finance communities, Ms. Klein contributes to the Board a substantial understanding of finance, financial markets, risk management, regulatory requirements and business development from over 30 years of experience as a senior executive at a leading global investment bank and as a founder of the Bank from inception through regulatory approval and scale.

Julie J. Levenson, age 61, was appointed to our Board of Directors in 2022 . Ms. Levenson is a Founding Partner of La Honda Advisors, a Silicon Valley-based boutique advisory firm that provides M&A and capital markets advice to companies in the technology, consumer, and health-tech industries. Ms. Levenson previously served as the Head of Private Capital Markets for Cowen & Company, Head of Private Equity Financing at Houlihan Lokey and Head of Private Placements at Merrill Lynch. She was a director of Graf Acquisition Corp, an Exchange Act registrant, from 2019 to 2020. Ms. Levenson graduated with Honors in Philosophy at Dartmouth College in 1984 and received a Juris Doctor degree and a Master's in Business Administration from The Law School and The Wharton School of Business, respectively, at the University of Pennsylvania in 1990. Ms. Levenson brings our Board capital markets and M&A expertise.

Frank L. Muller, age 68, has served on our Board of Directors since 2020. Mr. Muller is the owner of M Three Ranches, LLC in Woodland, California, a farming and farming consulting business, since January 2020. He was previously the co-owner, President and Chief Financial Officer of Muller Ranch, LLC, a farming and farming consulting business, from 1979 to December 2019. Mr. Muller has served on the board of directors for Pacific Coast Producer, an agricultural canning and packaging cooperative, since 1990, including as chairman for the past 15 years. He previously served on the board of directors for the California Department of Food and Agriculture during 2018 and 2019 and, previously, the board of directors of the Federal Crop Insurance Corporation. Mr. Muller's familiarity with the Northern Central Valley region of California and the agricultural industry bring valuable insights to our Board as we expand our presence throughout Northern California.

Steven E. Shelton, age 63, has served on our Board of Directors since 2018 . Mr. Shelton has also served as Chief Executive Officer of the Company and the Bank since May 2018. He served as President of the Company and the Bank from May 2018 to May 2023. Previously he served as Executive Vice President of the Bank since its organization in 2007. Prior thereto, Mr. Shelton served for 13 years in various executive management positions with CivicBank of Commerce in Oakland, California, most recently as its president. Mr. Shelton brings extensive leadership and banking experience to our Board. His extended career in banking as well as his broad and deep banking industry and bank regulatory experience are important attributes that support our Board. In addition, the Board values Mr. Shelton's in-depth knowledge of the Company gained through his position as our Chief Executive Officer, including with respect to its operations, strategy, financial condition and competitive position.

Millicent C. Tracey, age 55, has served on our Board of Directors since 2022 . Ms. Tracey earned a Juris Doctor degree at Mitchell Hamline School of Law and a Bachelor of Arts degree in Behavioral Science & Law from the University of Wisconsin-Madison. She serves as an advisor to several FinTech companies, including Fundid, InterPayments, Identifee, and Dwolla. She currently also serves on the boards of numerous non-profit organizations. Additionally, Ms. Tracey led B2B product management and digital banking solutions for Wells Fargo for just under 20 years. Ms. Tracey contributes to our Board significant expertise in banking products, including comprehensive knowledge of treasury management and FinTech products and services.

Theodore A. Wilm, age 62, was appointed to our Board of Directors during the first quarter of 2023. Mr. Wilm is an accomplished and experienced advisor and certified public accountant with extensive strategic expertise and in-depth knowledge of board and audit committee best practices. Mr. Wilm had a 38 year career with the public accounting firm PricewaterhouseCoopers before retiring in 2022. In addition to serving many of the firm's larger financial services clients as an audit partner, Mr. Wilm advised mutual funds, investment management, private equity, real estate and venture capital firms with sales, marketing and distribution channel strategies, enterprise risk management solutions, information technology systems, acquisitions and divestitures, and structural reorganizations. Mr. Wilm contributes to our Board by providing financial services expertise, including comprehensive knowledge of audit and risk management.

None of our directors has any family relationship, as defined in Item 401 of Regulation S-K, with any other director or with any of our executive officers. Steven E. Shelton, our Chief Executive Officer, has an employment agreement with the Bank that provides that he will serve as a director of the Bank, but otherwise none of our directors have any arrangement or understanding with another person under which the director was or is to be elected as a director or director nominee. None of our directors has been involved in any bankruptcy or criminal proceedings, nor have there been any judgments or injunctions brought against any of our directors or executive officers during the last ten years that we consider material to the evaluation of the ability and integrity of any director.

Board Diversity

Individual strengths and skills, diversity, experience, composition and succession planning are considered by our Nominating and Corporate Governance Committee when identifying and approving new candidates for the Board. For detailed information regarding our philosophy pertaining to environmental, social, and governance practices, please refer to our website at www.californiabankofcommerce.com. In accordance with the Nasdaq Listing Rule 5605(f)(4), the following tables provides the diversity statistics of our 10 directors. The categories listed below are specified and defined by Nasdaq.

The data included in the following table is based on information provided by our directors about how they personally identified themselves at December 31, 2023.

	Female	Male	Non-Binary	Did Not Disclose Gender	Total
Part I: Gender Identity	3	7	—	—	10
Part II: Demographic Background					
White	—	1	—	—	1
Two or More Races or Ethnicities	1	—	—	—	1
Did Not Disclose Demographic Background	2	6	—	—	8
Total	3	7	—	—	10

Code of Business and Ethical Conduct . We have adopted a Code of Business and Ethical Conduct for our directors, officers and employees and a Code of Conduct for the Chief Executive Officer and Other Senior Financial Officers ("Code of Conduct") that contains specific ethical policies and principles that apply to our principal executive officer, principal financial officer, principal accounting officer and other key accounting and financial personnel. The Code of Conduct constitutes our "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act and is our "code of conduct" for purposes of satisfying Nasdaq's listing standards. The Code of Conduct is available in the Investor Relations section of our website at www.californiabankofcommerce.com. To the extent required by applicable SEC rules, Nasdaq's listing standards or our Code of Conduct, we will disclose any amendments to or waivers of the requirements of our Code of Conduct that may be granted to our executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions on our website.

Related Party Transaction Policy . Our Board has adopted a Related Party Transaction Policy, which provides that subject to certain limited exceptions, the Company will not enter into or consummate a related party transaction that is determined by the Nominating and Corporate Governance Committee to be materially less favorable from a financial standpoint to the Company than similar transactions between the Company and unaffiliated third parties. A "related party transaction" is a transaction between the Company or any of its subsidiaries and any executive officer, director or owner of more than 10% of the outstanding shares of the Company's common stock or persons related to them. Our Related Party Transaction Policy is described more detail in Item 13 below under the heading "Policies and Procedures for Approval of Related Person Transactions."

Committees of our Board of Directors

Our Board has the following three standing committees: the Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee. The Board has adopted a written charter for each of those committees, and copies of those charters are available on the Investor Relations section of our website at *www.californiabankofcommerce.com.* In addition, from time to time, our Board may establish special committees to address specific issues when necessary.

The Audit Committee. Our Board has established a standing Audit Committee, the current members of which are Theodore A. Wilm, its chairman, Rochelle G. Klein, and Millicent C. Tracey. Our Board also has determined that each of its members meet the definition of "audit committee financial expert" adopted by the SEC and satisfy the financial sophistication requirements of applicable rules of The Nasdaq Stock Market. Each of the members of our Audit Committee are "independent" as defined by the SEC and the applicable rules of The Nasdaq Stock Market.

Selection and Nomination of Candidates for Election to the Board of Directors

Our Board has delegated to the Nominating and Corporate Governance Committee the responsibility for developing and recommending to the Board, for its consideration and approval, the specific qualifications and criteria for prospective director candidates as its deems necessary or advisable. The Nominating and Corporate Governance Committee is also charged with recommending to our Board specific candidates for election as directors. The Nominating and Corporate Governance Committee considers nominees recommended by directors, officers, employees, shareholders and others using the same criteria to evaluate all candidates. In identifying prospective director candidates, the Nominating and Corporate Governance Committee may consider all facts and circumstances, including among other things, the skills of the prospective director candidate, his or her breadth of business or other experience, his or her independence, and our particular needs and the needs of our Board. The Nominating and Corporate Governance Committee is authorized to engage consultants or third-party search firms to assist in identifying and evaluating potential nominees at our expense.

Executive Officers

Executive officers are appointed by and serve at the discretion of the Board of Directors. Set forth below is biographical information regarding our executive officers, other than Mr. Shelton, whose biographical information is provided above under "Board of Directors," above. No executive officer has any family relationship, as defined in Item 401 of Regulation S-K, with any other executive officer or any of our current directors. There are no arrangements or understandings between any of the officers and any other person pursuant to which he or she was selected as an officer. None of executive officers has been involved in any bankruptcy or criminal proceedings, nor have there been any judgments or injunctions brought against any of our directors or executive officers during the last ten years that we consider material to the evaluation of the ability and integrity of any executive officer.

Thomas A. Sa, age 62, has served as President of the Company and the Bank since May 2023 and Chief Financial Officer and Chief Operating Officer of the Company and the Bank since May 2019. Prior to joining the Company, Mr. Sa was an Executive Vice President of Western Alliance Bancorp from 2015 to 2019, most recently serving as Chief Risk Officer from November 2017 to May 2019. Prior to that, Mr. Sa held various executive roles including Executive Vice President, Chief Financial Officer of Bridge Bank, N.A. and its holding company, Bridge Capital Holdings from inception in 2001 to its merger with Western Alliance Bancorp in 2015. He was a director of Bridge Bank and Bridge Capital Holdings from 2010 to 2015.

Tom M. Dorrance, age 62, has served as the Bank's Senior Executive Vice President of Technology and Operations since 2015. Previously, Mr. Dorrance served as Senior Vice President and Chief Information Officer since the Bank's organization in 2007. Mr. Dorrance was Senior Vice President and Chief Information Officer at North Bay Bancorp from 2006 to 2007 and Director of Technology and Interim Chief Information Officer at Chela Education Financing, Inc. from 2002 to 2006. Prior to that Mr. Dorrance had management roles at Civic Bank of Commerce from 2000 to 2002 and Bank of America, NT & SA from 1992 to 2000.

Table of Contents

Vivian Z. Mui, age 44, has served as Senior Executive Vice President and Chief Credit Officer of the Bank since May 2019. Prior to that Ms. Mui served as Deputy Chief Credit Officer of the Bank from 2007 to 2019. Prior to 2007, Ms. Mui served 17 years in various credit administration and line of business roles at Mechanics Bank.

Scott Myers, age 54, has served as Senior Executive Vice President and Chief Lending Officer of the Bank since April 2019. Prior to that Mr. Myers was a Senior Vice President of Wells Fargo Bank, most recently serving as Sacramento Region Manager from 2013 to 2019.

Michele M. Wirfel, age 56, has held the role of Senior Executive Vice President and Chief Banking Officer since May 2018 and has served the Bank since its inception in 2007, holding various management positions. Prior to 2007, Ms. Wirfel spent four years in a Senior Vice President role at Scott Valley Bank, and 12 years in various management roles with CivicBank of Commerce, including Senior Vice President and Regional Manager.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC.

Based solely on our review of these reports and of certifications furnished to us, during the year ended December 31, 2023, Mr. Cullen, Mr. Armanino, Ms. Tracey, Ms. Levenson, Mr. Mueller, and Mr. Cortese each filed a late Form 4 reporting an award of shares in lieu of director fees. In addition, Mr. Myers made two late Form 4 filings and Ms. Mui, Ms. Wirfel, Mr. Dorrance and former director Mr. Doiguchi each filed one late Form 4.

Item 11. Executive Compensation

Compensation Paid to Named Executive Officers

The following table provides information regarding the compensation of our Chief Executive Officer and our two other mostly highly compensated executive officers during the past two fiscal years, all of whom comprise our “named executive officers.”

Name and Principal Position	Year	Salary	Bonus (1)	Option Awards (2)	Equity Awards (3)	All Other (4)	Total
Steven E. Shelton	2023	$526,042	$300,000	$ 60,820	$ 30,022	$23,382	$940,266
Chief Executive Officer	2022	$431,875	$300,000	$ 67,150	$ 39,168	$39,195	$877,388
Thomas A. Sa	2023	$352,395	$260,000	$ 50,087	$ 26,490	$26,383	$715,355
President, Chief Financial Officer, and Chief Operating Officer	2022	$330,937	$260,000	$ 55,300	$ 34,560	$34,166	$714,963
Scott Myers	2023	$294,875	$100,000	$ 53,693	$150,205	$33,078	$631,851
Senior Executive Vice President and Chief Lending Officer	2022	$289,433	$170,000	$ 43,450	$ 52,854	$41,858	$597,595

(1) The amounts reported in this column consist of earnings pursuant to our annual bonus program for the year indicated.
(2) These amounts represent the aggregate grant date fair value of stock options granted during the during the year indicated, calculated in accordance with Financial Accounting Standards Board Account Standards Codification Topic 718 (“FASB ASC Topic 718”).
(3) These amounts represent the aggregate grant date fair value of restricted stock units granted during the year indicated, calculated in accordance with FASB ASC Topic 718.

(4) All Other Compensation consists of amounts pertaining to the executive's 401(k) match, auto allowance, health club and/or country club dues, group term life insurance, and long-term disability insurance.

Summary of Material Components of Compensation Program

The Company's executive compensation philosophy is intended to provide a total compensation package that is competitive with market practice while varying awards to recognize Company and individual performance. The objective is to provide competitive pay for achieving performance goals consistent with the Company's business objectives and its performance compared to the performance of other companies in its industry. The Company's philosophy is that actual compensation should exceed market when superior performance is achieved and be lower than market when performance falls below expectations.

- **Base Salaries**—In order to reward and retain its top talent, the Board's philosophy is for base salaries to approximate the 50th—75th percentile of its top performing bank peers. While the Board considers other factors in determining total compensation, base salaries, which have a more immediate impact, must be competitive to attract and retain talent.
- **Short-Term Incentives**—Our annual bonus program is primarily based on the Company meeting or exceeding pre-established annual performance targets, such as pre-tax income, the results of bank regulatory exams and both loan and noninterest-bearing deposit growth targets.
- **Long-Term Incentives**—We maintain equity incentive plans to provide financial incentives for selected employees of the Company. We believe these plans promote our long-term growth and financial success by attracting and retaining employees of outstanding ability, strengthening our capacity to develop, maintain, and direct a competent management team, providing an effective means for selected employees to acquire and maintain ownership of Company stock, motivating employees to achieve long-range performance goals and objectives, and providing incentive compensation opportunities competitive with those of our peers. We typically provide long-term equity incentives in the form of stock options or restricted common stock, subject to a five-year vesting schedule, to encourage retention and ownership. Awards are granted at the discretion of the Compensation Committee. If a participant terminates their employment or is terminated for cause, he or she will forfeit their unvested shares, though the Compensation Committee has the discretion to accelerate vesting upon an employee's retirement or otherwise.

Steven E. Shelton. The Bank entered into an employment agreement with Steven E. Shelton effective May 7, 2018 pursuant to which he serves as Chief Executive Officer of the Bank and, until April 2022, as its President. In connection with Mr. Sa's appointment as the Bank's President, Mr. Shelton's employment agreement was amended on April 28, 2022 to provide that Mr. Shelton would no longer serve as President. The employment agreement has a seven year term. The employment agreement provides for a base salary of $375,000, which is subject to annual review by the Compensation Committee of the Bank, and Mr. Shelton is eligible for an annual bonus pursuant to an executive incentive plan to be developed each year by the Bank's Board of Directors. As of the effective date of the employment agreement, Mr. Shelton received a grant of 11,710 shares of restricted stock grant and options to purchase 42,517 shares of common stock, each of which vest ratably over seven years from the date of grant. He is entitled to an automobile allowance of $900 per month. If the Bank terminates Mr. Shelton's employment without cause or he terminates his employment for good reason (as defined in his employment agreement), subject to his providing a release of claims in favor of the Bank, Mr. Shelton will receive a lump sum payment equal to his annual base salary plus the average of his three most recent annual bonuses and monthly payments in amounts equal to the cost of his COBRA premiums for up to 18 months. Following a change in control of the Company, in the event Mr. Shelton is terminated without cause or terminates his employment for good reason, he will be entitled to a lump sum payment equal to two times his annual base salary plus the average of his annual bonuses, the COBRA benefits described above and accelerated vesting of the restricted stock and stock options described above.

In accordance with his employment agreement, the Bank and Mr. Shelton also entered into an Executive Supplemental Compensation Agreement providing for an aggregate projected defined contribution amount of $2.0 million with monthly payments generally commencing upon his retirement. This benefit is subject to a five year vesting period and full vesting if he is terminated or quits for good reason (as defined in the agreement) in connection with a change of control. The Bank and Mr. Shelton have also entered into a split-dollar joint beneficiary agreement that shares the proceeds of bank owned life insurance previously purchased on his life such that if he should he die while employed, his named beneficiaries would receive a specified sum or the net amount at risk, whichever is smaller. As of December 31, 2023, this benefit was valued at $1,350,000.

Thomas A. Sa. The Bank entered into an employment agreement with Thomas A. Sa effective May 20, 2019 pursuant to which he serves as Senior Executive Vice President and Chief Financial Officer. The employment agreement was amended on April 28, 2022 to reflect Mr. Sa's appointment as the Bank's President. The employment agreement has a term of three years after which it automatically renews for one additional year unless either party elects to terminate it prior to the renewal. The employment agreement provides that Mr. Sa will receive a base salary of $290,000, which is subject to annual review by the Compensation Committee of the Bank. He is eligible for an annual bonus pursuant to an executive incentive plan to be developed each year by the Bank's Board of Directors. As of the effective date of the employment agreement, Mr. Sa received a grant of 10,089 shares of restricted stock and options to purchase 25,000 shares of common stock, each of which vest ratably over five years from the date of grant. He is entitled to an automobile allowance of $900 per month. If the Bank terminates Mr. Sa's employment without cause or he terminates his employment for good reason (as defined in his employment agreement), subject to his providing a release of claims in favor of the Bank, Mr. Sa would receive a lump sum payment equal to his annual base salary plus the average of his three most recent annual bonuses and monthly payments in amounts equal to the cost of his COBRA premiums for up to 12 months. Following a change in control of the Company, in the event Mr. Sa is terminated without cause or terminates his employment for good reason, he will be entitled to a lump sum payment equal to two times his annual base salary plus the average of his three most recent annual bonuses, the COBRA benefits described above and accelerated vesting of all of his restricted stock and stock options.

In accordance with Mr. Sa's employment agreement, the Bank implemented a supplemental executive retirement plan for Mr. Sa providing for an aggregate defined contribution amount of up to $835,000, with monthly payments generally commencing upon his retirement. This benefit is subject to a five year vesting period and full vesting upon a change of control. In addition, the Bank agreed to obtain a bank owned split-dollar life insurance policy and enter into a related joint beneficiary agreement that will provide a shared death benefit in the event Mr. Sa's employment with the Bank is terminated due to his death before he is fully vested in the supplemental executive retirement plan.

Scott Myers. On August 9, 2022, the Bank entered into an employment agreement with Scott Myers pursuant to which he serves as Senior Executive Vice President and Chief Lending Officer. The employment agreement has a three year term, which will automatically extend for additional one year terms unless either party declines to extend. The employment agreement provides that Mr. Myers will receive an annual base salary of $290,600, which is subject to annual review by the Compensation Committee of the Bank, and will be eligible for an annual bonus pursuant to an executive incentive plan to be developed each year by the Bank's Board of Directors. Mr. Myers is also entitled to an automobile allowance of $900 per month plus reimbursement in an amount not to exceed $750 per month for club dues and expenses. If the Bank terminates Mr. Myers' employment without cause or he terminates his employment for good reason (as defined in the employment agreement), subject to his providing a release of claims in favor of the Bank, Mr. Myers will receive a lump sum payment equal to one-half of the sum of his annual base salary plus the average of his three most recent annual bonuses in addition to monthly payments in amounts equal to the cost of his COBRA premiums for up to 12 months. Following a change in control of the Company, in the event Mr. Myers is terminated without cause or terminates his employment for good reason, he will instead be entitled to a lump sum payment equal to his annual base salary plus the average of his three most recent annual bonuses, the COBRA benefits described above and accelerated vesting of his restricted stock and stock options.

The Bank and Mr. Myers have also entered into an Executive Supplemental Compensation Agreement providing for an annual projected target benefit of $60,000, payable monthly for a period of ten years, generally commencing upon separation from service. This benefit is subject to vesting based on continued service, with full vesting if he is terminated or quits for good reason (as defined in the agreement) in connection with a change of control. The Bank and Mr. Myers have also entered into a split-dollar agreement that shares the proceeds of bank owned life insurance previously purchased on his life such that if he should he die while employed, his named beneficiaries would receive a specified sum or the net amount at risk, whichever is smaller.

Equity Incentive Plans

We maintain an Amended and Restated 2017 Equity Incentive Plan (the “2017 Plan”) and a 2014 Equity Incentive Plan (the “2014 Plan”). In 2023, our shareholders approved the amendment and restatement of the 2017 Plan to, among other things, increase the number of shares available for awards under the plan. As of December 31, 2023, there were awards for 738,157 shares outstanding under these plans, which were issued to our employees, officers and directors, and 616,442 shares remained available for future grants under the 2017 Plan. No further awards may be granted under the 2014 Plan.

The purpose of the 2017 Plan is to provide selected present and future employees, directors and consultants of the Company and its subsidiaries and affiliates with stock-based incentives and other equity interests in the Company, thereby giving them a stake in the growth and prosperity of the Company and encouraging their continued services with the Company. The 2017 Plan, as amended and restated in 2023, provides for the issuance of up to 1,420,000 shares of common stock pursuant to awards of incentive stock options, within the meaning of Section 422 of the Internal Revenue Code, non-statutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock and stock unit awards, and other forms of equity or cash compensation. When awards under the 2017 Plan expire or are forfeited or cancelled, the underlying shares will become available for future awards under the 2017 Plan. However, shares that are delivered to or withheld by the Company to satisfy the payment of the exercise price of an award or to satisfy tax withholding obligations are counted against the number of shares available for awards and cease to be available for grant under the 2017 Plan. Any shares subject to awards issued that we may issue in substitution or replacement of awards issued by another entity in connection with our acquisition of, or combination with, such other entity would not count against the 2017 Plan’s share grant limits.

The 2017 Plan is administered by the Compensation Committee of the Company’s Board of Directors. The Compensation Committee may, in its discretion, at the time an award is made under the 2017 Plan or at any time prior to, coincident with or after the time of a change of control, subject to certain limitations, provide for the acceleration of any time periods relating to the exercise or vesting of an award. If, prior to a change of control, the Compensation Committee determines that awards under the 2017 Plan will not be honored or assumed or substituted with substantially equivalent rights following the change of control, the committee may accelerate the vesting of any outstanding awards unless otherwise provided in the applicable award agreement.

The 2017 Plan provides that awards and cash incentive compensation may be subject to clawback from our executives if we are required to prepare a financial restatement due to our material non-compliance with any financial reporting requirements.

The 2014 Plan does not have clawback provisions but is otherwise similar to the 2017 Plan in most material respects.

Outstanding Equity Awards

The following table provides information regarding the outstanding stock options and restricted stock unit awards held by each of named executive officers as of December 31, 2023.

Executive Officer	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (1)	Market Value of Shares or Units of Stock That Have Not Vested (2)
Steven E. Shelton	8,925	—	$ 12.95	09/19/26	—	$ —
	5,500	—	$ 20.62	12/21/27	—	$ —
	5,500	—	$ 23.45	01/18/28	—	$ —
	23,398	19,119 (3)	$ 21.35	06/21/28	5,265 (4)	$ 130,361
	5,100	3,400 (5)	$ 11.50	03/19/30	680 (6)	$ 16,837
	3,400	5,100 (7)	$ 18.17	03/08/31	3,420 (8)	$ 84,679
	1,700	6,800 (9)	$ 23.04	04/12/32	1,360 (10)	$ 33,674
	—	8,500 (11)	$ 17.66	07/27/33	1,700 (12)	$ 42,092
Thomas A. Sa	20,000	5,000 (13)	$ 19.93	07/18/29	2,177 (14)	$ 53,903
	4,200	2,800 (15)	$ 11.50	03/19/30	600 (16)	$ 14,856
	2,800	4,200 (17)	$ 18.17	03/08/31	3,000 (18)	$ 74,280
	1,400	5,600 (19)	$ 23.04	04/12/32	1,200 (20)	$ 29,712
	—	7,000 (21)	$ 17.66	07/27/33	1,500 (22)	$ 37,140
Scott Myers	16,000	4,000 (23)	$ 19.02	05/16/29	1,817 (24)	$ 44,989
	3,300	2,200 (25)	$ 11.50	03/19/30	540 (26)	$ 13,370
	2,200	3,300 (27)	$ 18.17	03/08/31	2,910 (28)	$ 72,052
	1,100	4,400 (29)	$ 23.04	04/12/32	1,080 (30)	$ 26,741
	—	5,500 (31)	$ 25.33	02/16/33	800 (32)	$ 19,808
					3,500 (33)	$ 86,660
					2,500 (34)	$ 61,900

(1) This column represents the number of unvested shares of underlying restricted stock unit awards granted to our “named executive officers”.
(2) The market value of the shares of underlying restricted stock unit awards that have not vested is based on the closing price of our common stock of $24.76 at December 31, 2023.
(3) Vests with respect to 354.30 shares each month until fully vested on June 21, 2023.
(4) Vests with respect to 97.58 shares each month until fully vested on June 21 2023.
(5) Vests with respect to 1,700 shares each year until fully vested on March 19, 2025.
(6) Vests with respect to 340 shares each year until fully vested on March 19, 2025.
(7) Vests with respect to 1,700 shares each year until fully vested on March 8, 2026.
(8) Vests with respect to 1,140 shares each year until fully vested on March 8, 2026.
(9) Vests with respect to 1,700 shares each year until fully vested on April 12, 2027.
(10) Vests with respect to 340 shares each year until fully vested on April 12, 2027.
(11) Vests with respect to 1,700 shares each year until fully vested on July 27, 2028.
(12) Vests with respect to 340 shares each year until fully vested on July 27, 2028.
(13) Vests with respect to 5,000 shares each year until fully vested on July 18, 2024.
(14) Vests with respect to 2,177 shares each year until fully vested on July 18, 2024.
(15) Vests with respect to 1,400 shares each year until fully vested on March 19, 2025.
(16) Vests with respect to 300 shares each year until fully vested on March 19, 2025.
(17) Vests with respect to 1,400 shares each year until fully vested on March 8, 2026.
(18) Vests with respect to 1,000 shares each year until fully vested on March 8, 2026.
(19) Vests with respect to 1,400 shares each year until fully vested on April 12, 2027.
(20) Vests with respect to 300 shares each year until fully vested on April 12, 2027.

Table of Contents

(21) Vests with respect to 1,400 shares each year until fully vested on July 27, 2028.
(22) Vests with respect to 300 shares each year until fully vested on July 27, 2028.
(23) Vests with respect to 4,000 shares each year until fully vested on May 16, 2024.
(24) Vests with respect to 1,817 shares each year until fully vested on May 16, 2024.
(25) Vests with respect to 1,100 shares each year until fully vested on March 19, 2025.
(26) Vests with respect to 270 shares each year until fully vested on March 19, 2025.
(27) Vests with respect to 1,100 shares each year until fully vested on March 8, 2026.
(28) Vests with respect to 970 shares each year until fully vested on March 8, 2026.
(29) Vests with respect to 1,100 shares each year until fully vested on April 12, 2027.
(30) Vests with respect to 270 shares each year until fully vested on April 12, 2027.
(31) Vests with respect to 1,100 shares each year until fully vested on February 16, 2028.
(32) Vests with respect to 200 shares each year until fully vested on April 28, 2027.
(33) Vests with respect to 700 shares each year until fully vested on February 16, 2028.
(34) Vests with respect to 500 shares each year until fully vested on December 21, 2028.

Director Compensation

Our non-employee directors may receive both cash and equity compensation. Board compensation is reviewed by comparison to peer institutions using publicly available information, every three years or earlier if requested. Director compensation is designed to attract and retain persons who are well qualified to serve as directors of the Company and the Bank.

The base annual retainer for all directors is $36,000. Directors serving on two or more committees receive $12,000 in addition to the base annual retainer. Directors may elect to receive their base annual retainer and any additional fees in the form of cash or stock. During 2023, in addition to their base annual retainer and additional fees, the Chairman of the Board and all other directors received an annual stock award (in the form of restricted stock units vesting on May 18, 2024) having a grant date fair value of $66,000 and $33,000, respectively.

The following table sets forth information about the compensation of our directors in 2023. Mr. Shelton, our Chief Executive Officer, earned no additional compensation for his service as a director.

Director	Fees Earned or Paid in Cash	Stock Awards (1)	Option Awards	Total Compensation
Andrew J. Armanino	$ —	$ 81,000	$ —	$ 81,000
Stephen A. Cortese	$ —	$114,000	$ —	$ 114,000
Kevin J. Cullen	$ —	$ 81,000	$ —	$ 81,000
Stephen R. Dathe	$48,000	$ 33,000	$ —	$ 81,000
Wayne S. Doiguchi (2)	$48,000	$ 33,000	$ —	$ 81,000
Rochelle G. Klein	$48,000	$ 33,000	$ —	$ 81,000
Julie J. Levenson	$ —	$ 69,000	$ —	$ 69,000
Frank L. Muller	$ —	$ 69,000	$ —	$ 69,000
Millicent C. Tracey	$ —	$ 69,000	$ —	$ 69,000
Edmond E. Traille (2)	$24,000	$ —	$ —	$ 24,000
Theodore A. Wilm	$36,000	$ 33,000	$ —	$ 69,000

(1) The grant date fair value of the stock awards is based on the fair market value of a share of common stock on the grant date, computed in accordance with FAB ASC Topic 718. This column includes stock-based awards and stock issued in lieu of cash fees. As of December 31, 2023, the directors held unvested restricted stock awards in the following amounts: Mr. Armanino, 2,340 shares; Mr. Cortese, 4,680 shares; Mr. Cullen, 2,340 shares; Mr. Dathe, 2,340 shares; Ms. Klein, 2,340 shares; Ms. Levenson, 2,340 shares; Mr. Muller, 2,340 shares; Ms. Tracey, 2,340 shares; and Mr. Wilm 2,340 shares.

(2) Mr. Traille served as a director until the Company's annual meeting held on May 18, 2023 and Mr. Doiguchi resigned on November 13, 2023.

Incentive Compensation Clawback Policy

The Company has adopted an incentive compensation clawback policy as required by the rules of the Nasdaq Stock Market, which is filed as Exhibit 97 to this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Security Ownership of Management

Set forth below is certain information, as of March 1, 2024 (except where another date is indicated), regarding the shares of our common stock that were owned, beneficially by (i) each of our current directors and each nominee standing for election to our Board of Directors at the Annual Meeting; (ii) each of our named executive officers and (iii) all of our directors and executive officers as a group. Unless otherwise indicated, we believe that the shareholders listed have sole voting and investment power with respect to all shares, subject to applicable community property laws.

Name of Beneficial Owner (1)	Common Stock	Exercisable Options and Vesting Restricted Stock Units (2)	Shares Beneficially Owned (3)	Percent of Class (3)
Directors:				
Andrew J. Armanino	105,805	—	105,805	1.26%
Stephen A. Cortese	232,965	—	232,965	2.77%
Kevin J. Cullen	48,341	—	48,341	0.57%
Stephen R. Dathe	50,565	—	50,565	0.60%
Rochelle G. Klein (4)	168,407	—	168,407	2.00%
Julie J. Levenson	4,984	—	4,984	0.06%
Frank L. Muller	14,617	—	14,617	0.17%
Steven E. Shelton	48,522	62,066	110,588	1.31%
Millicent C. Tracey	4,403	—	4,403	0.05%
Theodore A. Wilm	—	—	—	0.00%
Executive Officers other than Directors:				
Tom M. Dorrance	16,043	32,735	48,778	0.58%
Vivian Z. Mui	7,524	21,700	29,224	0.35%
Scott Myers	11,031	29,410	40,441	0.48%
Thomas A. Sa	15,302	34,200	49,502	0.59%
Michele M. Wirfel	21,733	39,803	61,536	0.73%
Directors and Executive Officers as a Group (15)	750,242	219,914	970,156	11.53%

(1) The address for all directors and executives is c/o California BanCorp, 1300 Clay Street, Suite 500, Oakland, California 94612.
(2) Reflects shares that may be acquired upon the exercise of stock options or the vesting of restricted stock units within 60 days of March 1, 2024.
(3) Includes beneficially owned shares plus options currently exercisable or exercisable and restricted stock units vesting within 60 days of March 1, 2024. Subject to applicable community property laws and shared voting and investment power with a spouse, the persons listed have sole voting and investment power with respect to such shares unless otherwise noted.
(4) Includes 39,546 held in trust as to which Ms. Klein shares voting and dispositive authority as trustee.

Table of Contents

Security Ownership of Certain Beneficial Owners

Set forth below is certain information as of March 1, 2024 (except where another date is indicated) regarding the shares of our common stock that were owned, beneficially by each person (or group of affiliated persons) who is known by us to beneficially own more than 5% of the outstanding shares of our common stock.

Name of Beneficial Owner	Shares Beneficially Owned	Percent of Class
AllianceBernstein L.P. (1)	822,146	9.77%
Banc Fund Entities (2)	577,114	6.86%
Manulife Financial Corporation (3)	455,194	5.41%

(1) Based on a Schedule 13G/A filed with the SEC on February 14, 2024 by AllianceBernstein L.P., which reports sole voting and dispositive power over all such shares. The filing reports that AllianceBernstein L.P. is a majority owned subsidiary of Equitable Holdings, Inc. ("EQH") and operates under independent management and makes independent decisions from EQH and its respective subsidiaries. The Schedule 13G/A state that EQH calculates and reports beneficial ownership separately from AllianceBernstein pursuant to guidance provided by the SEC in Release Number 34-39538 (January 12, 1998). The filer's address is 501 Commerce Street, Nashville, TN 37203.

(2) Based on a Schedule 13G/A filed with the SEC on February 8, 2024 by Banc Fund X L.P. ("BF X"), Banc Fund IX L.P. ("BF IX") and TBFC Financial Technologies Fund L.P. ("TFTF") who report sole voting and dispositive authority over 252,938, 324,176 and 0 shares of the Company's common stock, respectively. The general partner of BF X is MidBan X L.P. The general partner of BF IX is MidBan IX L.P. The general partner of MidBank XI L.P., MidBan IX L.P. and TFTF is The Banc Funds Company, L.L.C. ("TBFC"). The filing further reports that TBFC's principal shareholder is Charles J. Moore, that Mr. Moore is the manager of BF IX and BF X and TFTF has voting and dispositive power over the securities of the Company held by each of those entities and that as the controlling member of TBFC, Mr. Moore controls TBFC, and therefore each of the partnership entities directly and indirectly controlled by TBFC. The filers' address is 150 South Wacker Drive, Suite 2725, Chicago IL 60606.

(3) Based on a Schedule 13G/A filed with the SEC on February 13, 2024 by Manulife Financial Corporation ("MFC") and MFC's indirect, wholly owned subsidiaries, Manulife Investment Management (US) LLC ("MIM (US)"). The filing reports that MIM (US) has beneficial ownership of 455,194 shares and with sole voting and dispositive power over the shares. Additionally, the parent-subsidiary relationship to MIM (US), MFC may be deemed to have beneficial ownership of these same shares. The filers' address is 197 Clarendon Street, Boston, MA 02116.

Equity Plans

The following table sets forth information regarding outstanding options and other rights to purchase or acquire common stock granted under the Company's compensation plans as of December 31, 2023.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders	738,157	$ 19.41	616,442
Equity compensation plans not approved by security holders	—	—	—
Total	738,157	$ 19.41	616,442

[Table of Contents](#)

Item 13. Certain Relationships and Related Transactions, and Director Independence

Director Independence

Our Board has concluded that each of our directors other than Mr. Shelton (Andrew J. Armanino, Stephen A. Cortese, Kevin J. Cullen, Stephen R. Dathe, Rochelle G. Klein, Julie J. Levenson, Frank L. Muller, Millicent C. Tracey and Theodore A. Wilm) meets the independence requirements of the Nasdaq listing standards and applicable SEC rules. Mr. Shelton, the Company's Chief Executive Officer, is not considered to be independent because he is an executive officer of the Company and the Bank.

Policies and Procedures for Approval of Related Person Transactions

Our Board of Directors has adopted a written Related Party Transactions Policy. The policy describes the procedures used to identify, review, approve and disclose, if necessary, any transaction occurring since the beginning of our last fiscal year, or any currently proposed transaction, involving the Company where the amount involved exceeds $120,000 and in which any of the following persons had or will have a direct or indirect material interest: (i) a director or director nominee; (ii) an executive officer; (iii) a person known by the Company to be the beneficial owner of more than 5% of the Company's common stock; or (iv) a person known by the Company to be an immediate family member of any of the foregoing. Each such transaction is referred to as a "Related Party Transaction."

Under the policy, each of our directors and executive officers is required to inform the Chief Financial Officer of any potential Related Party Transaction. In addition, on an annual basis, each director and executive officer completes a questionnaire designed to elicit information about any potential Related Party Transactions. Once a potential transaction is identified and is determined to constitute a Related Party Transaction, the Nominating and Corporate Governance Committee is provided with details regarding the transaction, including the terms of the transaction, the business purpose of the transaction and the benefit of the transaction to the Company and the relevant related party. The Nominating and Corporate Governance Committee is then required to review the transaction to determine whether it should be permitted or prohibited. In making its determination, the Nominating and Corporate Governance Committee will consider all relevant factors, including but not limited to (i) whether the terms of the Related Party Transaction are fair to the Company and on the same basis as would apply if the transaction did not involve a related party, (ii) whether there are business reasons for the Company to enter into the Related Party Transaction, (iii) whether the Related Party Transaction would impair the independence of an outside director, and (iv) whether the Related Party Transaction would present an improper conflict of interest for any director or executive officer of the Company. Any member of the Nominating and Corporate Governance Committee that has an interest in a Related Party Transaction will abstain from voting on approval of the transaction but, if requested, may participate in the committee's discussions regarding the transaction.

Some of our officers and directors and the business organizations with which they are associated, have been customers of, and have engaged in banking transactions with, the Bank in the ordinary course of business, and we expect that they will continue to engage in such banking transactions in the future. All of the banking transactions described in this paragraph are made in the ordinary course of business, on substantially the same terms, including interest rates and collateral (where applicable), as those prevailing at the time for comparable transactions with persons not related to us, and do not involve more than normal risk of collectability or present other features unfavorable to us. As of the date of this proxy statement, no related party loans were categorized as nonaccrual, past due, restructured or potential problem loans. The Bank is restricted as to the extent and amount of loans it can make to our officers and directors. All of the banking transactions described in this paragraph have complied with said restrictions. In addition, prior approval of the Bank's board of directors is required for all such loans in amounts greater than $500,000 to members of our Board of Directors or executive officers.

Table of Contents

Item 14. Principal Accountant Fees and Services

Audit and Non-Audit Services Pre-Approval Policy

The Audit Committee's Charter provides that the Audit Committee must pre-approve all audit and non-audit services to be performed by the Company's independent public accounting firm. In accordance with that requirement, the Audit Committee pre-approved the engagements of Elliott Davis LLC ("Elliott Davis"), who audited our financial statements for the year ended December 31, 2023, and Crowe, LLP ("Crowe"), who audited our financial statements for the year ended December 31, 2022.

In addition, the Audit Committee pre-approved all of non-audit services performed by Crowe in fiscal years 2023 and 2022.

Audit and Other Fees Paid in Fiscal Years 2023 and 2022

Audit Services. For the year ended December 31, 2023, Elliott Davis rendered audit services to us which consisted of: (i) an audit of the Company's consolidated financial statements for the year then ended, including quarterly reviews of the consolidated financial statements during the year and (ii) an audit of the effectiveness of the Company's internal control over financial reporting. Crowe rendered these same audit services to us with respect to the year ended December 31, 2022.

Audit Related Services. For the year ended December 31, 2022, Crowe rendered audit related services to the Company pertaining to the adoption of a new accounting standard.

Tax Related Services. For the years ended December 31, 2023 and 2022, Crowe rendered tax related services to us which consisted of preparing the Company's tax returns for the year then ended.

Other Services. For the years ended December 31, 2023 and 2022, Elliott Davis and Crowe rendered other services to the Company.

The following table contains information regarding the fees billed by Elliott Davis and Crowe for the services it rendered to us for the years ended December 31, 2023 and 2022.

Independent Public Accountant Fees	2023	2022
Audit services	$ 525,570	$ 595,737
Audit related services	$ —	$ 63,838
Tax related services	$ 44,000	$ 42,692
Other services	$ 25,429	$ —

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: The financial statements listed under Part II-Item 8. "Financial Statements and Supplementary Data" are filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules: All financial statement schedules have been omitted since the required information is either not applicable or not required, or has been included in the Financial Statements and related notes.

Table of Contents

(b) The following exhibits are filed with or incorporated by reference in this Annual Report on Form 10-K, and this list includes the Exhibit Index.

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger and Reorganization, dated as of January 30, 2024, by and between Southern California Bancorp and California BanCorp (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on January 30, 2024)
3.1	Articles of Incorporation of California BanCorp †
3.2	Amended and Restated Bylaws of California BanCorp †
4.1	Form of Certificate of Common Stock of California BanCorp †
4.2	Description of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on April 14, 2020)
4.3	Form of 5.00% Fixed-Floating Rate Subordinated Note due 2030 of California BanCorp (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on September 30, 2020.
4.4	Indenture, dated as of August 17, 2021, by and between California BanCorp and UMB Bank, National Association, as trustee, including the Form of 3.50% Fixed-to-Floating Rate Subordinated Note due 2031 of California BanCorp (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on August 17, 2021)
10.1	Form of Indemnification Agreement by and between California BanCorp and its directors and executive officers †
10.2	Form of Indemnification Agreement by and between California Bank of Commerce and its directors and executive officers †
10.3	Amended and Restated 2017 Equity Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 20, 2023)
10.4	Form of Stock Option Award Agreement under the Amended and Restated California BanCorp 2017 Equity Incentive Plan* (incorporated by reference to Exhibit 10.6 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.5	Form of Restricted Stock Award Agreement under the Amended and Restated California BanCorp 2017 Equity Incentive Plan* (incorporated by reference to Exhibit 10.7 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.6	Form of Stock Option Award Agreement under the California Bank of Commerce 2014 Equity Incentive Plan* (incorporated by reference to Exhibit 10.10 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.7	Form of Restricted Stock Award Agreement under the California Bank of Commerce 2014 Equity Incentive Plan* (incorporated by reference to Exhibit 10.11 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.8	Employment Agreement, effective May 7, 2018, by and between Steven E. Shelton and California Bank of Commerce* (incorporated by reference to Exhibit 10.9 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.9	First Amendment to Employment Agreement, dated as of April 28, 2022, by and between California Bank of Commerce and Steven E. Shelton (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 2, 2022)*

Exhibit Number	Description of Exhibit
10.10	Employment Agreement, effective May 20, 2019, by and between Thomas A. Sa and California Bank of Commerce* (incorporated by reference to Exhibit 10.13 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.11	First Amendment to Employment Agreement, dated as of April 28, 2022, by and between California Bank of Commerce and Thomas A. Sa (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 2, 2022)*
10.12	Employment Agreement, dated as of August 9, 2022, by and between California Bank of Commerce and Scott Myers (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 11, 2022)*
10.13	Employment Agreement, dated as of June 19, 2018, by and between California Bank of Commerce and Michele Wirfel (incorporated by reference to Exhibit 10.9 of the Company's Form 10-Q filed on August 11, 2022)*
10.14	Employment Agreement, dated as of July 1, 2019, by and between California Bank of Commerce and Vivian Mui(incorporated by reference to Exhibit 10.8 of the Company's Form 10-Q filed on August 11, 2022)*
10.15	Employment Agreement, dated as of March 10, 2016, by and between California Bank of Commerce and Thomas M. Dorrance(incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q filed on August 11, 2022)*
10.16	First Amendment to Employment Agreement, dated as of June 19, 2018, by and between California Bank of Commerce and Thomas M. Dorrance(incorporated by reference to Exhibit 10.7 of the Company's Form 10-Q filed on August 11, 2022)*
10.17	Executive Supplemental Compensation Agreement by and between California Bank of Commerce and Steven E. Shelton* (incorporated by reference to Exhibit 10.14 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.18	Executive Supplemental Compensation Agreement by and between California Bank of Commerce and Thomas A. Sa* (incorporated by reference to Exhibit 10.15 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.19	Form of Executive Supplemental Compensation Agreement by and between California Bank of Commerce and each of Scott Myers, Thomas M. Dorrance, Vivian Mui and Michele Wirfel (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on August 11, 2022)*
10.20	Second Amended and Restated Split-Dollar Agreement effective January 13, 2019 by and between California Bank of Commerce and Steven E. Shelton* (incorporated by reference to Exhibit 10.18 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.21	Split-Dollar Agreement by and between California Bank of Commerce and Scott Myers (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q filed on August 11, 2022)*
21.1	Subsidiaries of California BanCorp †
23.1	Consent of Elliott Davis, LLP
23.2	Consent of Crowe, LLP
31.1	Certification of Chief Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of Sarbanes-Oxley of 2002

Exhibit Number	Description of Exhibit
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
97.1	Clawback Policy
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Indicates a management contract or compensatory plan.
† Incorporated by reference to the exhibit of the same number of the Company’s Form 10 filed with the SEC on March 4, 2020.

Item 16. Form 10-K Summary

None.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CALIFORNIA BANCORP

Date: March 21, 2024

/s/ Steven E. Shelton
Steven E. Shelton
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature/Name	Title	Date
By: /s/ Steven E. Shelton Steven E. Shelton	Chief Executive Officer and Director (Principal Executive Officer)	March 21, 2024
By: /s/ Thomas A. Sa Thomas A. Sa	President, Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)	March 21, 2024
By: /s/ Andrew J. Armanino Andrew J. Armanino	Director	March 21, 2024
By: /s/ Stephen A. Cortese Stephen A. Cortese	Chairman	March 21, 2024
By: /s/ Kevin J. Cullen Kevin J. Cullen	Director	March 21, 2024
By: /s/ Stephen R. Dathe Stephen R. Dathe	Director	March 21, 2024
By: /s/ Rochelle G. Klein Rochelle G. Klein	Director	March 21, 2024
By: /s/ Julie J. Levenson Julie J. Levenson	Director	March 21, 2024
By: /s/ Frank L. Muller Frank L. Muller	Director	March 21, 2024
By: /s/ Millicent C. Tracey Millicent C. Tracey	Director	March 21, 2024
By: /s/ Theodore A. Wilm Theodore A. Wilm	Director	March 21, 2024

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-238979, 333-251181, and 333-274746 on Form S-8 and Registration Statement No. 333-266959 on Form S-3 of California BanCorp of our report dated March 21, 2024, relating to the consolidated financial statements of California BanCorp, appearing in this Annual Report on Form 10-K of California BanCorp for the year ended December 31, 2023.

/s/ Elliott Davis, LLC

Greenville, South Carolina
March 21, 2024

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-251181, 333-247476 and 333-238979 on Form S-8 and 333-266959 on Form S-3 of California BanCorp of our report dated March 24, 2023 relating to the financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Sacramento, California
March 21, 2024

EXHIBIT 31.1

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

I, Steven E. Shelton, certify that:

1. I have reviewed this annual report on Form 10-K of California BanCorp.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of 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 registrants' board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 21, 2024

/s/ Steven E. Shelton
Steven E. Shelton
Chief Executive Officer

EXHIBIT 31.2

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

I, Thomas A. Sa, certify that:

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

Date: March 21, 2024

/s/ Thomas A. Sa
Thomas A. Sa
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the periodic report of California BanCorp (the “Company”) on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (the “Report”), I, Steven E. Shelton, Chairman, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

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

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

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

Date: March 21, 2024

/s/ Steven E. Shelton
Steven E. Shelton
Chief Executive Officer

EXHIBIT 32.2

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

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

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

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

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

Date: March 21, 2024

/s/ Thomas A. Sa
Thomas A. Sa
Chief Financial Officer

Exhibit 97.1

CALIFORNIA BANCORP

CLAWBACK POLICY

I. Purpose and Scope

The Board of Directors (the "**Board**") of California BanCorp (the "**Company**") believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company's pay-for-performance compensation philosophy. The Board has therefore adopted this Clawback Policy (this "**Policy**"), which provides for the recovery of erroneously awarded Compensation in the event of a Triggering Event (as defined below).

II. Administration

This Policy is designed to comply with, and shall be interpreted to be consistent with, Section 10D of the Exchange Act, Rule 10D-1 of the Exchange Act, Nasdaq Listing Rule 5608 and other regulations, rules and guidance of the Securities and Exchange Commission (the "**SEC**") thereunder, and related securities regulations and regulations of the stock exchange or association on which Company's common shares are listed (the "**Listing Standards**"). This Policy shall be administered by the Compensation Committee of the Board (the "**Committee**").

Any determinations made by the Committee shall be final and binding. In addition, the Company shall file all disclosures with respect to this Policy in accordance with the Listing Standards. The Committee hereby has the power and authority to enforce the terms and conditions of this Policy and to use any and all of the Company's resources it deems appropriate to recoup any excess Compensation subject to this Policy.

III. Covered Executives

This Policy applies to the Company's current and former Covered Executives, as determined by the Committee in accordance with the Listing Standards.

IV. Events That Trigger Recoupment Under This Policy

The Board or Committee will be required to recoup any excess Compensation received by any Covered Executive during the three (3) completed fiscal years (together with any interim stub fiscal year period(s) of less than nine (9) months resulting from Company's transition to different fiscal year measurement dates) immediately preceding the date the Company is deemed (as determined pursuant to the immediately following sentence) to be required to prepare a Covered Accounting Restatement (the "**Three-Year Recovery Period**") irrespective of any fault, misconduct or responsibility of such Covered Executive for the Covered Accounting Restatement. For purposes of immediately preceding sentence, the Company is deemed to be required to prepare a Covered Accounting Restatement on the earlier of (A) the date upon which the Board or committee, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Covered Accounting Restatement; or (B) the date a court, regulator, or other legally authorized body directs the Company to prepare a Covered Accounting Restatement (each a "**Triggering Event**").

V. Excess Compensation: Amount Subject to Recovery

The amount of Compensation to be recovered shall be the excess of the Compensation received by the Covered Executive over the amount Compensation which would have been received by the Covered Executive had the amount of such Compensation been calculated based on the restated amounts, as determined by the Committee. For purposes of this Policy, Compensation shall be deemed "received", either wholly or in part, in the fiscal year during which any applicable Financial Reporting Measure is attained, even if the payment, vesting or grant of such Compensation occurs after the end of such fiscal year. Amounts required to be recouped under this Policy shall be calculated on a pre-tax basis. The date of receipt of the compensation depends upon the terms of the award. For example:

a. If the *grant* of an award of Compensation is based, either wholly or in part, on the satisfaction of a Financial Reporting Measure performance goal, then the award would be deemed received in the fiscal period when that measure was *satisfied*;

b. If the *vesting* of an equity award of Compensation occurs *only* upon the satisfaction of a Financial Reporting Measure performance condition, then the award would be deemed received in the fiscal period when it *vests*;

c. If the *earning* of a non-equity incentive plan award of Compensation is based on the satisfaction of the relevant Financial Reporting Measure performance goal, then the non-equity incentive plan award will be deemed received in the fiscal year in which that performance goal is *satisfied*; and

d. If the *earning* of a cash award of Compensation is based on the satisfaction of a Financial Reporting Measure performance goal, then the cash award will be deemed received in the fiscal period when that measure is *satisfied*.

It is specifically understood that, to the extent that the impact of the Covered Accounting Restatement on the amount of Compensation received cannot be calculated directly from the information in the Covered Accounting Restatement (e.g., if such restatement's impact on the Company's share price is not clear), then such excess amount of Compensation shall be determined based on the Committee's reasonable estimate of the effect of the Covered Accounting Restatement on the share price or total shareholder return upon which the Compensation was received. The Company shall maintain documentation for the determination of such excess amount and provide such documentation to the Nasdaq Stock Market ("**Nasdaq**").

VI. Method of Recovery

The Committee shall determine, in its sole discretion, the methods for recovering excess Compensation hereunder, which methods may include, without limitation:

e. requiring reimbursement of cash Compensation previously paid;

f. seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;

g. offsetting the recouped amount from any compensation otherwise owed by the Company to the Covered Executive;

h. cancelling outstanding vested or unvested equity awards; and/or

i. taking any other remedial and recovery action permitted by law, as determined by the Committee.

Notwithstanding anything in this Section VI, and subject to applicable law, the Committee may cause recoupment under this Policy from any amount of Compensation approved, awarded, granted, paid, or payable to any Covered Executive prior to, on, or following the Effective Date (as defined below).

VII. <u>Impracticability</u>

The Committee shall recover any excess Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Committee in accordance with the Listing Standards. It is specifically understood that recovery shall only be deemed impractical if (A) the direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered (before concluding that it would be impracticable to recover any amount of erroneously awarded Compensation based on expense of enforcement, the Committee shall make a reasonable attempt to recover such erroneously awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to Nasdaq); (B) recovery would violate home country law where that law was adopted prior to the November 28, 2022 (before concluding that it would be impracticable to recover any amount of erroneously awarded Compensation based on violation of home country law, the Committee shall obtain an opinion of home country counsel, acceptable to the applicable national securities exchange or association on which Company's common shares are trading, that recovery would result in such a violation, and must provide such opinion to the exchange or association); or (C) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the registrant, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a), and the regulations promulgated thereunder.

VIII. <u>Other Recoupment Rights; Acknowledgement</u>

The Committee may require that any employment agreement, equity award agreement, or similar agreement entered into on or after the Effective Date shall, as a condition to the grant of any benefit thereunder, require a Covered Executive to agree to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company pursuant to the terms of any similar policy in any employment agreement, equity award agreement, or similar agreement and any other legal remedies available to the Company. The Company shall provide notice and seek written acknowledgement of this Policy from each Covered Executive; *provided*, that the failure to provide such notice or obtain such acknowledgement shall have no impact on the applicability or enforceability of this Policy to, or against, any Covered Executive.

IX. No Indemnification of Covered Executives

Notwithstanding any right to indemnification under any plan, policy or agreement of the Company or any of its affiliates, the Company shall not indemnify any Covered Executives against the loss of any excess Compensation. In addition, the Company shall be prohibited from paying or reimbursing a Covered Executive for premiums of any third-party insurance purchased to fund any potential recovery obligations.

X. Indemnification

To the extent allowable pursuant to applicable law, each member of the Board or the Committee and any officer or other employee to whom authority to administer any component of this Policy is designated shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to this Policy and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; *provided*, *however*, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled pursuant to the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

XI. Effective Date

This Policy shall be effective as of the effective date of the Listing Standards (the " **Effective Date**"). This Policy shall apply to any Compensation that is received by Covered Executives on or after the Effective Date, even if such Compensation was approved, awarded, granted, or paid to Covered Executives prior to the Effective Date.

XII. Amendment and Termination; Interpretation

The Board may amend this Policy from time to time in its sole discretion and shall amend this Policy as it deems necessary to reflect and comply with further regulations, rules and guidance of the SEC and Nasdaq. The Board may terminate this Policy at any time.

The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. This Policy is designed and intended to be interpreted in a manner that is consistent with the requirements of the Listing Standards. To the extent there is any inconsistency between this Policy and such regulations, rules and guidance, such regulations, rules and guidance shall control, and this Policy shall be deemed amended to incorporate such regulations, rules and guidance until or unless the Board or the Committee expressly determines otherwise.

This Policy shall be applicable, binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives to the fullest extent of the law. For the avoidance of doubt, this Policy shall be in addition to (and not in substitution of) any other clawback policy of the Company in effect from time to time or applicable to any Covered Executive.

XIII. Definitions

For purposes of this Policy, the following terms shall have the following meanings:

1. "**Board**" means the Board of Directors of the Company.
2. "**Company**" means California BanCorp, a California corporation, and its subsidiaries and their successors.
3. "**Compensation**" means any compensation that was approved, awarded or granted to, or earned by a Covered Executive (A) while the Company had a class of securities listed on a national securities exchange or a national securities association (B) following on or after the Effective Date (including any award under any short- or long-term incentive compensation plan of the Company, including any other short- or long-term cash or equity incentive award or any other payment) that, in each case, is granted, earned, or vested based wholly or in part upon the attainment of any Financial Reporting Measure (i.e., any measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measures, including share price and total shareholder return). Compensation may include (but is not limited to) any of the following:
    a. Annual bonuses and other short- and long-term cash incentives;
    b. Stock options;
    c. Stock appreciation rights;
    d. Restricted shares;
    e. Restricted share units;
    f. Performance shares; and
    g. Performance units.
4. "**Covered Accounting Restatement**" means any accounting restatement of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under U.S. securities laws. A Covered Accounting Restatement includes any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as "Big R" restatements) or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as "little r" restatements). A Covered Accounting Restatement does not include (A) an out-of-period adjustment when the error is immaterial to the previously issued financial statements, and the

correction of the error is also immaterial to the current period; (B) a retrospective application of a change in accounting principle; (C) a retrospective revision to reportable segment information due to a change in the structure of an issuer's internal organization; (D) retrospective reclassification due to a discontinued operation; (E) a retrospective application of a change in reporting entity, such as from a reorganization of entities under common control; or (F) a retrospective revision for stock splits, reverse stock splits, stock dividends or other changes in capital structure.

5. "**Covered Executive**" means any person who:

    a. Has received applicable Compensation:

        i. During the Three-Year Recovery Period; and

        ii. After beginning service as an Executive Officer; and

    b. Has served as an Executive Officer at any time during the performance period for such Compensation.

6. "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

7. "**Executive Officer(s)**" means an "executive officer" as defined in Exchange Act Rule 10D-1(d) and the Listing Standards and includes any person who is the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice president of the issuer in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company (with any executive officers of the Company's parent(s) or subsidiaries being deemed Covered Executives of the Company if they perform such policy making functions for the Company), and such other senior executives or employees who may from time to time be deemed subject to the Policy by the Board in its sole discretion. All executive officers of the Company identified by the Board pursuant to 17 CFR 229.401(b) shall be deemed "Executive Officers."

8. "**Financial Reporting Measure(s)**" means any measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measures, including share price and total shareholder return, including, but not limited to, financial reporting measures including "non-GAAP financial measures" for purposes of Exchange Act Regulation G and 17 CFR 229.10, as well other measures, metrics and ratios that are not non-GAAP measures, like same store sales. Financial Reporting Measures may or may not be included in a filing with the SEC and may be presented outside the Company's financial statements, such as in Management's Discussion and Analysis of Financial Conditions and Results of Operations or the performance graph. Financial Reporting Measures include, without limitation, any of the following:

    a. Company share price;

b. Total shareholder return;

c. Revenues;

d. Net income;

e. Earnings before interest, taxes, depreciation, and amortization (EBITDA);

f. Funds from operations;

g. Liquidity measures such as working capital or operating cash flow;

h. Return measures such as return on invested capital or return on assets; and

i. Earnings measures such as earnings per share.