

REFINITIV

DELTA REPORT

10-Q

PPBI - PACIFIC PREMIER BANCORP I
10-Q - SEPTEMBER 30, 2024 COMPARED TO 10-Q - JUNE 30, 2024

The following comparison report has been automatically generated

| | |
|--------------|------|
| TOTAL DELTAS | 1167 |
| CHANGES | 530 |
| DELETIONS | 319 |
| ADDITIONS | 318 |

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2024** **September 30, 2024**

OR

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

For the transition period from _____ to _____

Commission File Number 0-22193

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(Exact name of registrant as specified in its charter)

Delaware

33-0743196

(State or other jurisdiction of incorporation or organization)

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

17901 Von Karman Avenue, Suite 1200, Irvine, California 92614

(Address of principal executive offices and zip code)

(949) 864-8000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

| Title of Each Class | Trading Symbol | Name of Each Exchange on Which Registered |
|--|----------------|---|
| Common Stock, par value \$0.01 per share | PPBI | NASDAQ Global Select Market |

The number of shares outstanding of the registrant's common stock as of **July 19, 2024** **October 22, 2024** was **96,424,809** **96,440,625**.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES

FORM 10-Q

INDEX

FOR THE QUARTER ENDED **JUNE** **SEPTEMBER** 30, 2024

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

| | (Dollars in thousands, except par value and share data) | June 30, 2024 | December 31, 2023 | (Dollars in thousands, except par value and share data) | September 30, 2024 | December 31, 2023 |
|---|---|---------------------|-------------------------|---|--------------------------|-------------------------|
| (Dollars in thousands, except par value and share data). | | | | | | |
| ASSETS | | | | | | |
| Cash and due from banks | | | | | | |
| Cash and due from banks | | | | | | |
| Cash and due from banks | | | | | | |
| Interest-bearing deposits with financial institutions | | | | | | |
| Cash and cash equivalents | | | | | | |
| Interest-bearing time deposits with financial institutions | | | | | | |
| Investments securities held-to-maturity, at amortized cost, net of allowance for credit losses of \$129 and \$126 (fair value of \$1,427,324 and \$1,485,506) at June 30, 2024 and December 31, 2023, respectively | | | | | | |
| Investments securities held-to-maturity, at amortized cost, net of allowance for credit losses of \$104 and \$126 (fair value of \$1,482,042 and \$1,485,506) at September 30, 2024 and December 31, 2023, respectively | | | | | | |
| Investment securities available-for-sale, at fair value | | | | | | |
| FHLB, FRB, and other stock | | | | | | |
| Loans held for sale, at lower of cost or fair value | | | | | | |
| Loans held for investment | | | | | | |
| Loans held for investment | | | | | | |
| Loans held for investment | | | | | | |
| Allowance for credit losses | | | | | | |
| Loans held for investment, net | | | | | | |

| |
|-----------------------------|
| Accrued interest receivable |
| Other real estate owned |
| Premises and equipment, net |
| Deferred income taxes, net |
| Bank owned life insurance |
| Intangible assets |
| Goodwill |
| Other assets |
| Total assets |

LIABILITIES

LIABILITIES

LIABILITIES

| |
|--|
| Deposit accounts: |
| Deposit accounts: |
| Deposit accounts: |
| Noninterest-bearing checking |
| Noninterest-bearing checking |
| Noninterest-bearing checking |
| Interest-bearing: |
| Checking |
| Checking |
| Checking |
| Money market/savings |
| Retail certificates of deposit |
| Wholesale/brokered certificates of deposit |
| Total interest-bearing |
| Total deposits |
| FHLB advances and other borrowings |
| Subordinated debentures |
| Accrued expenses and other liabilities |
| Accrued expenses and other liabilities |
| Accrued expenses and other liabilities |
| Total liabilities |

STOCKHOLDERS' EQUITY

| |
|---|
| Preferred stock, \$0.01 par value; 1,000,000 authorized; no shares issued and outstanding |
| Preferred stock, \$0.01 par value; 1,000,000 authorized; no shares issued and outstanding |
| Preferred stock, \$0.01 par value; 1,000,000 authorized; no shares issued and outstanding |
| Common stock, \$0.01 par value; 150,000,000 shares authorized at June 30, 2024 and December 31, 2023; 96,434,047 shares and 95,860,092 shares issued and outstanding, respectively |
| Common stock, \$0.01 par value; 150,000,000 shares authorized at September 30, 2024 and December 31, 2023; 96,462,767 shares and 95,860,092 shares issued and outstanding, respectively |
| Additional paid-in capital |
| Retained earnings |
| Accumulated other comprehensive loss |
| Total stockholders' equity |
| Total liabilities and stockholders' equity |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | | | |
|--------------------------|------------------------|--------------------|-------------------------|
| Three Months Ended | Six Months Ended | Three Months Ended | Nine Months Ended |
|--------------------------|------------------------|--------------------|-------------------------|

| | | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
|---|---|------------------|------------------|------------------|------------------|---|-----------------------|-----------------------|-----------------------|-----------------------|
| (Dollars in thousands, except share data) | (Dollars in thousands, except share data) | | | | | (Dollars in thousands, except share data) | | | | |
| INTEREST INCOME | | | | | | | | | | |
| Loans | | | | | | | | | | |
| Loans | | | | | | | | | | |
| Loans | | | | | | | | | | |
| Investment securities and other interest-earning assets | | | | | | | | | | |
| Total interest income | | | | | | | | | | |
| INTEREST EXPENSE | INTEREST EXPENSE | | | | | INTEREST EXPENSE | | | | |
| Deposits | | | | | | | | | | |
| FHLB advances and other borrowings | | | | | | | | | | |
| Subordinated debentures | | | | | | | | | | |
| Total interest expense | | | | | | | | | | |
| Net interest income before provision for credit losses | | | | | | | | | | |
| Provision for credit losses | | | | | | | | | | |
| Net interest income after provision for credit losses | | | | | | | | | | |
| NONINTEREST INCOME | NONINTEREST INCOME | | | | | NONINTEREST INCOME | | | | |
| Loan servicing income | | | | | | | | | | |
| Service charges on deposit accounts | | | | | | | | | | |
| Other service fee income | | | | | | | | | | |
| Debit card interchange fee income | | | | | | | | | | |
| Earnings on bank owned life insurance | | | | | | | | | | |
| Net gain from sales of loans | | | | | | | | | | |
| Net gain from sales of investment securities | | | | | | | | | | |
| Trust custodial account fees | | | | | | | | | | |
| Trust custodial account fees | | | | | | | | | | |
| Trust custodial account fees | | | | | | | | | | |
| Escrow and exchange fees | | | | | | | | | | |
| Other (loss) income | | | | | | | | | | |
| Other income | | | | | | | | | | |
| Total noninterest income | | | | | | | | | | |
| NONINTEREST EXPENSE | NONINTEREST EXPENSE | | | | | NONINTEREST EXPENSE | | | | |
| Compensation and benefits | | | | | | | | | | |
| Premises and occupancy | | | | | | | | | | |
| Data processing | | | | | | | | | | |
| Other real estate owned operations, net | | | | | | | | | | |
| FDIC insurance premiums | | | | | | | | | | |
| Legal and professional services | | | | | | | | | | |
| Marketing expense | | | | | | | | | | |
| Office expense | | | | | | | | | | |
| Loan expense | | | | | | | | | | |
| Deposit expense | | | | | | | | | | |

| | |
|--|--|
| Amortization of intangible assets | |
| Amortization of intangible assets | |
| Amortization of intangible assets | |
| Other expense | |
| Total noninterest expense | |
| Net income before income taxes | |
| Income tax expense | |
| Net income | |
| EARNINGS PER SHARE | EARNINGS PER SHARE |
| Basic | |
| Diluted | |
| WEIGHTED AVERAGE SHARES OUTSTANDING | WEIGHTED AVERAGE SHARES OUTSTANDING |
| Basic | |
| Diluted | |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended | Six Months Ended | Three Months Ended | Nine Months Ended | | | | | |
|---|------------------------|------------------|------------------------|-------------------|--|--------------------|--------------------|--------------------|--------------------|
| | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
| (Dollars in thousands) | (Dollars in thousands) | | (Dollars in thousands) | | | | | | |
| Net income | | | | | | | | | |
| Other comprehensive income (loss), net of tax: | | | | | | | | | |
| Unrealized gain (loss) on securities available-for-sale, net of income taxes ⁽¹⁾ | | | | | | | | | |
| Unrealized gain (loss) on securities available-for-sale, net of income taxes ⁽¹⁾ | | | | | | | | | |
| Unrealized gain (loss) on securities available-for-sale, net of income taxes ⁽¹⁾ | | | | | | | | | |
| Reclassification adjustment for net gain on sales of securities included in net income, net of income taxes ⁽²⁾ | | | | | | | | | |
| Net unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of income taxes ⁽³⁾ | | | | | | | | | |
| Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity, net of income taxes ⁽⁴⁾ | | | | | | | | | |
| Other comprehensive income (loss), net of tax | | | | | | | | | |
| Comprehensive income, net of tax | | | | | | | | | |

⁽¹⁾ Income tax expense (benefit) of the unrealized gain (loss) on securities was \$1.2 million \$2.9 million and \$(6.2) million for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$1.7 million \$4.6 million and \$8.3 million \$2.0 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

⁽²⁾ Income tax expense on the reclassification adjustment for net gain on sales of securities included in net income was zero and zero for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and zero and \$39,000 for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

⁽³⁾ Income tax (benefit) expense on the unrealized loss on securities transferred from available-for-sale to held-to-maturity was zero for each of the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and zero and \$(14.3) million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

⁽⁴⁾ Income tax expense on the amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity included in net income was \$1.0 million and \$1.1 million \$1.0 million for the three months ended June 30, 2024 September 30, 2024 and 2023, respectively, and \$2.0 million \$3.1 million and \$2.0 million \$3.0 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE **SIX NINE** MONTHS AND THREE MONTHS ENDED **JUNE SEPTEMBER** 30, 2024
(Unaudited)

| <u>(Dollars in thousands, except share data).</u> | <u>(Dollars in thousands, except share data).</u> | Common | | Additional | Accumulated | Accumulated | | Total | <u>(Dollars in thousands, except share data).</u> | Common | | Additional | Accumulated | Accumulated | |
|--|---|---------------|---------------|-------------------|--------------------|----------------------|--|----------------------|---|---------------|---------------|-------------------|--------------------|----------------------|--|
| | | Stock | Common | Paid-in | Retained | Other | | Stockholders' | | Stock | Common | Paid-in | Retained | Other | |
| | | Shares | Stock | Capital | Earnings | Comprehensive | | Equity | | Shares | Stock | Capital | Earnings | Comprehensive | |
| | | | | | | Loss | | | | | | | | Loss | |
| Balance at December 31, 2023 | | | | | | | | | | | | | | | |
| Net income | | | | | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | | | | | |
| Cash dividends declared (\$0.66 per common share) | | | | | | | | | | | | | | | |
| Dividend equivalents declared (\$0.66 per restricted stock unit) | | | | | | | | | | | | | | | |
| Cash dividends declared (\$0.99 per common share) | | | | | | | | | | | | | | | |
| Dividend equivalents declared (\$0.99 per restricted stock unit) | | | | | | | | | | | | | | | |
| Share-based compensation expense | | | | | | | | | | | | | | | |
| Issuance of restricted stock, net | | | | | | | | | | | | | | | |
| Restricted stock surrendered and canceled | | | | | | | | | | | | | | | |
| Exercise of stock options | | | | | | | | | | | | | | | |
| Balance at June 30, 2024 | | | | | | | | | | | | | | | |
| Balance at September 30, 2024 | | | | | | | | | | | | | | | |
| Balance at March 31, 2024 | | | | | | | | | | | | | | | |
| Balance at June 30, 2024 | | | | | | | | | | | | | | | |
| Net income | | | | | | | | | | | | | | | |
| Other comprehensive income | | | | | | | | | | | | | | | |
| Cash dividends declared (\$0.33 per common share) | | | | | | | | | | | | | | | |
| Dividend equivalents declared (\$0.33 per restricted stock unit) | | | | | | | | | | | | | | | |
| Share-based compensation expense | | | | | | | | | | | | | | | |

| |
|---|
| Issuance of restricted stock, net |
| Restricted stock surrendered and canceled |
| Exercise of stock options |
| Balance at June 30, 2024 |
| Balance at September 30, 2024 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE ~~SIX~~ **NINE** MONTHS AND THREE MONTHS ENDED ~~JUNE~~ **SEPTEMBER** 30, 2023
(Unaudited)

| <u>(Dollars in thousands, except share data)</u> | <u>(Dollars in thousands, except share data)</u> | Common Stock | Common Stock | Additional Paid-in Capital | Accumulated Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity | <u>(Dollars in thousands, except share data)</u> | Common Stock | Common Stock | Additional Paid-in Capital | Accumulated Retained Earnings | Accumulated Other Comprehensive Loss |
|--|--|--------------|--------------|----------------------------|-------------------------------|--------------------------------------|----------------------------|--|--------------|--------------|----------------------------|-------------------------------|--------------------------------------|
| Balance at December 31, 2022 | | | | | | | | | | | | | |
| Net income | | | | | | | | | | | | | |
| Other comprehensive loss | | | | | | | | | | | | | |
| Cash dividends declared (\$0.66 per common share) | | | | | | | | | | | | | |
| Cash dividends declared (\$0.66 per common share) | | | | | | | | | | | | | |
| Cash dividends declared (\$0.66 per common share) | | | | | | | | | | | | | |
| Dividend equivalents declared (\$0.66 per restricted stock unit) | | | | | | | | | | | | | |
| Cash dividends declared (\$0.99 per common share) | | | | | | | | | | | | | |
| Cash dividends declared (\$0.99 per common share) | | | | | | | | | | | | | |
| Cash dividends declared (\$0.99 per common share) | | | | | | | | | | | | | |
| Dividend equivalents declared (\$0.99 per restricted stock unit) | | | | | | | | | | | | | |
| Share-based compensation expense | | | | | | | | | | | | | |
| Issuance of restricted stock, net | | | | | | | | | | | | | |
| Restricted stock surrendered and canceled | | | | | | | | | | | | | |
| Exercise of stock options | | | | | | | | | | | | | |

| |
|--|
| Balance at |
| June 30, 2023 |
| Balance at |
| September 30, |
| 2023 |
| Balance at March 31, 2023 |
| Balance at March 31, 2023 |
| Balance at March 31, 2023 |
| Balance at June 30, 2023 |
| Balance at June 30, 2023 |
| Balance at June 30, 2023 |
| Net income |
| Other comprehensive loss |
| Cash dividends declared (\$0.33 per common share) |
| Cash dividends declared (\$0.33 per common share) |
| Cash dividends declared (\$0.33 per common share) |
| Dividend equivalents declared (\$0.33 per restricted stock unit) |
| Share-based compensation expense |
| Issuance of restricted stock, net |
| Restricted stock surrendered and canceled |
| Exercise of stock options |
| Balance at June 30, 2023 |
| Balance at September 30, 2023 |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | | Six Months Ended | | Nine Months Ended | |
|---|---|---|---------------------------|-------------------------|------------------|
| | | June 30, | June 30, | September 30, | September 30, |
| | | 2024 | 2023 | 2024 | 2023 |
| (Dollars in thousands) | (Dollars in thousands) | | (Dollars in thousands) | | |
| Cash flows from operating activities: | Cash flows from operating activities: | Cash flows from operating activities: | | | |
| Net income | | | | | |
| Adjustments to reconcile net income to net cash provided by operating activities: | Adjustments to reconcile net income to net cash provided by operating activities: | Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | | | | | |
| Provision for credit losses | | | | | |
| Share-based compensation expense | | | | | |
| Loss on sales and disposals of premises and equipment | | | | | |
| Loss (gain) on sale or write down of other real estate owned | | | | | |
| Net (accretion) amortization of discounts/premium on securities | | | | | |
| Net (accretion) of discounts/premiums for acquired loans and deferred loan fees/costs | | | | | |
| (Gain) on sale of investment securities available-for-sale | | | | | |

| | | |
|---|--|--|
| (Gain) on debt extinguishment | | |
| (Gain) on sales of loans | | |
| Deferred income tax expense | | |
| Income from bank owned life insurance, net | | |
| Amortization of intangible assets | | |
| Origination of loans held for sale, net of principal payments received | | |
| Proceeds from the sales of loans held for sale | | |
| Net change in accrued expenses and other liabilities | | |
| Net change in accrued interest receivable and other assets | | |
| Net cash provided by operating activities | | |
| Cash flows from investing activities: | Cash flows from investing activities: | Cash flows from investing activities: |
| Net (increase) decrease in interest-bearing time deposits with financial institutions | | |
| Proceeds from sales of other real estate owned | | |
| Loan (originations) and payments, net | | |
| Proceeds from sales of loans classified as loans held for investment | | |
| Purchase of securities held-to-maturity | | |
| Purchase of securities held-to-maturity | | |
| Purchase of securities held-to-maturity | | |
| Proceeds from prepayments and maturities of securities held-to-maturity | | |
| Purchase of securities available-for-sale | | |
| Proceeds from prepayments and maturities of securities available-for-sale | | |
| Proceeds from sales of securities available-for-sale | | |
| Proceeds from the sales of premises and equipment | | |
| Proceeds from surrender of bank owned life insurance | | |
| Purchase of premises and equipment | | |
| Net change in FHLB, FRB, and other stock | | |
| Funding of Community Reinvestment Act ("CRA") investments, net | | |
| Net cash provided by investing activities | | |
| Cash flows from financing activities: | Cash flows from financing activities: | Cash flows from financing activities: |
| Net change in deposit accounts | | |
| Net change in short-term borrowings | | |
| Repayments of long-term borrowings | | |
| Repayments of long-term borrowings | | |
| Repayments of long-term borrowings | | |
| Cash dividends paid | | |
| Cash dividends paid | | |
| Repayments of subordinated debentures | | |
| Repayments of subordinated debentures | | |
| Repayments of subordinated debentures | | |

| |
|--|
| Cash dividends paid |
| Proceeds from exercise of stock options |
| Proceeds from exercise of stock options |
| Proceeds from exercise of stock options |
| Restricted stock surrendered and canceled |
| Net cash used in financing activities |
| Net (decrease) increase in cash and cash equivalents |
| Net increase in cash and cash equivalents |
| Cash and cash equivalents, beginning of period |
| Cash and cash equivalents, end of period |
| Supplemental cash flow disclosures: |
| Supplemental cash flow disclosures: |
| Supplemental cash flow disclosures: |
| Interest paid |
| Income taxes (refunded) paid, net |
| Noncash investing activities during the period: |
| Transfers from loans held for investment to loans held for sale |
| Transfers from loans held for investment to loans held for sale |
| Transfers from loans held for investment to loans held for sale |
| Loans held for sale transfer to loans held for investment |
| Other real estate owned transferred from loans held for investment |
| Transfers of investment securities from available-for-sale to held-to-maturity |
| Transfers of CRA investment securities from FHLB, FRB, and other stock to other assets |
| Recognition of operating lease right-of-use assets |
| Recognition of operating lease liabilities |
| Receivable on unsettled security maturity |
| Due on unsettled security purchases |
| Receivable on unsettled security payments |

Accompanying notes are an integral part of these consolidated financial statements.

PACIFIC PREMIER BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JuneSeptember 30, 2024
(Unaudited)

Note 1 – Basis of Presentation

The consolidated financial statements include the accounts of Pacific Premier Bancorp, Inc. (the “Corporation”) and its wholly owned subsidiaries, including Pacific Premier Bank (the “Bank”) (collectively, the “Company,” “we,” “our,” or “us”). All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, the unaudited consolidated financial statements reflect all normal recurring adjustments and accruals that are necessary for a fair presentation of the statement of financial position and the results of operations for the interim periods presented. The results of operations for the six nine months ended June 30, 2024September 30, 2024 are not necessarily indicative of the results that may be expected for any other interim period or the full year ending December 31, 2024.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K").

The Company consolidates voting entities in which the Company has control through voting interests or entities through which the Company has a controlling financial interest in a variable interest entity ("VIE"). The Company evaluates its interests in these entities to determine whether they meet the definition of a VIE and whether the Company is required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size, and form of the Company's involvement with the VIE. See *Note 13 – Variable Interest Entities* for additional information.

Note 2 – Recently Issued Accounting Pronouncements

Accounting Standards Adopted in 2024

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU" or "Update") 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323), Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method, a consensus of the Emerging Issues Task Force*. The amendments in this Update allow the option for an entity to apply the proportional amortization method of accounting to other equity investments that are made for the primary purpose of receiving income tax credits or other income tax benefits, if certain conditions are met. Prior to this Update, the application of the proportional amortization method of accounting was limited to investments in low income housing tax credit structures. The proportional amortization method of accounting results in the amortization of applicable investments, as well as the related income tax credits or other income tax benefits received, being presented on a single line in the statements of income, that is income tax expense. Under this Update, an entity has the option to apply the proportional amortization method of accounting to applicable investments on a tax-credit-program-by-tax-credit-program basis. In addition, the amendments in this Update require that all tax equity investments accounted for using the proportional amortization method use the delayed equity contribution guidance in paragraph 323-740-25-3, requiring a liability be recognized for delayed equity contributions that are unconditional and legally binding or for equity contributions that are contingent upon a future event when that contingent event becomes probable. Under this Update, low income housing tax credit investments for which the proportional amortization method is not applied can no longer be accounted for using the delayed equity contribution guidance. Further, this Update specifies that tax equity investments accounted for using the equity method must apply the impairment guidance in Subtopic 323-10 - Investments - Equity Method and Joint Ventures - Overall. This Update also clarifies that for low income housing tax credit investments not accounted for under the proportional amortization method or the equity method, an entity shall account for them under Topic 321 - Investments - Equity Securities. The amendments in this Update also require additional disclosures in interim and annual periods concerning investments for which the proportional amortization method is applied, including (i) the nature of tax equity investments, and (ii) the effect of tax equity investments and related income tax credits and other income tax benefits on the financial position and results of operations. The provisions of this Update became effective for the Company for interim and annual periods beginning January 1, 2024. Refer to *Note 14 – Tax Equity Investments* for additional information. The adoption of this Update did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Guidance Not Yet Effective

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures*. The FASB issued this Update to enhance the transparency and decision usefulness of income tax disclosures. The amendments in this Update address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid. The amendments in this Update are effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The Company is currently evaluating the impact of this Update on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segments*. The amendments in this Update improve financial reporting by requiring disclosure of incremental segment information on an annual and interim basis. Amendments in this Update include: a requirement that a public entity provide all annual disclosures about a reportable segment's profit or loss in its interim period disclosures, disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM"), disclosure of amounts for other segment items by reportable segment and a description of its composition, clarification that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit or loss, requires that a public entity disclose the title and position of the CODM, and an explanation of how the CODM uses the reported measure(s) of segment profit or loss, and requires that a public entity that has a single reportable segment provide all the disclosures required by this Update as well as all existing disclosures required in Topic 280. The amendments in this Update are effective for the Company beginning with its 2024 annual financial statement disclosures for the year ended December 31, 2024, and for all interim and annual periods thereafter. Early adoption is permitted. The Company is currently evaluating the impact of this Update.

Note 3 – Significant Accounting Policies

Our accounting policies are described in *Note 1 - Description of Business and Summary of Significant Accounting Policies*, of our audited consolidated financial statements included in our 2023 Form 10-K. As of **June 30, 2024** **September 30, 2024**, there were no significant changes to accounting policies from those disclosed in our audited consolidated financial statements included in our 2023 Form 10-K.

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 financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Actual results could differ from those estimates.

Note 4 – Investment Securities

The amortized cost and estimated fair value of available-for-sale (“AFS”) investment securities were as follows:

(Dollars in thousands)

(Dollars in thousands)

| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Estimated Fair Value |
|-------------------------------------|-------------------|--------------------------|--------------------------|-------------------------|-------------------|--------------------------|--------------------------|-------------------------|
| AFS investment securities: | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| U.S. Treasury | | | | | | | | |
| Agency | | | | | | | | |
| Corporate | | | | | | | | |
| Collateralized mortgage obligations | | | | | | | | |
| Collateralized mortgage obligations | | | | | | | | |
| Collateralized mortgage obligations | | | | | | | | |
| Total AFS investment securities | | | | | | | | |
| Total AFS investment securities | | | | | | | | |
| Total AFS investment securities | | | | | | | | |
| December 31, 2023 | | | | | | | | |
| U.S. Treasury | \$ | 538,899 | \$ | 381 | \$ | (24) | \$ | 539,256 |
| Agency | | 1,941 | | — | | (73) | | 1,868 |
| Corporate | | 481,499 | | 52 | | (35,208) | | 446,343 |
| Collateralized mortgage obligations | | 153,701 | | — | | (1,097) | | 152,604 |
| Total AFS investment securities | \$ | 1,176,040 | \$ | 433 | \$ | (36,402) | \$ | 1,140,071 |

The carrying amount and estimated fair value of held-to-maturity (“HTM”) investment securities were as follows:

(Dollars in thousands)

(Dollars in thousands)

| (Dollars in thousands) | Amortized Cost | Allowance for Credit Losses | Net Carrying Amount | Gross Unrecognized Gain | Gross Unrecognized Loss | Estimated Fair Value | Amortized Cost | Allowance for Credit Losses | Net Carrying Amount | Gross Unrecognized Gain | Gross Unrecognized Loss | Estimated Fair Value |
|----------------------------|-------------------|--------------------------------|------------------------|-------------------------------|-------------------------------|-------------------------|-------------------|--------------------------------|---------------------------|-------------------------------|-------------------------------|-------------------------|
| HTM investment securities: | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | |
| Municipal bonds | | | | | | | | | | | | |

| |
|-------------------------------------|
| Municipal bonds |
| Municipal bonds |
| Collateralized mortgage obligations |
| Mortgage-backed securities |
| Other |
| Total HTM investment securities |

| December 31, 2023 | | | | | | | | | | | | |
|-------------------------------------|----|-----------|----|-------|----|-----------|----|-------|----|-----------|----|-----------|
| Municipal bonds | \$ | 1,146,244 | \$ | (126) | \$ | 1,146,118 | \$ | 819 | \$ | (206,361) | \$ | 940,576 |
| Collateralized mortgage obligations | | 334,997 | | — | | 334,997 | | 1,565 | | (9,570) | | 326,992 |
| Mortgage-backed securities | | 232,157 | | — | | 232,157 | | 310 | | (30,798) | | 201,669 |
| Other | | 16,269 | | — | | 16,269 | | — | | — | | 16,269 |
| Total HTM investment securities | \$ | 1,729,667 | \$ | (126) | \$ | 1,729,541 | \$ | 2,694 | \$ | (246,729) | \$ | 1,485,506 |

The Company reassesses classification of certain investments as part of the ongoing review of the investment securities portfolio. During the **first half of 2024**, **nine months ended September 30, 2024**, there were no transfers of AFS securities to HTM securities.

During the **first half of 2023**, **nine months ended September 30, 2023**, the Company transferred \$410.7 million of AFS collateralized mortgage obligations to HTM securities. The Company intends and has the ability to hold the securities transferred to maturity. The transfer of these securities was accounted for at fair value on the transfer date. The collateralized mortgage obligations had a net carrying amount of \$360.3 million with a pre-tax unrealized loss of \$50.4 million, which are accreted into interest income as yield adjustments through earnings over the remaining term of the securities. The amortization of the related net after-tax unrealized losses reported in accumulated other comprehensive loss offsets the effect on interest income for the accretion of the unrealized losses associated with the transferred securities. No gains or losses were recorded at the time of transfer.

Investment securities with carrying values of **\$2.57 billion** **\$2.72 billion** and \$2.80 billion as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively, were pledged to other borrowings, secure public deposits, and for other purposes as required or permitted by law. **Investment securities with carrying values law**, of **\$2.38 billion** **which \$2.53 billion** and \$1.41 billion as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively, were pledged to the Federal Reserve's discount window to increase the Company's access to funding and provide liquidity.

Unrealized Gains and Losses

Unrealized gains and losses on AFS investment securities, net of tax, are recognized in stockholders' equity as accumulated other comprehensive income or loss. At **June 30, 2024** **September 30, 2024**, the Company had a net unrealized loss on AFS investment securities of **\$29.9 million** **\$19.6 million**, or **\$21.4 million** **\$14.0 million** net of tax in accumulated other comprehensive loss, compared to a net unrealized loss of \$36.0 million, or \$25.8 million net of tax in accumulated other comprehensive loss, at December 31, 2023.

For investment securities transferred from AFS to HTM, the net after-tax unrealized gains and losses at the date of transfer continue to be reported in stockholders' equity as accumulated other comprehensive loss and are amortized over the remaining lives of the securities with an offsetting entry to interest income as an adjustment of yield in a manner consistent with the amortization of a premium or discount, with an offsetting entry to interest income for the accretion of the unrealized loss associated with the transferred securities. At **June 30, 2024** **September 30, 2024**, the unrealized loss on investment securities transferred from AFS to HTM was **\$95.8 million** **\$92.1 million**, or **\$68.7 million** **\$66.1 million** net of tax. At December 31, 2023, the unrealized loss on investment securities transferred from AFS to HTM was \$102.9 million, or \$73.9 million net of tax.

The table below summarizes the number, fair value, and gross unrealized holding losses of the Company's AFS investment securities in an unrealized loss position for which an allowance for credit losses (the "ACL") has not been recorded as of the dates indicated, aggregated by investment category and length of time in a continuous loss position.

| June 30, 2024 | | | | | | | | | | September 30, 2024 | | | | | | | | | |
|------------------------|------------------------|--------|------------|-------------------------|------------------------|------------------------|--------|------------|-------------------------|------------------------|------------------------|--------|------------|-------------------------|------------------------|------------------------|--------|------------|-------------------------|
| Less than 12 Months | | | | | 12 Months or Longer | | | | | Less than 12 Months | | | | | 12 Months or Longer | | | | |
| Total | | | | | Total | | | | | Total | | | | | Total | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Number | Fair Value | Gross Unrealized Losses | (Dollars in thousands) | (Dollars in thousands) | Number | Fair Value | Gross Unrealized Losses | (Dollars in thousands) | (Dollars in thousands) | Number | Fair Value | Gross Unrealized Losses | (Dollars in thousands) | (Dollars in thousands) | Number | Fair Value | Gross Unrealized Losses |

| |
|-------------------------------------|
| AFS |
| investment securities: |
| U.S. Treasury |
| U.S. Treasury |
| U.S. Treasury |
| Agency |
| Agency |
| Agency |
| Corporate |
| Collateralized mortgage obligations |
| Collateralized mortgage obligations |
| Collateralized mortgage obligations |
| Total AFS investment securities |
| Total AFS investment securities |
| Total AFS investment securities |

| | December 31, 2023 | | | | | | | | |
|-------------------------------------|---------------------|------------|-------------------------|---------------------|------------|-------------------------|--------|------------|-------------------------|
| | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
| | Number | Fair Value | Gross Unrealized Losses | Number | Fair Value | Gross Unrealized Losses | Number | Fair Value | Gross Unrealized Losses |
| (Dollars in thousands) | | | | | | | | | |
| AFS investment securities: | | | | | | | | | |
| U.S. Treasury | 4 | \$ 98,622 | \$ (24) | — | \$ — | \$ — | 4 | \$ 98,622 | \$ (24) |
| Agency | — | — | — | 4 | 1,868 | (73) | 4 | 1,868 | (73) |
| Corporate | 1 | 4,989 | (3) | 47 | 431,353 | (35,205) | 48 | 436,342 | (35,208) |
| Collateralized mortgage obligations | — | — | — | 28 | 152,604 | (1,097) | 28 | 152,604 | (1,097) |
| Total AFS investment securities | 5 | \$ 103,611 | \$ (27) | 79 | \$ 585,825 | \$ (36,375) | 84 | \$ 689,436 | \$ (36,402) |

Allowance for Credit Losses on Investment Securities

The Company reviews individual securities classified as AFS to determine whether unrealized losses are deemed credit related or due to other factors such as changes in interest rates and general market conditions. An ACL on AFS investment securities is recorded when unrealized losses have been deemed, through the Company's qualitative assessment, to be credit related. Non-credit related unrealized losses on AFS investment securities, which may be attributed to changes in interest rates and other market-related factors, are not recorded through an ACL. Such declines are recorded as an adjustment to accumulated other comprehensive loss, net of tax. In the event the Company is required to sell or has the intent to sell an AFS security that has experienced a decline in fair value below its amortized cost, the Company writes the amortized cost of the security down to fair value in the current period.

The ACL for HTM investment securities is estimated on a collective basis, based on shared risk characteristics, and is determined at the individual security level when the Company deems a security to no longer possess shared risk characteristics. Credit losses on HTM investment securities are representative of the amount needed to reduce the amortized cost basis to reflect the net amount expected to be collected.

The Company determines credit losses on both AFS and HTM investment securities through the use of a discounted cash flow approach using the security's effective interest rate. The ACL is measured as the amount by which an investment security's amortized cost exceeds the net present value of expected future cash flows. However, the amount of credit losses for AFS investment securities is limited to the amount of a security's unrealized loss. The ACL is established through a charge to provision for credit losses in current period earnings.

For additional information concerning the ACL on investment securities, refer to *Note 1 - Description of Business and Summary of Significant Accounting Policies*, of our audited consolidated financial statements included in our 2023 Form 10-K.

At June 30, 2024 September 30, 2024 and December 31, 2023, the Company had an ACL of \$129,000 \$104,000 and \$126,000, respectively, for HTM investment securities classified as municipal bonds. The following table presents a rollforward by major security type of the ACL on the Company's HTM debt securities as of and for the periods indicated:

| | | Three Months Ended June 30, 2024 | | | | | | | |
|---------------------------------------|------------------------|----------------------------------|---|------------------------|-----------------------|-----------------------------|--------------------|-----|--|
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | Three Months Ended June 30, 2024 | | | | | | | |
| (Dollars in thousands) | | | | | | | | | |
| (Dollars in thousands) | | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Balance, March 31, 2024 | Provision (Recapture) for Credit Losses | Balance, June 30, 2024 | Beginning ACL Balance | Provision for Credit Losses | Ending ACL Balance | | |
| HTM investment securities: | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| Municipal bonds | | | | | | | | | |
| Municipal bonds | | | | | | | | | |
| Municipal bonds | | | | | | | | | |
| Three Months Ended September 30, 2023 | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| Municipal bonds | | | \$ | 113 | \$ | 15 | \$ | 128 | |

| Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2023 | | | | | |
|--------------------------------------|------------------------|----------------------------------|---|----------------------------------|-----------------------|-----------------------------|--------------------|--|--|
| (Dollars in thousands) | | (Dollars in thousands) | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Balance, March 31, 2023 | Provision (Recapture) for Credit Losses | Balance, June 30, 2023 | Beginning ACL Balance | Provision for Credit Losses | Ending ACL Balance | | |
| HTM investment securities: | | | | | | | | | |
| Nine Months Ended September 30, 2024 | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| Nine Months Ended September 30, 2024 | | | | | | | | | |
| Nine Months Ended September 30, 2024 | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| HTM investment securities: | | | | | | | | | |
| Municipal bonds | | | | | | | | | |

Municipal bonds
Municipal bonds

| (Dollars in thousands) | Six Months Ended June 30, 2024 | | |
|----------------------------|--------------------------------|--|---------------------------|
| | Balance, December 31, 2023 | Provision (Recapture) for Credit Losses | Balance, June 30, 2024 |
| | | | |
| HTM investment securities: | | | |
| Municipal bonds | \$ 126 | \$ 3 | \$ 129 |

| | Six Months Ended June 30, 2023 | | |
|--------------------------------------|--------------------------------|---|---------------------------|
| | Six Months Ended June 30, 2023 | | |
| | Six Months Ended June 30, 2023 | | |
| (Dollars in thousands) | Balance, December 31, 2022 | Provision (Recapture) for Credit Losses | Balance, June 30, 2023 |
| Nine Months Ended September 30, 2023 | | | |
| Nine Months Ended September 30, 2023 | | | |
| Nine Months Ended September 30, 2023 | | | |
| HTM investment securities: | | | |
| HTM investment securities: | | | |
| HTM investment securities: | | | |
| Municipal bonds | | | |
| Municipal bonds | | | |
| Municipal bonds | | | |

The Company had no ACL for AFS investment securities at **June 30, 2024** **September 30, 2024** and December 31, 2023. The Company performed a qualitative assessment of these investments as of **June 30, 2024** **September 30, 2024** and determined that unrealized losses during the **second third** quarter of 2024 were the result of general market conditions, including changes in interest rates, and does not believe the declines in fair value were credit related. As of **June 30, 2024** **September 30, 2024**, the Company had not recorded credit losses on AFS securities that were in an unrealized loss position due to the high credit quality of the investments, with investment grade ratings, and many of them issued by U.S. government agencies. As of **June 30, 2024** **September 30, 2024**, 69% of our AFS securities were U.S. Treasury, U.S. government agency, and U.S. government-sponsored enterprise securities. **The fair value of Corporate bank debt securities continued to improve during the nine months ended September 30, 2024 as the spreads on the bank debt continued to tighten with overall signs of stability in the banking industry and interest rate movement during the period.** Additionally, the Company continues to receive contractual principal and interest payments in a timely manner. It is more likely than not that the Company will not be required to sell the securities prior to their anticipated recoveries, and at this time the Company does not intend to sell these securities. There was no provision for credit losses recognized for AFS investment securities during the **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

At **June 30, 2024** **September 30, 2024** and December 31, 2023, there were no AFS or HTM securities on nonaccrual status. All securities in the portfolio were current with their contractual principal and interest payments. At **June 30, 2024** **September 30, 2024** and December 31, 2023, there were no securities purchased with deterioration in credit quality since their origination.

Realized Gains and Losses

The following table presents the amortized cost of securities sold with related gross realized gains, gross realized losses, and net realized gains for the periods indicated:

| | Three Months Ended | | Three Months Ended | | Three Months Ended | | Six Months Ended | | Nine Months Ended | |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| | June 30, | June 30, | June 30, | June 30, | June 30, | June 30, | June 30, | June 30, | June 30, | June 30, |
| | September 30, | September 30, | September 30, | September 30, | September 30, | September 30, | September 30, | September 30, | September 30, | September 30, |
| (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) |
| 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2023 |
| Amortized cost of AFS investment securities sold | | | | | | | | | | |
| Gross realized gains | | | | | | | | | | |
| Gross realized gains | | | | | | | | | | |

The Company's loan portfolio is segmented according to loans that share similar attributes and risk characteristics.

Investor loans secured by real estate includes commercial real estate ("CRE") non-owner-occupied, multifamily, construction, and land, as well as Small Business Administration ("SBA") loans secured by investor real estate, which are loans collateralized by hotel/motel real property.

Business loans secured by real estate are loans to businesses that are collateralized by real estate where the operating cash flow of the business is the primary source of repayment. This loan portfolio includes CRE owner-occupied, franchise loans secured by real estate, and SBA loans secured by real estate, which are collateralized by real property other than hotel/motel real property.

Commercial loans are loans to businesses where the operating cash flow of the business is the primary source of repayment. This loan portfolio includes commercial and industrial ("C&I"), franchise loans non-real estate secured, and SBA loans non-real estate secured.

Retail loans include single family residential and consumer loans. Single family residential includes home equity lines of credit, as well as second trust deeds.

The following table presents the composition of the loan portfolio for the periods indicated:

| | June 30, | | December 31, | |
|--|------------------------|------|--------------|------------------------|
| | September 30, | | December 31, | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | 2023 | (Dollars in thousands) |
| Investor loans secured by real estate | | | | |
| CRE non-owner-occupied | | | | |
| CRE non-owner-occupied | | | | |
| CRE non-owner-occupied | | | | |
| Multifamily | | | | |
| Construction and land | | | | |
| SBA secured by real estate | | | | |
| Total investor loans secured by real estate | | | | |
| Business loans secured by real estate | | | | |
| CRE owner-occupied | | | | |
| CRE owner-occupied | | | | |
| CRE owner-occupied | | | | |
| Franchise real estate secured | | | | |
| SBA secured by real estate | | | | |
| Total business loans secured by real estate | | | | |
| Commercial loans | | | | |
| Commercial and industrial | | | | |
| Commercial and industrial | | | | |
| Commercial and industrial | | | | |
| Franchise non-real estate secured | | | | |
| SBA non-real estate secured | | | | |
| Total commercial loans | | | | |
| Retail loans | | | | |
| Single family residential | | | | |
| Single family residential | | | | |
| Single family residential | | | | |
| Consumer | | | | |
| Total retail loans | | | | |
| Loans held for investment before basis adjustment ⁽¹⁾ | | | | |
| Basis adjustment associated with fair value hedge ⁽²⁾ | | | | |
| Loans held for investment | | | | |
| Allowance for credit losses for loans held for investment | | | | |
| Loans held for investment, net | | | | |
| Total unfunded loan commitments | | | | |

Total unfunded loan commitments

Total unfunded loan commitments

Loans held for sale, at lower of cost or fair value

(1) Includes net deferred origination costs (fees) of \$1.4 \$1.5 million and \$(74,000), and unaccreted fair value net purchase discounts of \$38.6 million \$35.9 million and \$43.3 million as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

(2) Represents the basis adjustment associated with the application of hedge accounting on certain loans. The basis adjustment will be allocated to the amortized cost of associated loans within the closed portfolio if the hedge is discontinued. Refer to Note 11 – Derivative Instruments for additional information.

The Company generally originates SBA loans with the intent to sell the guaranteed portion of the loans prior to maturity and, therefore, designates them as held for sale. From time to time, the Company may purchase or sell other types of loans in order to manage concentrations, maximize interest income, change risk profiles, improve returns, and generate liquidity.

Loans Serviced for Others and Loan Securitization

The Company generally retains the servicing rights of the guaranteed portion of SBA loans sold, for which the Company initially records a servicing asset at fair value within its other assets category. Servicing assets are subsequently measured using the amortization method and amortized to noninterest income. At June 30, 2024 September 30, 2024 and December 31, 2023, the servicing assets totaled \$1.2 million \$1.1 million and \$1.6 million, respectively, and were included in other assets in the Company's consolidated statement statements of financial condition. Servicing assets are evaluated for impairment based upon the fair value of the servicing rights as compared to carrying amount. Impairment is recognized through a valuation allowance, to the extent the fair value is less than the carrying amount. At June 30, 2024 September 30, 2024 and December 31, 2023, the Company determined that no valuation allowance was necessary.

In connection with the acquisition of Opus Bank ("Opus"), the Company acquired Federal Home Loan Mortgage Corporation ("Freddie Mac") guaranteed structured pass-through certificates, which were issued as a result of Opus's securitization sale of \$509 million in originated multifamily loans through a Freddie Mac-sponsored transaction in December 2016. The Company's continuing involvement includes sub-servicing responsibilities, general representations and warranties, and reimbursement obligations. Servicing responsibilities on loan sales generally include obligations to collect and remit payments of principal and interest, provide foreclosure services, manage payments of taxes and insurance premiums, and otherwise administer the underlying loans. In connection with the securitization transaction, Freddie Mac was designated as the master servicer and appointed the Company to perform sub-servicing responsibilities, which generally include the servicing responsibilities described above with the exception of the servicing of foreclosed or defaulted loans. The overall management, servicing, and resolution of defaulted loans and foreclosed loans are separately designated to the special servicer, a third-party institution that is independent of the master servicer and the Company. The master servicer has the right to terminate the Company in its role as sub-servicer and direct such responsibilities accordingly.

To the extent the ultimate resolution of defaulted loans results in contractual principal and interest payments that are deficient, the Company is obligated to reimburse Freddie Mac for such amounts, not to exceed 10% of the original principal amount of the loans comprising the securitization pool at the closing date of December 23, 2016. The liability recorded for Company's exposure to the reimbursement agreement with Freddie Mac was \$345,000 as of June 30, 2024 September 30, 2024 and December 31, 2023.

Loans sold and serviced for others are not included in the accompanying consolidated statements of financial condition. The unpaid principal balance of loans and participations serviced for others was \$340.1 million \$325.0 million at June 30, 2024 September 30, 2024 and \$373.8 million at December 31, 2023, respectively. Included in those totals are multifamily loans transferred through securitization with Freddie Mac of \$44.2 million \$42.3 million and \$48.0 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively, and SBA participations serviced for others of \$232.4 million \$221.0 million and \$258.1 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

Concentration of Credit Risk

As of June 30, 2024 September 30, 2024, the Company's loan portfolio was primarily collateralized by various forms of real estate and business assets located predominately in California. The Company's loan portfolio contains concentrations of credit in multifamily, CRE non-owner-occupied, CRE owner-occupied, and C&I business loans. The Bank maintains policies approved by the Bank's Board of Directors (the "Bank Board") that address these concentrations and diversifies its loan portfolio through loan originations, purchases, and sales to meet approved concentration levels.

Under applicable laws and regulations, the Bank may not make secured loans to one borrower in excess of 25% of the Bank's unimpaired capital plus surplus, and likewise in excess of 15% of the Bank's unimpaired capital plus surplus for unsecured loans. These loans-to-one borrower limitations result in a dollar limitation of \$845.0 million \$835.5 million for secured loans and \$507.0 million \$501.3 million for unsecured loans at June 30, 2024 September 30, 2024. In order to manage concentration risk, the Bank maintains a house lending limit well below these statutory maximums. At June 30, 2024 September 30, 2024, the Bank's largest aggregate outstanding balance of loans to one borrower was \$229.5 million \$169.6 million comprised of C&I asset-based lines of credit.

Credit Quality and Credit Risk Management

The Company's credit quality and credit risk are controlled in two distinct areas. The first is the loan origination process, wherein the Bank underwrites credit and chooses which types and levels of risk it is willing to accept. The Company maintains a credit policy which addresses many related topics, sets forth maximum tolerances for key elements of loan risk, and indicates appropriate protocols for identifying and analyzing these risk elements. The policy sets forth specific

guidelines for analyzing each of the loan products the Company offers from both an individual and portfolio-wide basis. The credit policy is reviewed at least annually by the Bank Board. The Bank's underwriters ensure all key risk factors are analyzed, with most underwriting including a global cash flow analysis of the prospective borrowers.

The second area is in the ongoing oversight of the loan portfolio, where existing credit risk is measured and monitored, and where performance issues are dealt with in a timely and appropriate fashion. Credit risk is monitored and managed within the loan portfolio by the Company's portfolio managers based on both the credit policy and a credit and portfolio review policy. This latter policy requires a program of financial data collection and analysis, thorough loan reviews, property and/or business inspections, monitoring of portfolio concentrations and trends, and incorporation of current business and economic conditions. The portfolio managers also monitor asset-based lines of credit, loan covenants, and other conditions associated with the Company's loans as a means to help identify potential credit risk. Most individual loans, excluding the homogeneous loan portfolio, are reviewed at least annually, including the assignment or confirmation of a risk grade.

Risk grades are based on a six-grade Pass scale, along with Special Mention, Substandard, Doubtful, and Loss classifications, and such classifications are defined by the federal banking regulatory agencies. The assignment of risk grades allows the Company to, among other things, identify the risk associated with each credit in the portfolio and to provide a basis for estimating credit losses inherent in the portfolio. Risk grades are reviewed regularly with the Company's Credit and Portfolio Review Committee, and the portfolio management and risk grading process is reviewed on an ongoing basis by both an independent loan review function and periodic internal audits, as well as by regulatory agencies during scheduled examinations.

The following provides brief definitions for risk grades assigned to loans in the portfolio:

- Pass assets carry an acceptable level of credit quality that contains no well-defined deficiencies or weaknesses.
- Special Mention assets do not currently expose the Bank to a sufficient risk to warrant classification in one of the adverse categories, but possess correctable deficiencies or potential weaknesses deserving management's close attention.
- Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. These assets are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Other real estate owned ("OREO") acquired through foreclosure is also classified as substandard.
- Doubtful assets have all the weaknesses inherent in substandard assets, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss assets are those that are considered uncollectible and of such little value that their continuance as assets is not warranted. Amounts classified as loss are promptly charged off.

The Bank's portfolio managers also manage loan performance risks, collections, workouts, bankruptcies, and foreclosures. A special department, whose portfolio managers have professional expertise in these areas, typically handles or advises on these types of matters. Loan performance risks are mitigated by our portfolio managers acting promptly and assertively to address problem credits when they are identified. Collection efforts commence immediately upon non-payment, and the portfolio managers seek to promptly determine the appropriate steps to minimize the Company's risk of loss. When foreclosure will maximize the Company's recovery for a non-performing loan, the portfolio managers will take appropriate action to initiate the foreclosure process.

When a loan is graded as special mention, substandard, or doubtful, the Company obtains an updated valuation of the underlying collateral. Collateral generally consists of accounts receivable, inventory, fixed assets, real estate properties, and/or cash. The Company typically continues to obtain or confirm updated valuations of underlying collateral for special mention and classified loans on an annual or biennial basis, in accordance with our credit policy, in order to have the most current indication of fair value of the underlying collateral securing the loan. If the loan no longer possesses risk characteristics similar to other loans of a similar type in the loan portfolio, then the loan is evaluated individually to determine an appropriate ACL for the loan. If, through the Company's credit risk management process, it is determined the ultimate repayment of a loan will come from the foreclosure upon and ultimate sale of the underlying collateral, the loan is deemed collateral dependent and dependent. If an individually evaluated individually to determine an appropriate ACL for the loan. The ACL for such loans is measured as the amount by which the fair value of the underlying collateral, less estimated costs to sell, is less than the amortized cost of the loan. The Company typically continues to obtain or confirm updated valuations of underlying collateral for special mention and classified loans on an annual or biennial basis in order to have the most current indication of fair value of the underlying collateral securing the loan. Additionally, once a loan is identified as collateral dependent, due to the likelihood of foreclosure, and repayment of the loan is expected to come from the eventual sale of the underlying collateral, an analysis of the underlying collateral is performed at least quarterly. Changes in the estimated fair value of the collateral are reflected in the lifetime ACL for the loan. Balances deemed to be uncollectable are promptly charged-off. However, if a loan is not considered collateral dependent, and management determines that the loan no longer possesses risk characteristics similar to other loans in the loan portfolio, the loan is individually evaluated, and the associated ACL is determined through the use of a discounted cash flow analysis.

The following table stratifies the loans held for investment portfolio by the Company's internal risk grading, and by year of origination, as well as the gross charge-offs on a year-to-date basis by year of origination as of June 30, 2024 September 30, 2024:

Term Loans by Vintage

(Dollars in thousands)

(Dollars in thousands)

| (Dollars in thousands) | | | | | | | | Revolving | | Converted to Term | | During the | | | | | | | | | Revolving | | Converted to Term | | During the | | Total | |
|---|------|------|------|------|------|-------|-----------|-----------|--------|-------------------|------|------------|------|------|------|-------|-----------|-------------------|-------------------|-------|-----------|--|-------------------|--|------------|--|-------|--|
| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving | Period | Period | Total | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving | During the Period | During the Period | Total | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Substandard | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Substandard | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current period gross charge-offs | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Year-to-date gross charge-offs | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| |
|---|
| Special mention |
| Substandard |
| Franchise real estate secured |
| Franchise real estate secured |
| Franchise real estate secured |
| Pass |
| Pass |
| Pass |
| Special mention |
| Substandard |
| SBA secured by real estate |
| SBA secured by real estate |
| SBA secured by real estate |
| Pass |
| Pass |
| Pass |
| Special mention |
| Substandard |
| Substandard |
| Substandard |
| Total loans secured by business real estate |
| Total loans secured by business real estate |
| Total loans secured by business real estate |
| Current period gross charge-offs |
| Year-to-date gross charge-offs |
| Commercial loans |
| Commercial and industrial |
| Commercial and industrial |
| Commercial and industrial |
| Pass |
| Pass |
| Pass |
| Special mention |
| Substandard |
| Doubtful |

Term Loans by Vintage

(Dollars in thousands)

(Dollars in thousands)

| | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving | Revolving Converted to Term During the Period | Total | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Revolving | Revolving Converted to Term During the Period | Total |
|-----------------------------------|------|------|------|------|------|-------|-----------|---|-------|------|------|------|------|------|-------|-----------|---|-------|
| (Dollars in thousands) | | | | | | | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | |

| |
|--|
| Substandard |
| SBA non-real estate secured |
| SBA non-real estate secured |
| SBA non-real estate secured |
| Pass |
| Pass |
| Pass |
| Substandard |
| Substandard |
| Substandard |
| Total commercial loans |
| Total commercial loans |
| Total commercial loans |
| Current period gross charge-offs |
| Year-to-date gross charge-offs |
| Retail loans |
| Single family residential |
| Single family residential |
| Single family residential |
| Pass |
| Pass |
| Pass |
| Consumer loans |
| Consumer loans |
| Consumer loans |
| Pass |
| Pass |
| Pass |
| Total retail loans |
| Total retail loans |
| Total retail loans |
| Current period gross charge-offs |
| Year-to-date gross charge-offs |
| Loans held for investment before basis adjustment ⁽¹⁾ |
| Total current period gross charge-offs |
| Total Year-to-date gross charge-offs |

(1) Excludes the basis adjustment of \$28.2 million \$16.2 million to the carrying amount of certain loans included in fair value hedging relationships. Refer to Note 11 – Derivative Instruments for additional information.

The following table stratifies the loans held for investment portfolio by the Company's internal risk grading, and by year of origination, as of December 31, 2023:

| | Term Loans by Vintage | | | | | | | Revolving Converted to Term During the Period | | Total |
|--|-----------------------|------------|------------|------------|------------|------------|-----------|--|------|-----------|
| (Dollars in thousands) | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving | | | |
| December 31, 2023 | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | |
| Pass | \$ 71,452 | \$ 482,045 | \$ 549,828 | \$ 192,399 | \$ 315,139 | \$ 795,856 | \$ — | \$ — | \$ — | 2,406,719 |
| Special mention | — | 3,811 | 2,530 | — | — | 625 | — | — | — | 6,966 |
| Substandard | — | 412 | — | — | — | 7,675 | — | — | — | 8,087 |

| | | | | | | | | | |
|---|---------|-----------|-----------|---------|-----------|-----------|------|------|-----------|
| Multifamily | | | | | | | | | |
| Pass | 179,055 | 1,184,329 | 2,008,126 | 725,123 | 822,411 | 714,638 | — | — | 5,633,682 |
| Special mention | — | — | — | — | — | 11,628 | — | — | 11,628 |
| Construction and land | | | | | | | | | |
| Pass | 59,993 | 309,677 | 94,845 | 2,223 | 2,368 | 3,438 | — | — | 472,544 |
| SBA secured by real estate | | | | | | | | | |
| Pass | \$ — | \$ 6,478 | \$ — | \$ 493 | \$ 4,804 | \$ 16,496 | \$ — | \$ — | \$ 28,271 |
| Substandard | — | — | 131 | — | 536 | 7,462 | — | — | 8,129 |
| Total investor loans secured by real estate | 310,500 | 1,986,752 | 2,655,460 | 920,238 | 1,145,258 | 1,557,818 | — | — | 8,576,026 |

Term Loans by Vintage

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving | Revolving Converted to Term During the Period | Total | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving | Revolving Converted to Term During the Period | Total |
|---|------|------|------|------|------|-------|-----------|---|-------|------|------|------|------|------|-------|-----------|---|-------|
| December 31, 2023 | | | | | | | | | | | | | | | | | | |
| Current period gross charge-offs | | | | | | | | | | | | | | | | | | |
| Current period gross charge-offs | | | | | | | | | | | | | | | | | | |
| Current period gross charge-offs | | | | | | | | | | | | | | | | | | |
| Year-to-date gross charge-offs | | | | | | | | | | | | | | | | | | |
| Year-to-date gross charge-offs | | | | | | | | | | | | | | | | | | |
| Year-to-date gross charge-offs | | | | | | | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | |
| Substandard | | | | | | | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | |
| Substandard | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Pass | | | | | | | | | | | | | | | | | | |
| Special mention | | | | | | | | | | | | | | | | | | |
| Substandard | | | | | | | | | | | | | | | | | | |
| Total loans secured by business real estate | | | | | | | | | | | | | | | | | | |
| Total loans secured by business real estate | | | | | | | | | | | | | | | | | | |
| Total loans secured by business real estate | | | | | | | | | | | | | | | | | | |
| Current period gross charge-offs | | | | | | | | | | | | | | | | | | |
| Year-to-date gross charge-offs | | | | | | | | | | | | | | | | | | |

| | |
|---|--|
| Commercial loans | |
| Commercial and industrial | |
| Commercial and industrial | |
| Commercial and industrial | |
| Pass | |
| Pass | |
| Pass | |
| Special mention | |
| Substandard | |
| Doubtful and loss | |
| Franchise non-real estate secured | |
| Pass | |
| Pass | |
| Pass | |
| Special mention | |
| Substandard | |
| SBA non-real estate secured | |
| SBA non-real estate secured | |
| SBA non-real estate secured | |
| Pass | |
| Pass | |
| Pass | |
| Substandard | |
| Substandard | |
| Substandard | |
| Total commercial loans | |
| Total commercial loans | |
| Total commercial loans | |
| Current period gross charge-offs | |
| Year-to-date gross charge-offs | |
| Retail loans | |
| Single family residential | |
| Single family residential | |
| Single family residential | |
| Pass | |
| Pass | |
| Pass | |
| Consumer loans | |
| Consumer loans | |
| Consumer loans | |
| Pass | |
| Pass | |
| Pass | |
| Total retail loans | |
| Total retail loans | |
| Total retail loans | |
| Current period gross charge-offs | |
| Year-to-date gross charge-offs | |
| Loans held for investment before basis adjustment (1) | |
| Total current period gross charge-offs | |
| Total Year-to-date gross charge-offs | |

(1) Excludes the basis adjustment of \$29.6 million to the carrying amount of certain loans included in fair value hedging relationships. Refer to Note 11 – *Derivative Instruments* for additional information.

The following tables stratify the loans held for investment portfolio by delinquency as of the periods indicated:

Days Past Due⁽²⁾

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| | Current | 30-59 | 60-89 | 90+ | Total | Current | 30-59 | 60-89 | 90+ | Total |
|--|---------|-------|-------|-----|-------|---------|-------|-------|-----|-------|
| June 30, 2024 | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | |
| Multifamily | | | | | | | | | | |
| Construction and land | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | |
| Total business loans secured by real estate | | | | | | | | | | |
| Commercial loans | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | |
| SBA not secured by real estate | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | |
| Retail loans | | | | | | | | | | |
| Single family residential | | | | | | | | | | |
| Single family residential | | | | | | | | | | |
| Single family residential | | | | | | | | | | |
| Consumer loans | | | | | | | | | | |
| Total retail loans | | | | | | | | | | |
| Loans held for investment before basis adjustment ⁽¹⁾ | | | | | | | | | | |

December 31, 2023

Investor loans secured by real estate

| | | | | | | | | | | |
|---|----|-----------|----|---|----|---|----|-----|----|-----------|
| CRE non-owner-occupied | \$ | 2,421,360 | \$ | — | \$ | — | \$ | 412 | \$ | 2,421,772 |
| Multifamily | | 5,645,310 | | — | | — | | — | | 5,645,310 |
| Construction and land | | 472,544 | | — | | — | | — | | 472,544 |
| SBA secured by real estate | | 35,980 | | — | | — | | 420 | | 36,400 |
| Total investor loans secured by real estate | | 8,575,194 | | — | | — | | 832 | | 8,576,026 |

Business loans secured by real estate

| | | | | | | | | | | |
|-------------------------------|--|-----------|--|-----|--|---|--|-------|--|-----------|
| CRE owner-occupied | | 2,186,679 | | — | | — | | 4,655 | | 2,191,334 |
| Franchise real estate secured | | 304,222 | | 292 | | — | | — | | 304,514 |
| SBA secured by real estate | | 50,604 | | 137 | | — | | — | | 50,741 |

| | | | | | |
|--|---------------|----------|----------|----------|---------------|
| Total business loans secured by real estate | 2,541,505 | 429 | — | 4,655 | 2,546,589 |
| Commercial loans | | | | | |
| Commercial and industrial | 1,788,855 | 228 | 1,294 | 231 | 1,790,608 |
| Franchise non-real estate secured | 318,162 | 1,559 | — | — | 319,721 |
| SBA not secured by real estate | 10,119 | 249 | — | 558 | 10,926 |
| Total commercial loans | 2,117,136 | 2,036 | 1,294 | 789 | 2,121,255 |
| Retail loans | | | | | |
| Single family residential | 72,733 | 19 | — | — | 72,752 |
| Consumer loans | 1,949 | — | — | — | 1,949 |
| Total retail loans | 74,682 | 19 | — | — | 74,701 |
| Loans held for investment before basis adjustment ⁽¹⁾ | \$ 13,308,517 | \$ 2,484 | \$ 1,294 | \$ 6,276 | \$ 13,318,571 |

⁽¹⁾ Excludes the basis adjustment of \$28.2 million \$16.2 million and \$29.6 million to the carrying amount of certain loans included in fair value hedging relationships as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively. Refer to Note 11 – Derivative Instruments for additional information.

⁽²⁾ Nonaccrual loans are included in this aging analysis based on the loan's past due status.

Individually Evaluated Loans

The Company evaluates loans collectively for purposes of determining the ACL in accordance with ASC 326. Collective evaluation is based on aggregating loans deemed to possess similar risk characteristics. In certain instances, the Company may identify loans that it believes no longer possess risk characteristics similar to other loans in the portfolio. These loans are typically identified from a substandard or worse internal risk grade, since the specific attributes and risks associated with such loans tend to become unique as the credit deteriorates. Such loans are typically nonperforming, can be modified loans made to borrowers experiencing financial difficulty, and/or are deemed collateral dependent, where the ultimate repayment of the loan is expected to come from the operation of or eventual sale of the collateral. Loans that are deemed by management to no longer possess risk characteristics similar to other loans in the portfolio are evaluated individually for purposes of determining an appropriate lifetime ACL. The Company uses a discounted cash flow approach, using the loan's effective interest rate, for determining the ACL on individually evaluated loans, unless the loan is deemed collateral dependent, which requires evaluation based on the estimated fair value of the underlying collateral, less estimated costs to sell. The Company may increase or decrease the ACL for collateral dependent individually evaluated loans based on changes in the estimated expected fair value of the collateral. Changes in the ACL for all other individually evaluated loans is based substantially on the Company's evaluation of cash flows expected to be received from such loans.

As of June 30, 2024 September 30, 2024, \$52.1 million \$39.1 million of loans were individually evaluated with a \$237,000 \$752,000 ACL attributed to such loans. At June 30, 2024 September 30, 2024, \$38.5 million \$28.1 million of individually evaluated loans were evaluated based on the underlying value of the collateral, and \$13.6 million \$10.9 million were evaluated using a discounted cash flow approach. All individually evaluated loans were on nonaccrual status at June 30, 2024 September 30, 2024.

As of December 31, 2023, \$24.8 million of loans were individually evaluated with no ACL attributed to such loans. At December 31, 2023, \$12.2 million of individually evaluated loans were evaluated based on the underlying value of the collateral, and \$12.6 million were evaluated using a discounted cash flow approach. All individually evaluated loans were on nonaccrual status at December 31, 2023.

The increase in individually evaluated loans during the first half of 2024 nine months ended September 30, 2024 was primarily driven by a single, diversified commercial banking relationship with loans in CRE non-owner-occupied and C&I categories, loans totaling \$26.1 million \$18.0 million as of June 30, 2024 September 30, 2024.

Purchased Credit Deteriorated Loans

The Company analyzed acquired loans for more-than-insignificant deterioration in credit quality since their origination. Such loans are classified as purchased credit deteriorated ("PCD") loans. Please see Note 1 - Description of Business and Summary of Significant Accounting Policies of our audited consolidated financial statements included in our 2023 Form 10-K for more information concerning the accounting for PCD loans. The Company had PCD loans of \$328.0 \$296.1 million and \$359.3 million at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

Acquired loans classified as PCD are recorded at an initial amortized cost, which is comprised of the purchase price of the loans (or initial fair value) and the initial ACL determined for the loans, which is added to the purchase price, as well as any resulting discount or premium related to factors other than credit. The Company accounts for interest income on PCD loans using the interest method, whereby any purchase discounts or premiums are accreted or amortized into interest income as an adjustment of the loan's yield. Subsequent to acquisition, the ACL for PCD loans is measured in accordance with the Company's ACL methodology. Please also see Note 6 – Allowance for Credit Losses for more information concerning the Company's ACL methodology.

Nonaccrual Loans

When loans are placed on nonaccrual status, previously accrued but unpaid interest is reversed from current period earnings. Payments received on nonaccrual loans are generally applied as a reduction to the loan principal balance. If the likelihood of further loss is remote, the Company may recognize interest on a cash basis. Loans may be returned to accruing status if the Company believes that all remaining principal and interest is fully collectible and there has been at least three months of sustained repayment performance since the loan was placed on nonaccrual.

The Company typically does not accrue interest on loans 90 days or more past due or when, in the opinion of management, there is reasonable doubt as to the timely collection of principal or interest regardless of the length of past due status. However, when such loans are well-secured and in the process of collection, the Company may continue with the accrual of interest. The Company had loans on nonaccrual status of \$52.1 million \$39.1 million at June 30, 2024 September 30, 2024 and \$24.8 million at December 31, 2023. The increase in nonaccrual loans at June 30, 2024 September 30, 2024 was primarily the result of a single, diversified commercial banking relationship with loans in CRE non-owner occupied and C&I categories, loans totaling \$26.1 million, all of \$18.0 million, which were current as of June 30, 2024 September 30, 2024.

The Company did not record income from the receipt of cash payments related to nonaccruing loans during the three and six nine months ended June 30, 2024 September 30, 2024 and 2023. The Company had no loans 90 days or more past due and still accruing at June 30, 2024 September 30, 2024 and December 31, 2023.

The following tables provide a summary of nonaccrual loans as of the dates indicated:

| Nonaccrual Loans (1) | | | | | | | | |
|--|-------------------------------|-----------------------------------|------------------------------|---------------------------------|-------------------------------|-----------------------------------|------------------------------|---------------------------------|
| Collateral Dependent Loans | Collateral Dependent Loans | Non-Collateral Dependent Loans | Total Nonaccrual Loans | Nonaccrual Loans with No ACL | Collateral Dependent Loans | Non-Collateral Dependent Loans | Total Nonaccrual Loans | Nonaccrual Loans with No ACL |
| (Dollars in thousands) | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| June 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| September 30, 2024 | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | |
| SBA secured by real estate | | | | | | | | |
| SBA secured by real estate | | | | | | | | |
| SBA secured by real estate | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | |
| Business loans secured by real estate | | | | | | | | |
| CRE owner-occupied | | | | | | | | |
| CRE owner-occupied | | | | | | | | |
| CRE owner-occupied | | | | | | | | |
| Franchise real estate secured | | | | | | | | |
| Total business loans secured by real estate | | | | | | | | |
| Total business loans secured by real estate | | | | | | | | |
| Total business loans secured by real estate | | | | | | | | |
| Commercial loans | | | | | | | | |
| Commercial and industrial | | | | | | | | |
| Commercial and industrial | | | | | | | | |
| Commercial and industrial | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | |
| SBA non-real estate secured | | | | | | | | |

| |
|-----------------------------|
| SBA non-real estate secured |
| SBA non-real estate secured |
| Total commercial loans |
| Total nonaccrual loans |
| Total nonaccrual loans |
| Total nonaccrual loans |

| | Nonaccrual Loans ⁽¹⁾ | | | | | |
|---|---------------------------------|------|-----------------------------------|------|---------------------------|---------------------------------|
| | Collateral Dependent Loans | ACL | Non-Collateral Dependent Loans | ACL | Total Nonaccrual Loans | Nonaccrual Loans with No ACL |
| (Dollars in thousands) | | | | | | |
| December 31, 2023 | | | | | | |
| Investor loans secured by real estate | | | | | | |
| CRE non-owner-occupied | \$ 412 | \$ — | \$ — | \$ — | \$ 412 | \$ 412 |
| SBA secured by real estate | 1,205 | — | — | — | 1,205 | 1,205 |
| Total investor loans secured by real estate | 1,617 | — | — | — | 1,617 | 1,617 |
| Business loans secured by real estate | | | | | | |
| CRE owner-occupied | 8,666 | — | — | — | 8,666 | 8,666 |
| Total business loans secured by real estate | 8,666 | — | — | — | 8,666 | 8,666 |
| Commercial loans | | | | | | |
| Commercial and industrial | 1,381 | — | 12,595 | — | 13,976 | 13,976 |
| SBA non-real estate secured | 558 | — | — | — | 558 | 558 |
| Total commercial loans | 1,939 | — | 12,595 | — | 14,534 | 14,534 |
| Total nonaccrual loans | \$ 12,222 | \$ — | \$ 12,595 | \$ — | \$ 24,817 | \$ 24,817 |

(1) The ACL for nonaccrual loans is determined based on a discounted cash flow methodology unless the loan is considered collateral dependent; otherwise, the ACL for collateral dependent nonaccrual loans is determined based on the estimated fair value of the underlying collateral.

Residential Real Estate Loans In Process of Foreclosure

The Company had no consumer mortgage loans collateralized by residential real estate property for which formal foreclosure proceedings were in process as of **June 30, 2024** **September 30, 2024** and December 31, 2023.

Modified Loans to Troubled Borrowers

On January 1, 2023, the Company adopted ASU 2022-02, *Financial Instruments - Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty. The Company also refers to these loans as modified loans to troubled borrowers ("MLTB"). An MLTB arises from a modification made to a loan in order to alleviate temporary difficulties in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. GAAP requires that certain types of modifications be reported, which consist of the following: (i) principal forgiveness, (ii) interest rate reduction, (iii) other-than-insignificant payment delay, (iv) term extension, or any combination of the foregoing. The ACL for an MLTB is measured on a collective basis, as with other loans in the loan portfolio, unless management determines that such loans no longer possess risk characteristics similar to others in the loan portfolio. In those instances, the ACL for an MLTB is determined through individual evaluation.

MLTBs were **\$28.0 million** **\$16.1 million** at **June 30, 2024** **September 30, 2024** and \$12.6 million at December 31, 2023.

There **was one** **no** loans modified as an MLTB during the three months ended **June 30, 2024** **September 30, 2024**, compared to **none** **two** syndicated C&I participation MLTBs during the three months ended **June 30, 2023** **September 30, 2023**.

The following table shows the amortized cost of the **MLTB MLTBs** by class and type of modification, as well as the percentage of the loans modified to the total class of loans at and during the three months ended **June 30, 2024** **September 30, 2023**:

| | Three Months Ended June 30, 2024 |
|--|--|
| | Other-than-Insignificant Payment Delay |
| | and Term Extension |

| (Dollars in thousands) | Percent of Total Class of Loans | |
|--|---------------------------------|--------|
| | Balance | |
| Investor loans secured by real estate | | |
| CRE non-owner-occupied | \$ 16,296 | 0.73 % |
| Total investor loans secured by real estate | \$ 16,296 | |

| (Dollars in thousands) | Three Months Ended September 30, 2023 | |
|---------------------------|---------------------------------------|---------------------------------|
| | Balance | Percent of Total Class of Loans |
| Commercial loans | | |
| Commercial and industrial | \$ 13,021 | 0.82 % |
| Total commercial loans | \$ 13,021 | |

The following table shows the amortized cost of the MLTB MLTBs by class and type of modification, as well as the percentage of the loans modified to the total class of loans at and during the six nine months ended June 30, 2024 September 30, 2024 and 2023:

| | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | |
|---|------------------------|--|--|---------------------------------|------------------------|--|--|---------------------------------|-----------|--|--|------|--|--|--|--|--|--|--|--|--|--|--|--|--|
| | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | |
| | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Six Months Ended June 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | | Nine Months Ended September 30, 2024 | | | |
| | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | | Combination of Other-than-Insignificant Payment Delay and Term Extension | | | |
| (Dollars in thousands) | (Dollars in thousands) | Balance | | Percent of Total Class of Loans | (Dollars in thousands) | Balance | | Percent of Total Class of Loans | | | | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | 16,296 | | 0.73 | | 0.73 | | % | \$ 16,089 | 0.73 | | 0.73 | | % | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | | | | | | | | | | | | |

| (Dollars in thousands) | Six Months Ended June 30, 2023 | |
|--|--------------------------------|------------------|
| | Balance | Percent of Total |
| Business loans secured by real estate | | |
| CRE owner-occupied | 851 | 0.04 % |
| Total business loans secured by real estate | 851 | |

| | Nine Months Ended September 30, 2023 | |
|--|--------------------------------------|------------------|
| | Balance | Percent of Total |
| | | |

| (Dollars in thousands) | Balance | Percent of Total Class of Loans |
|---------------------------|-----------|---------------------------------|
| Commercial loans | | |
| Commercial and industrial | \$ 13,021 | 0.82 % |
| Total commercial loans | \$ 13,021 | |

The following table describes the financial effect of the loan modification made for the borrower experiencing financial difficulty during the three and six nine months ended June 30, 2024 September 30, 2024:

| | Combination of Other-than-Insignificant Payment Delay and Term Extension |
|--|---|
| Investor loans secured by real estate | |
| CRE non-owner-occupied | Consolidated 3 loans with varying maturities into a single loan that extended the weighted average maturity by 6 months and 2 years of interest only payments |

The MLTB reported during the first quarter of 2023 matured during the second quarter of 2023. The following table describes the financial effect of the loan modification made for the borrower experiencing financial difficulty during the six three and nine months ended June 30, 2023 September 30, 2023:

| | Term ExtensionOther-than-Insignificant Payment Delay |
|--|--|
| Business loans secured by real estate | |
| CRE owner-occupied | Extended term by 4 months |
| Commercial loans | |
| Commercial and industrial | 1 year of interest-only payments |

During the three and six nine months ended June 30, 2024 September 30, 2024 and 2023, there were no MLTBs that had a payment default and had been modified within the 12 months preceding the payment default (90 days or more past due).

The following table depicts the performance of the MLTBs loans that were modified in the past 12 months as of the dates indicated:

| | Days Past Due | | | | | | Days Past Due | | | | |
|--|---------------|-------|-------|-----|-------|------------------------|---------------|-------|-------|-----|-------|
| (Dollars in thousands) | | | | | | (Dollars in thousands) | | | | | |
| (Dollars in thousands) | Current | 30-59 | 60-89 | 90+ | Total | (Dollars in thousands) | Current | 30-59 | 60-89 | 90+ | Total |
| June 30, 2024 | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | | |

Total
Total
Total

September 30, 2023

Commercial loans

| | | | | | | | | | | |
|---------------------------|----|--------|----|---|----|---|----|---|----|--------|
| Commercial and industrial | \$ | 13,021 | \$ | — | \$ | — | \$ | — | \$ | 13,021 |
| Total commercial loans | \$ | 13,021 | \$ | — | \$ | — | \$ | — | \$ | 13,021 |

Collateral Dependent Loans

Loans that have been classified as collateral dependent are loans where substantially all repayment of the loan is expected to come from the operation of or eventual liquidation of the collateral. Collateral dependent loans are evaluated individually for purposes of determining the ACL. The ACL for each loan is measured as the amount by which the fair value of the underlying collateral, less estimated costs to sell, is determined based on less than the amortized cost of the loan. Additionally, due to the likelihood of foreclosure and that repayment of the loan is expected to come from the eventual sale of the underlying collateral, management analyzes the underlying collateral at least quarterly, with changes in the estimated fair value of the collateral. Estimates for collateral and/or estimated costs to sell are included reflected in the determination of lifetime ACL for the ACL when liquidation of the collateral is anticipated, loan and balances deemed uncollectible are promptly charged-off. In cases where the loan is well-secured and the estimated value of the collateral exceeds the amortized cost of the loan, no ACL is recorded.

The following tables summarize collateral dependent loans by collateral type as of the dates indicated:

| (Dollars in thousands) | Office Properties | Retail Properties | Land Properties | Hotel Properties | Other CRE Properties | Business Assets | Total |
|---|----------------------|----------------------|--------------------|---------------------|-------------------------|--------------------|-----------|
| June 30, 2024 | | | | | | | |
| Investor loan secured by real estate | | | | | | | |
| CRE non-owner-occupied | \$ 16,296 | \$ 1,050 | \$ — | \$ — | \$ 2,035 | \$ — | \$ 19,381 |
| SBA secured by real estate | — | — | — | 934 | — | — | 934 |
| Total investor loans secured by real estate | 16,296 | 1,050 | — | 934 | 2,035 | — | 20,315 |
| Business loans secured by real estate | | | | | | | |
| CRE owner-occupied | 3,852 | — | 4,587 | — | — | — | 8,439 |
| Total business loans secured by real estate | 3,852 | — | 4,587 | — | — | — | 8,439 |
| Commercial loans | | | | | | | |
| Commercial and industrial | — | — | 229 | — | — | 9,023 | 9,252 |
| SBA non-real estate secured | — | — | — | — | — | 535 | 535 |
| Total commercial loans | — | — | 229 | — | — | 9,558 | 9,787 |
| Total collateral dependent loans | \$ 20,148 | \$ 1,050 | \$ 4,816 | \$ 934 | \$ 2,035 | \$ 9,558 | \$ 38,541 |

| (Dollars in thousands) | Office Properties | Retail Properties | Land Properties | Hotel Properties | Other CRE Properties | Business Assets | Total |
|---|----------------------|----------------------|--------------------|---------------------|-------------------------|--------------------|-----------|
| September 30, 2024 | | | | | | | |
| Investor loan secured by real estate | | | | | | | |
| CRE non-owner-occupied | \$ 16,089 | \$ 1,005 | \$ — | \$ — | \$ 1,948 | \$ — | \$ 19,042 |
| SBA secured by real estate | — | — | — | 1,725 | — | — | 1,725 |
| Total investor loans secured by real estate | 16,089 | 1,005 | — | 1,725 | 1,948 | — | 20,767 |
| Business loans secured by real estate | | | | | | | |
| CRE owner-occupied | — | — | 4,574 | — | — | — | 4,574 |
| Total business loans secured by real estate | — | — | 4,574 | — | — | — | 4,574 |
| Commercial loans | | | | | | | |
| Commercial and industrial | — | — | 227 | — | — | 2,047 | 2,274 |
| SBA non-real estate secured | — | — | — | — | — | 531 | 531 |
| Total commercial loans | — | — | 227 | — | — | 2,578 | 2,805 |
| Total collateral dependent loans | \$ 16,089 | \$ 1,005 | \$ 4,801 | \$ 1,725 | \$ 1,948 | \$ 2,578 | \$ 28,146 |

December 31, 2023

Investor loan secured by real estate

| | | | | | | | | | | | | | | |
|--|----|-------|----|-----|----|-------|----|-------|----|---|----|-------|----|--------|
| CRE non-owner-occupied | \$ | — | \$ | 412 | \$ | — | \$ | — | \$ | — | \$ | — | \$ | 412 |
| SBA secured by real estate | | — | | — | | — | | 1,205 | | — | | — | | 1,205 |
| Total investor loans secured by real estate | | — | | 412 | | — | | 1,205 | | — | | — | | 1,617 |
| Business loans secured by real estate | | | | | | | | | | | | | | |
| CRE owner-occupied | | 4,011 | | — | | 4,655 | | — | | — | | — | | 8,666 |
| Total business loans secured by real estate | | 4,011 | | — | | 4,655 | | — | | — | | — | | 8,666 |
| Commercial loans | | | | | | | | | | | | | | |
| Commercial and industrial | | — | | — | | 231 | | — | | — | | 1,150 | | 1,381 |
| SBA non-real estate secured | | — | | — | | — | | — | | — | | 558 | | 558 |
| Total commercial loans | | — | | — | | 231 | | — | | — | | 1,708 | | 1,939 |
| Total collateral dependent loans | \$ | 4,011 | \$ | 412 | \$ | 4,886 | \$ | 1,205 | \$ | — | \$ | 1,708 | \$ | 12,222 |

Note 6 – Allowance for Credit Losses

The Company maintains an ACL for loans and unfunded loan commitments in accordance with ASC 326 - *Financial Instruments - Credit Losses*. ASC 326 requires the Company to initially recognize estimates for lifetime credit losses on loans and unfunded loan commitments at the time of origination or acquisition. The recognition of credit losses represents the Company's best estimate of lifetime expected credit losses, given the facts and circumstances associated with a particular loan or group of loans with similar risk characteristics. Determining the ACL involves the use of significant management judgement and estimates, which are subject to change based on management's ongoing assessment of the credit quality of the loan portfolio and changes in economic forecasts used in the Company's ACL model. The Company uses a discounted cash flow model when determining estimates for the ACL for commercial real estate loans and commercial loans, which comprise the majority of the loan portfolio, and uses a historical loss rate model for retail loans. The Company also utilizes proxy loan data in its ACL model where the Company's own historical data is not sufficiently available.

The discounted cash flow model is applied on an instrument-by-instrument basis, and for loans with similar risk characteristics, to derive estimates for the lifetime ACL for each loan. The discounted cash flow methodology relies on several significant components essential to the development of estimates for future cash flows on loans and unfunded loan commitments. These components consist of: (i) the estimated probability of default ("PD"), (ii) the estimated loss given default ("LGD"), which represents the estimated severity of the loss when a loan is in default, (iii) estimates for prepayment activity on loans, and (iv) the estimated exposure to the Company at default ("EAD"). The PD and LGD are heavily influenced by changes in economic forecasts and key variables employed in the model as well as our portfolio performance and composition over a reasonable and supportable period. The Company's ACL methodology for unfunded loan commitments also includes assumptions concerning the probability an unfunded commitment will be drawn upon by the borrower. These assumptions are based on the Company's historical experience.

The Company's discounted cash flow ACL model for CRE and commercial loans uses internally derived estimates for prepayments in determining the amount and timing of future contractual cash flows expected to be collected. The estimate of future cash flows also incorporates estimates for contractual amounts the Company believes may not be collected, which are based on assumptions for PD, LGD, and EAD. The EAD is determined by the contractual payment schedule and expected payment profile of the loan, incorporating estimates for expected prepayments and future draws on revolving credit facilities. The Company discounts cash flows using the effective interest rate on the loan. The effective interest rate represents the contractual rate on the loan; adjusted for any purchase premiums, or discounts, and deferred fees and costs associated with an originated loan. The Company has made an accounting policy election to adjust the effective interest rate to take into consideration the effects of estimated prepayments. The ACL for loans is determined by measuring the amount by which a loan's amortized cost exceeds its discounted cash flows expected to be collected. The ACL for credit facilities is determined by discounting estimates for cash flows not expected to be collected.

Probability of Default

The PD for investor loans secured by real estate is based largely on a model provided by a third party, using proxy loan information. The PDs generated by this model are reflective of current and expected economic conditions in the commercial real estate market, and how they are expected to impact loan level and property level attributes, and ultimately the likelihood of a default event occurring. This model incorporates assumptions for PD at a loan's maturity. Significant loan and property level attributes include: loan-to-value ("LTV") ratios, debt service coverage ratios, loan size, loan vintage, and property types.

The PD for business loans secured by real estate and commercial loans is based on an internally developed PD rating scale that assigns PDs based on the Company's internal credit risk grades for loans. This internally developed PD rating scale is based on a combination of the Company's own historical data and observed historical data from the Company's peers, which consist of banks that management believes align with our business profile. As credit risk grades change for these loans, the PD assigned to them also changes. As with investor loans secured by real estate, the PD for business loans secured by real estate and commercial loans is also impacted by current and expected economic conditions, including U.S. GDP growth and U.S. unemployment rate forecasts.

The Company considers loans to be in default when they are 90 days or more past due or placed on nonaccrual status.

Loss Given Default

LGDs for commercial real estate loans are derived from a third party, using proxy loan information, and are based on loan and property level characteristics for loans in the Company's loan portfolio, such as: loan-to-value LTV ratios, ("LTV"), estimated time to resolution, property size, and current and estimated future market price changes for underlying collateral. The LGD is LGDs are highly dependent upon LTV ratios, and incorporates incorporate estimates for the expense expenses associated with managing the loan loans through to resolution. LGDs also incorporate an estimate for the loss severity associated with loans where the borrower fails to meet their debt obligation at maturity, such as through a balloon payment or the refinancing of the loan through another lender. External factors that have an impact on LGDs include: changes in the index for CRE pricing, GDP growth rate, unemployment rates, and the Consumer Price Index. LGDs are applied to each loan in the commercial real estate portfolio, and in conjunction with the PD, produce estimates for net cash flows not expected to be collected over the estimated term of the loan.

LGDs for commercial loans are also derived from a third party that has a considerable database of credit related information specific to the financial services industry and the type of loans within this segment, and is used to generate annual default information for commercial loans. These proxy LGDs are dependent upon data inputs such as: as credit quality, borrower industry, region, borrower size, and debt seniority. seniority, as well as external factors, including GDP growth rate and unemployment rates. LGDs are then applied to each loan in the commercial segment, and in conjunction with the PD, produce estimates for net cash flows not expected to be collected over the estimated term of the loan.

Historical Loss Rates for Retail Loans

The historical loss rate model for retail loans is derived from a third party that has a considerable database of credit related information for retail loans. Key loan level attributes and economic drivers in determining the loss rate for retail loans include FICO scores, vintage, as well as geography, unemployment rates, and changes in consumer real estate prices.

Economic Forecasts

In order to develop reasonable and supportable forecasts of future conditions, the Company estimates how those forecasts are expected to impact a borrower's ability to satisfy their obligation to the Bank and the ultimate collectability of future cash flows over the life of a loan. The Company uses macroeconomic scenarios from an independent third party, which are based on past events, current conditions, and the likelihood of future events occurring. These scenarios are typically comprised of: a base-case scenario, an upside scenario, representing slightly better economic conditions than currently experienced and, a downside scenario, representing recessionary conditions. Management periodically evaluates appropriateness of economic scenarios and may decide that a particular economic scenario or a combination of probability-weighted economic scenarios should be used in the Company's ACL model. The economic scenarios chosen for the model, the extent to which more than one scenario is used, and the weights that are assigned to them, are based on the likelihood that the economy would perform better than each scenario, which is based in part on analysis performed by an independent third party. Economic scenarios chosen, as well as the assumptions within those scenarios, and whether to use a probability-weighted multiple scenario approach, can vary from one period to the next based on changes in current and expected economic conditions, and due to the occurrence of specific events. The Company's ACL model at June 30, 2024 September 30, 2024 includes assumptions concerning the interest rate environment, general uncertainty concerning future economic conditions, and the potential for recessionary conditions.

The Company currently forecasts PDs and LGDs based on economic scenarios over a two-year period, which we believe is a reasonable and supportable period. Beyond this point, PDs and LGDs revert to their long-term averages. The Company has reflected this reversion over a period of three years in each of its economic scenarios used to generate the overall probability-weighted forecast. Changes in economic forecasts impact the PD, LGD, and EAD for each loan, and therefore influence the amount of future cash flows the Company does not expect to collect for each loan.

It is important to note that the Company's ACL model relies on multiple economic and model variables, which are used in several economic scenarios. Although no one economic variable can fully demonstrate the sensitivity of the ACL calculation to changes in the economic variables used in the model, the Company has identified certain economic variables that have significant influence in the Company's model for determining the ACL. These key economic variables include forecasted changes in the U.S. unemployment rate, U.S. real GDP growth, CRE prices, and interest rates.

Qualitative Adjustments

The Company recognizes that historical information used as the basis for determining future expected credit losses may not always, by itself, provide a sufficient basis for determining future expected credit losses. The Company, therefore, considers the need for qualitative adjustments to the ACL on a quarterly basis. Qualitative adjustments may be related to and include, but not be limited to, factors such as: (i) management's assessment of economic forecasts used in the model and how those forecasts align with management's overall evaluation of current and expected economic conditions, (ii) organization specific risks such as credit concentrations, collateral specific risks, regulatory risks, and external factors that may ultimately impact credit quality, (iii) potential model limitations such as limitations identified through back-testing, and other limitations associated with factors such as underwriting changes, acquisition of new portfolios, and changes in portfolio segmentation, and (iv) management's overall assessment of the adequacy of the ACL, including an assessment of model data inputs used to determine the ACL.

Qualitative adjustments primarily relate to certain segments of the loan portfolio deemed by management to be of a potentially higher-risk profile profiles or other factors where management believes the quantitative component of the Company's ACL model may not be fully reflective of levels deemed adequate in the judgement of management. Certain qualitative adjustments also relate to heightened uncertainty as to future macroeconomic conditions and the related impact on

certain loan segments. Management reviews the need for an appropriate level of qualitative adjustments on a quarterly basis, and as such, the amount and allocation of qualitative adjustments may change in future periods.

The following tables provide the allocation of the ACL for loans held for investment as well as the activity in the ACL attributed to various segments in the loan portfolio as of, and for the periods indicated:

| | | | | | | | | | | | | |
|---------------------------------------|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|
| Three Months Ended June 30, 2024 | | | | | | | | | | | | |
| Three Months Ended June 30, 2024 | | | | | | | | | | | | |
| Three Months Ended June 30, 2024 | | | | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | | | | |
| Three Months Ended September 30, 2024 | | | | | | | | | | | | |
| | | | | | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance |
| Investor loans secured by real estate | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | |
| SBA non-real estate secured | | | | | | | | | | | | |
| Retail loans | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Consumer loans | | | | | | | | | | | | |
| Totals | | | | | | | | | | | | |
| Six Months Ended June 30, 2024 | | | | | | | | | | | | |
| Six Months Ended June 30, 2024 | | | | | | | | | | | | |
| Six Months Ended June 30, 2024 | | | | | | | | | | | | |
| Nine Months Ended September 30, 2024 | | | | | | | | | | | | |

| | | | | | |
|--|--------------------------------------|-------------|------------|-----------------------------|--------------------|
| | Nine Months Ended September 30, 2024 | | | | |
| | Nine Months Ended September 30, 2024 | | | | |
| | Beginning ACL Balance | | | | |
| | Beginning ACL Balance | | | | |
| | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance |

(Dollars in thousands)

| |
|-----------------------------------|
| Commercial and industrial |
| Commercial and industrial |
| Franchise non-real estate secured |
| SBA non-real estate secured |
| Retail loans |
| Single family residential |
| Single family residential |
| Single family residential |
| Consumer loans |
| Totals |

| | |
|--|---------------------------------------|
| | Three Months Ended June 30, 2023 |
| | Three Months Ended June 30, 2023 |
| | Three Months Ended June 30, 2023 |
| | Three Months Ended September 30, 2023 |
| | Three Months Ended September 30, 2023 |
| | Three Months Ended September 30, 2023 |

| | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance |
|--|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|
| Investor loans secured by real estate | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | |
| SBA non-real estate secured | | | | | | | | | | | | |
| Retail loans | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |

| |
|---------------------------|
| Single family residential |
| Single family residential |
| Consumer loans |
| Totals |

| |
|--------------------------------------|
| Six Months Ended June 30, 2023 |
| Six Months Ended June 30, 2023 |
| Six Months Ended June 30, 2023 |
| Nine Months Ended September 30, 2023 |
| Nine Months Ended September 30, 2023 |
| Nine Months Ended September 30, 2023 |

| | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance | (Dollars in thousands) | Beginning ACL Balance | Charge-offs | Recoveries | Provision for Credit Losses | Ending ACL Balance |
|--|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|------------------------|-----------------------|-------------|------------|-----------------------------|--------------------|
| Investor loans secured by real estate | | | | | | | | | | | | |
| CRE non-owner occupied | | | | | | | | | | | | |
| CRE non-owner occupied | | | | | | | | | | | | |
| CRE non-owner occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | |
| SBA non-real estate secured | | | | | | | | | | | | |
| Retail loans | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Consumer loans | | | | | | | | | | | | |

Totals

The decrease in the ACL for loans held for investment during the three months ended **June 30, 2024** September 30, 2024 of **\$8.5 million** \$2.6 million was reflective of **\$10.3 million** \$2.3 million in net charge-offs, partially offset by **\$1.8 million** in and a \$249,000 reversal of provision for credit losses. During the **six** nine months ended **June 30, 2024** September 30, 2024, the ACL for loans held for investment decreased **\$8.7 million**, **\$11.2 million**, which was reflective of **\$16.7 million** \$19.0 million in net charge-offs, partially offset by **\$8.0 million** \$7.8 million in provision for credit losses.

During the three months ended September 30, 2024, the reversal of provision for credit losses was principally driven by declines in the balances of commercial loans and business loans secured by real estate. The reversal of provision for credit losses in these segments was partially offset by provision for credit losses in the investor loans secured by real estate segment, driven in large part by changes associated with economic forecasts and, partially offset by a decline in balances for loans within this segment.

During the nine months ended September 30, 2024, the provision for credit losses was attributed in large part to the impact of changes in economic forecasts and the associated impact on investor loans secured by real estate, with the largest impact attributed to multifamily loans and CRE non-owner-occupied loans, as well as business loans secured by real estate. The provision for credit losses during for loans within these segments attributable to the **three and six** months ended **June 30, 2024** was largely attributed to increases associated with impact from changes in economic forecasts which reflect changes was partially offset by declines in the CRE market overall, and other model updates, offset by a decrease in the balance balances of those loans held of investment, changes in loan composition, and changes in asset quality. quality for investor loans secured by real estate. The provision for credit losses in these segments was partially offset by a reversal of provision for credit losses in the commercial loans segment, which was principally driven by declines in the balances for those loans.

Charge-offs during the three months ended **June 30, 2024** September 30, 2024 were largely due to a \$1.2 million charge-off associated with the sale of one CRE owner-occupied loan, as well as charge-offs of various other C&I and consumer loans. In addition to the charge-offs recorded during the third quarter of 2024, charge-offs for the nine months ended September 30, 2024 were largely attributed to \$11.5 million in charge-offs related to the sale of a substandard multifamily loan and a substandard non-owner-occupied CRE loan during the second quarter of 2024. For the six months ended **June 30, 2024**, charge-offs were largely attributed to the charge-offs recorded in the second quarter of 2024, as well as \$5.7 million in charge-offs associated with the sale of various special mention and substandard CRE and franchise loans during the first quarter of 2024.

The decrease in the ACL for loans held for investment during the three months ended **June 30, 2023** September 30, 2023 of **\$3.1** \$4.2 million was reflective of **\$3.7** \$6.8 million in net charge-offs, partially offset by **\$610,000** \$2.5 million in provision for credit losses. The provision for credit losses during the three months ended **June 30, 2023** September 30, 2023 was largely attributed to increases associated with changes in economic forecasts, partially offset by a decrease in the balance of loans held for investment. investment across various segments in the loan portfolio.

For the **six** nine months ended **June 30, 2023** September 30, 2023, the ACL decreased **\$3.3** \$7.6 million. The decline in the ACL during this period was reflective of **\$6.9** \$13.7 million in net charge-offs, partially offset by **\$3.6** \$6.1 million in provision for credit losses. The provision for credit losses during the **six** nine months ended **June 30, 2023** September 30, 2023 was largely attributed to increases associated with changes in economic forecasts, as well as changes in asset quality, including specific reserves, partially offset by a decrease in loans held for investment. investment across various segments in the loan portfolio.

Charge-offs during the three months ended **June 30, 2023** September 30, 2023 were largely attributed to one CRE non-owner occupied C&I lending relationship and charge-offs in consumer loans, that already had a specific reserve as well as two syndicated C&I loans to one lending relationship that were modified with a partial charge-off. Charge-offs during the **six** nine months ended **June 30, 2023** September 30, 2023 were largely attributed to two C&I lending relationships, one CRE non-owner occupied non-owner-occupied lending relationship, and one CRE owner-occupied lending relationship.

Allowance for Credit Losses for Off-Balance Sheet Commitments

The Company maintains an ACL for off-balance sheet commitments related to unfunded loans and lines of credit, which is included in other liabilities of the consolidated statements of financial condition. The allowance for off-balance sheet commitments was **\$16.3** \$17.1 million at **June 30, 2024** September 30, 2024, a decline an increase of **\$505,000** \$760,000 from **\$16.8 million** \$16.3 million at **March 31, 2024** June 30, 2024, and a decrease of **\$2.9 million** \$2.2 million from December 31, 2023. During the three months ended **June 30, 2024** September 30, 2024, the provision recapture expense for off-balance sheet commitments was largely attributable to slightly lower higher loss rates for C&I loans, partially offset by a slight increase decrease in the balance of unfunded commitments during the quarter. The provision recapture reversal for off-balance sheet commitments during the **six** nine months ended **June 30, 2024** September 30, 2024 was attributed largely to overall lower levels of unfunded commitments during the period.

During the three months ended **June 30, 2023** September 30, 2023, the provision expense for off-balance sheet commitments of **\$1.0 million** \$1.4 million was attributable, in large part, to higher loss rates changes in certain segments of the loan portfolio, economic forecasts, partially offset by a decline in the balance of unfunded commitments. The provision expense during the **six** nine months ended **June 30, 2023** September 30, 2023 was largely attributed to higher loss rates in certain loan segments, economic forecasts, partially offset by changes in the mix of unfunded commitments between various loan segments, and a decrease in the balance of unfunded commitments.

The following table summarizes the activities in the ACL for off-balance sheet commitments for the periods indicated:

| Three Months Ended | | Six Months Ended | |
|--------------------|----------|------------------|----------|
| June 30, | June 30, | June 30, | June 30, |

| (Dollars in thousands) | 2024 | 2023 | 2024 | 2023 |
|--|-----------|-----------|-----------|-----------|
| Beginning ACL balance | \$ 16,839 | \$ 23,452 | \$ 19,264 | \$ 23,641 |
| Provision for credit losses on off-balance sheet commitments | (505) | 1,003 | (2,930) | 814 |
| Ending ACL balance | \$ 16,334 | \$ 24,455 | \$ 16,334 | \$ 24,455 |

| (Dollars in thousands) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2024 | 2023 | 2024 | 2023 |
| Beginning ACL balance | \$ 16,334 | \$ 24,455 | \$ 19,264 | \$ 23,641 |
| Provision for credit losses on off-balance sheet commitments | 760 | 1,386 | (2,170) | 2,200 |
| Ending ACL balance | \$ 17,094 | \$ 25,841 | \$ 17,094 | \$ 25,841 |

Note 7 – Goodwill and Other Intangible Assets

The Company had goodwill of \$901.3 million at **June 30, 2024** **September 30, 2024** and December 31, 2023. The Company did not record any adjustments to goodwill during the three months ended **June 30, 2024** **September 30, 2024** and **June 30, 2023** **September 30, 2023**.

The Company's policy is to assess goodwill for impairment on an annual basis during the fourth quarter of each year, and more frequently if events or circumstances lead management to believe the value of goodwill may be impaired.

Other intangible assets with definite lives were **\$37.7 million** **\$34.9 million** at **June 30, 2024** **September 30, 2024**, consisting of **\$35.8 million** **\$33.1 million** in core deposit intangibles and **\$1.9 million** **\$1.8 million** in customer relationship intangibles. At December 31, 2023, other intangibles assets were \$43.3 million, consisting of \$41.2 million in core deposit intangibles and \$2.1 million in customer relationship intangibles. The following table summarizes the change in the balances of core deposit and customer relationship intangible assets, and the related accumulated amortization for the periods indicated below:

| | | Three Months Ended | | Three Months Ended | | Three Months Ended | | Six Months Ended | | Nine Months Ended | | |
|------------------------------------|------------------------|--------------------|------|--------------------|------|--------------------|------|------------------------|------|-------------------|------|------|
| | | June 30, | | June 30, | | June 30, | | June 30, | | | | |
| | | September 30, | | September 30, | | September 30, | | September 30, | | | | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | (Dollars in thousands) | 2024 | 2023 | 2024 | 2023 |
| Gross amount of intangible assets: | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Additions due to acquisitions | | | | | | | | | | | | |
| Ending balance | | | | | | | | | | | | |
| Accumulated amortization: | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Beginning balance | | | | | | | | | | | | |
| Amortization | | | | | | | | | | | | |
| Ending balance | | | | | | | | | | | | |
| Net intangible assets | | | | | | | | | | | | |

The Company amortizes core deposit intangibles and customer relationship intangibles based on the projected useful lives of the related deposits in the case of core deposit intangibles, and over the projected useful lives of the related client relationships in the case of customer relationship intangibles. The amortization periods typically range from six to eleven years. The estimated aggregate amortization expense related to our core deposit and customer relationship intangible assets for each of the next five years succeeding December 31, 2023, in order from the present, is \$11.1 million, \$10.0 million, \$8.9 million, \$7.2 million, and \$4.0 million. The Company's core deposit and customer relationship intangibles are evaluated annually for impairment or more frequently if events and circumstances lead management to believe their value may not be recoverable. The Company is unaware of any events and/or circumstances that would indicate the value of customer relationship intangible assets are impaired as of **June 30, 2024** **September 30, 2024**.

Note 8 – Subordinated Debentures

As of **June 30, 2024** **September 30, 2024**, the Company had **three** **two** subordinated notes with an aggregate carrying value of **\$332.2** **\$272.3** million with a weighted interest rate of **6.51%** **6.58%**, compared to \$331.8 million with a weighted interest rate of 5.31% at December 31, 2023. The **increase** **decrease** of **\$318,000** **\$59.5 million** was primarily due to the maturity of \$60.0 million of subordinated notes on September 3, 2024, partially offset by the amortization of debt issuance costs.

The following table summarizes our outstanding subordinated debentures as of the dates indicated:

| | (Dollars in thousands) | Stated Maturity | Current Interest Rate | Current Principal Balance | Carrying Value | | (Dollars in thousands) | | | | Carrying Value | | |
|--|------------------------|-----------------|-----------------------|---------------------------|----------------|-------------------|------------------------|-----------------|-----------------------|---------------------------|--------------------|-------------------|--|
| | | | | | June 30, 2024 | December 31, 2023 | | Stated Maturity | Current Interest Rate | Current Principal Balance | September 30, 2024 | December 31, 2023 | |
| (Dollars in thousands) | | | | | | | | | | | | | |
| Subordinated notes | | | | | | | | | | | | | |
| Subordinated notes due 2024, 5.75% per annum | | | | | | | | | | | | | |
| Subordinated notes due 2024, 5.75% per annum | | | | | | | | | | | | | |
| Subordinated notes due 2024, 5.75% per annum | | | | | | | | | | | | | |
| Subordinated notes due 2029, 4.875% per annum until May 15, 2024, 3-month term SOFR +2.762% thereafter | | | | | | | | | | | | | |
| Subordinated notes due 2030, 5.375% per annum until June 15, 2025, 3-month term SOFR +5.17% thereafter | | | | | | | | | | | | | |
| Total subordinated debentures | | | | | | | | | | | | | |

Upon the cessation of LIBOR on June 30, 2023, the LIBOR-based benchmark rate after May 15, 2024 for our subordinated notes due 2029 transitioned to 3-month term SOFR as successor base rate plus the relevant spread adjustment.

In connection with the various issuances of subordinated notes, the Corporation obtained ratings from Kroll Bond Rating Agency ("KBRA"). KBRA assigned investment grade ratings of BBB+ and BBB for the Corporation's senior unsecured debt and subordinated debt, respectively, and a deposit and senior unsecured debt rating of A- and subordinated debt of BBB+ for the Bank. The Corporation's and Bank's ratings were reaffirmed in May 2024 by KBRA.

For additional information on the Company's subordinated debentures, see "Note 13 — Subordinated Debentures" to the audited consolidated financial statements in the Company's 2023 Form 10-K.

For regulatory capital purposes, subordinated notes qualify as Tier 2 capital, subject to limitations. Per applicable Federal Reserve rules and regulations, the amount of the subordinated notes qualifying as Tier 2 regulatory capital is phased out by 20% of the original amount of the subordinated notes in each of the five years beginning on the fifth anniversary preceding the maturity date of the subordinated notes. The regulatory total capital ratios of the Company and the Bank continued to exceed regulatory minimums, inclusive of the fully phased-in capital conservation buffer.

Note 9 – Earnings Per Share

The Company's restricted stock awards contain non-forfeitable rights to dividends and therefore are considered participating securities. The Company calculates basic and diluted earnings per common share using the two-class method.

Under the two-class method, distributed and undistributed earnings allocable to participating securities are deducted from net income to determine net income allocable to common shareholders, which is then used in the numerator of both basic and diluted earnings per share calculations. Basic earnings per common share is computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding for the reporting period, excluding outstanding participating securities. Diluted earnings per common share is computed by dividing net income allocable to common shareholders by the weighted average number of common shares outstanding over the reporting period, adjusted to include the effect of potentially dilutive common shares, but excludes awards considered participating securities. The computation of diluted earnings per common share excludes the impact of the assumed exercise or issuance of securities that would have an anti-dilutive effect.

The following tables set forth the Corporation's earnings per share calculations for the periods indicated:

| | | Three Months Ended | Three Months Ended | | | |
|---|---|--------------------|--------------------|---|--------------------|--------------------|
| | (Dollars in thousands, except per share data) | June 30, 2024 | June 30, 2023 | (Dollars in thousands, except per share data) | September 30, 2024 | September 30, 2023 |
| (Dollars in thousands, except per share data) | | | | | | |
| Basic | | | | | | |
| Net income | | | | | | |
| Net income | | | | | | |

| |
|--|
| Net income |
| Less: dividends and undistributed earnings allocated to participating securities |
| Net income allocated to common stockholders |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Basic earnings per common share |
| Diluted |
| Diluted |
| Diluted |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Dilutive effect of share-based compensation |
| Weighted average diluted common shares |
| Weighted average diluted common shares |
| Weighted average diluted common shares |
| Diluted earnings per common share |
| (Dollars in thousands, except per share data) |
| (Dollars in thousands, except per share data) |
| (Dollars in thousands, except per share data) |
| Basic |
| Basic |
| Basic |
| Net income |
| Net income |
| Net income |
| Less: dividends and undistributed earnings allocated to participating securities |
| Less: dividends and undistributed earnings allocated to participating securities |
| Less: dividends and undistributed earnings allocated to participating securities |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |
| Basic earnings per common share |
| Basic earnings per common share |
| Basic earnings per common share |
| Diluted |
| Diluted |
| Diluted |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Net income allocated to common stockholders |
| Weighted average common shares outstanding |
| Weighted average common shares outstanding |

Weighted average common shares outstanding

Dilutive effect of share-based compensation

Dilutive effect of share-based compensation

Dilutive effect of share-based compensation

Weighted average diluted common shares

Weighted average diluted common shares

Weighted average diluted common shares

Diluted earnings per common share

Diluted earnings per common share

Diluted earnings per common share

Shares or stock options are excluded from the computations of diluted earnings per share when their inclusion have an anti-dilutive effect. The dilutive impact of these securities could be included in future computations of diluted earnings per share if the market price of the common stock increases. For the three months ended June 30, 2024 September 30, 2024 and 2023, there were 44,647 and 151,379 weighted average no potential common shares that were anti-dilutive. For the six nine months ended June 30, 2024 September 30, 2024 and 2023, there were 25,924 43,610 and 42,469 48,808 weighted average common shares that were anti-dilutive.

Note 10 – Fair Value of Financial Instruments

The fair value of an asset or liability is the exchange price that would be received to sell that asset or paid to transfer that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach, and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. ASC Topic 825 - *Financial Instruments*, requires disclosure of the fair value of financial assets and financial liabilities, including both those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis and a non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value are discussed below.

In accordance with ASC Topic 820 - *Fair Value Measurement*, the Company groups its financial assets and financial 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. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, prepayment speeds, volatilities, etc.), or model-based valuation techniques where all significant assumptions are observable, either directly or indirectly, in the market.

Level 3 - Valuation is generated from model-based techniques where one or more significant inputs are not observable, either directly or indirectly, in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques may include use of matrix pricing, discounted cash flow models, and similar techniques.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature, and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the fair values presented. Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Management maximizes the use of observable inputs and attempts to minimize the use of unobservable inputs when determining fair value measurements. Estimated fair values are disclosed for financial instruments for which it is practicable to estimate fair value. These estimates are made at a specific point in time based on relevant market data and information about the financial instruments. 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following is a description of both the general and specific valuation methodologies used for certain instruments measured at fair value, as well as the general classification of these instruments pursuant to the fair value hierarchy.

AFS Investment Securities – Investment securities are generally valued based upon quotes obtained from independent third-party pricing services, which use evaluated pricing applications and model processes. Observable market inputs, such as, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data are considered as part of the evaluation. The inputs are related directly to the security being evaluated, or indirectly to a similarly situated security. Market assumptions and market data are utilized in the valuation models. The Company reviews the market prices provided by the third-party pricing service for reasonableness based on the Company's understanding of the marketplace and credit issues related to the securities. The Company has not made any adjustments to the market quotes provided by them and, accordingly, the Company categorized these securities within Level 2 of the fair value hierarchy.

Equity Securities With Readily Determinable Fair Values – The Company's equity securities with readily determinable fair values consist of investments in public companies and qualify for CRA purposes. The fair value is based on the closing price on nationally recognized securities exchanges at the end of each period and classified as Level 1 of the fair value hierarchy.

Interest Rate Swaps – The Company originates a variable rate loan and enters into a variable-to-fixed interest rate swap with the customer. The Company also enters into an offsetting swap with a correspondent bank. These back-to-back swap agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The Company also enters into interest rate swap contracts with institutional counterparties to hedge against certain fixed-rate loans. The net cash flow for the Company is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a market standard discounted cash flow approach. The Company incorporates credit value adjustments on derivatives to properly reflect the respective counterparty's nonperformance risk in the fair value measurements of its derivatives. The Company has determined that the observable nature of the majority of inputs used in deriving the fair value of these derivative contracts fall within Level 2 of the fair value hierarchy, and the credit valuation adjustments are not significant to the overall valuation of its derivative financial instruments. As a result, the valuation of interest rate swaps is classified as Level 2 of the fair value hierarchy.

Equity Warrant Assets – The Company acquired equity warrant assets as a result of the acquisition of Opus. The warrants provide the Bank the right to purchase a specific number of equity shares of the underlying company's equity at a certain price before expiration and contain net settlement terms qualifying as derivatives under ASC Topic 815 - *Derivatives and Hedging*. The fair value of equity warrant assets is determined using a Black-Scholes option pricing model and are classified as Level 3 within the fair value hierarchy due to the extent of unobservable inputs. The key assumptions used in determining the fair value include the exercise price of the warrants, valuation of the underlying entity's outstanding stock, expected term, risk-free interest rate, marketability discount for private company warrants, and price volatility. During 2023, the equity warrant assets were either settled or written off as the warrants were determined to not be exercisable until the underlying company's fair market value is greater than the value established in the warrant agreement.

Foreign Exchange Contracts – The Company enters into foreign exchange contracts to accommodate the business needs of its customers. The Company also enters into offsetting contracts with institutional counterparties to mitigate the Company's foreign exchange exposure with its customers, or enters into bilateral collateral and master netting agreements with certain customer counterparties to manage its credit exposure. The Company measures the fair value of foreign exchange contracts based on quoted prices for identical instruments in active markets, a Level 1 measurement.

The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis at the dates indicated:

| | June 30, 2024 | | September 30, 2024 | |
|-------------------------------------|------------------------------|--|------------------------------|--|
| | Fair Value Measurement Using | | Fair Value Measurement Using | |
| (Dollars in thousands) | Total Fair Value | | Total Fair Value | |
| Financial assets | | | | |
| Financial assets | | | | |
| Financial assets | | | | |
| AFS investment securities: | | | | |
| AFS investment securities: | | | | |
| AFS investment securities: | | | | |
| U.S. Treasury | | | | |
| Agency | | | | |
| Corporate | | | | |
| Collateralized mortgage obligations | | | | |
| Collateralized mortgage obligations | | | | |
| Collateralized mortgage obligations | | | | |

| |
|------------------------------------|
| Total AFS investment securities |
| Total AFS investment securities |
| Total AFS investment securities |
| Equity securities |
| Equity securities |
| Equity securities |
| Derivative assets: |
| Derivative assets: |
| Derivative assets: |
| Foreign exchange contracts |
| Foreign exchange contracts |
| Foreign exchange contracts |
| Interest rate swaps ⁽¹⁾ |
| Total derivative assets |
| Total derivative assets |
| Total derivative assets |
| Financial liabilities |
| Financial liabilities |
| Financial liabilities |
| Derivative liabilities: |
| Derivative liabilities: |
| Derivative liabilities: |
| Interest rate swaps |
| Interest rate swaps |
| Foreign exchange |
| Foreign exchange |
| Foreign exchange |
| Interest rate swaps |
| Total derivative liabilities |

⁽¹⁾ Represents amounts after the application of variation margin payments as settlements with central counterparties, where applicable. See *Note 11 – Derivative Instruments* for additional information.

| | December 31, 2023 | | | |
|-------------------------------------|------------------------------|--------------|---------|------------------|
| | Fair Value Measurement Using | | | |
| (Dollars in thousands) | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Financial assets | | | | |
| AFS investment securities: | | | | |
| U.S. Treasury | \$ — | \$ 539,256 | \$ — | \$ 539,256 |
| Agency | — | 1,868 | — | 1,868 |
| Corporate | — | 446,343 | — | 446,343 |
| Collateralized mortgage obligations | — | 152,604 | — | 152,604 |
| Total AFS investment securities | \$ — | \$ 1,140,071 | \$ — | \$ 1,140,071 |
| Equity securities | \$ 759 | \$ — | \$ — | \$ 759 |
| Derivative assets: | | | | |
| Foreign exchange contracts | \$ 1 | \$ — | \$ — | \$ 1 |
| Interest rate swaps ⁽¹⁾ | — | 5,643 | — | 5,643 |
| Total derivative assets | \$ 1 | \$ 5,643 | \$ — | \$ 5,644 |
| Financial liabilities | | | | |
| Derivative liabilities: | | | | |

| | | | | | | | | | | |
|------------------------------|----|----|----|--------|----|---|----|---|----|--------|
| Foreign exchange | \$ | 10 | \$ | — | \$ | — | \$ | — | \$ | 10 |
| Interest rate swaps | | — | | 10,705 | | — | | — | | 10,705 |
| Total derivative liabilities | \$ | 10 | \$ | 10,705 | \$ | — | \$ | — | \$ | 10,715 |

(1) Represents amounts after the application of variation margin payments as settlements with central counterparties, where applicable. See Note 11 – Derivative Instruments for additional information.

The following table is a reconciliation of the fair value of the equity warrants that are classified as Level 3 and measured on a recurring basis as of:

| | | Three Months Ended | Three Months Ended | Three Months Ended | Six Months Ended | Nine Months Ended | | | | | | | | |
|------------------------|------------------------|--------------------|--------------------|--------------------|------------------|-------------------|---------------|------------------------|---------------|------|------|------|------|------|
| | | June 30, | September 30, | June 30, | September 30, | June 30, | September 30, | June 30, | September 30, | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | (Dollars in thousands) | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| Beginning balance | | | | | | | | | | | | | | |
| Change in fair value | | | | | | | | | | | | | | |
| (1) | | | | | | | | | | | | | | |
| Net exercise | | | | | | | | | | | | | | |
| Ending balance | | | | | | | | | | | | | | |

(1) The changes in fair value are included in other income on the consolidated statement of income.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Individually Evaluated Loans – A loan is individually evaluated for expected credit losses when it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement and it does not share similar risk characteristics with other loans. Individually evaluated loans are measured at fair value when they are deemed collateral dependent. Fair value on such loans is measured based on the underlying collateral. Collateral generally consists of accounts receivable, inventory, fixed assets, real estate properties, and cash. The Company measures impairment on all individually evaluated loans for which it has reduced the principal balance to the value of the underlying collateral less the anticipated selling costs.

Other Real Estate Owned – OREO is initially recorded at the fair value less estimated costs to sell at the date of transfer. This amount becomes the property's new basis. Any fair value adjustments based on the property's fair value less estimated costs to sell at the date of acquisition are charged to the allowance for credit losses.

The fair value of individually evaluated collateral dependent loans and OREO were determined using Level 3 assumptions, and represents individually evaluated loan for which a specific reserve has been established or on which a write down has been taken. For real estate loans, generally, the Company obtains third party appraisals (or property valuations) and/or collateral audits in conjunction with internal analysis based on historical experience on its individually evaluated loans to determine fair value. In determining the net realizable value of the underlying collateral for individually evaluated loans and OREO, the Company then discounts the valuation to cover both market price fluctuations and selling costs, typically ranging from 7% to 10% of the collateral value, that the Company expects would be incurred in the event of foreclosure. In addition to the discounts taken, the Company's calculation of net realizable value considered any other senior liens in place on the underlying collateral. For non-real estate loans, fair value of the loan's collateral may be determined using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions, and management's expertise and knowledge of the client and client's business.

At June 30, 2024 September 30, 2024, the Company's individually evaluated collateral dependent loans were evaluated based on the fair value of their underlying collateral based upon the most recent appraisals available to management. The Company completed partial charge-offs on certain individually evaluated loans based on recent real estate or property appraisals and recorded the related reserves where applicable during the six nine months ended June 30, 2024 September 30, 2024.

The following table presents our assets measured at fair value on a nonrecurring basis at the dates indicated. The total fair value of our assets measured at fair value on a nonrecurring basis was zero as of June 30, 2024.

| (Dollars in thousands) | Fair Value Measurement Using | | | Total Fair Value |
|------------------------|------------------------------|---------|---------|------------------|
| | Level 1 | Level 2 | Level 3 | |
| September 30, 2024 | | | | |

| | | | | |
|----------------------------|----|---|----|-----|
| Financial assets | | | | |
| Collateral dependent loans | \$ | — | \$ | — |
| | | | \$ | 557 |
| Total assets | \$ | — | \$ | — |
| | | | \$ | 557 |

| | | | | |
|----------------------------|------------------------------|--|--|---------------------|
| (Dollars in thousands) | Fair Value Measurement Using | | | Total Fair Value |
| December 31, 2023 | | | | |
| December 31, 2023 | | | | |
| December 31, 2023 | | | | |
| Financial assets | | | | |
| Financial assets | | | | |
| Financial assets | | | | |
| Collateral dependent loans | | | | |
| Other real estate owned | | | | |
| Total assets | | | | |

The following table presents quantitative information about Level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at the dates indicated.

| (Dollars in thousands) | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | | Weighted Average |
|---|------------|--------------------------|-----------------------|--------|--------|------------------|
| | | | | Min | Max | |
| September 30, 2024 | | | | | | |
| Investor loans secured by real estate | | | | | | |
| SBA secured by real estate ⁽¹⁾ | \$ 557 | Fair value of collateral | Cost to sell | 10.00% | 10.00% | 10.00% |
| Total individually evaluated loans | 557 | | | | | |
| Total assets | \$ 557 | | | | | |

| (Dollars in thousands) | Fair Value | Valuation Technique(s) | Unobservable Input(s) | Range | | Weighted Average |
|---|------------|--------------------------|--------------------------|--------------|--------|------------------|
| | | | | Min | Max | |
| December 31, 2023 | | | | | | |
| December 31, 2023 | | | | | | |
| December 31, 2023 | | | | | | |
| Investor loans secured by real estate | | | | | | |
| Investor loans secured by real estate | | | | | | |
| Investor loans secured by real estate | | | | | | |
| SBA secured by real estate ⁽¹⁾ | | | | | | |
| SBA secured by real estate ⁽¹⁾ | | | | | | |
| SBA secured by real estate ⁽¹⁾ | \$ 419 | Fair value of collateral | Fair value of collateral | Cost to sell | 10.00% | \$ 419 |
| Commercial loans | | | | | | |
| Commercial loans | | | | | | |
| Commercial loans | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial | | | | | | |
| Commercial and industrial | 1,150 | Fair value of collateral | Fair value of collateral | Cost to sell | 7.00% | 1,150 |

| | | | | | | | | | | | | |
|------------------------------------|-----|------------------------|------------------------|--------------|--------|-----|------------------------|------------------------|--------------|--------|--|--|
| Total individually evaluated loans | | | | | | | | | | | | |
| Total individually evaluated loans | | | | | | | | | | | | |
| Total individually evaluated loans | | | | | | | | | | | | |
| Other real estate owned | | | | | | | | | | | | |
| Other real estate owned | | | | | | | | | | | | |
| Other real estate owned | 248 | Fair value of property | Fair value of property | Cost to sell | 10.00% | 248 | Fair value of property | Fair value of property | Cost to sell | 10.00% | | |
| Total assets | | | | | | | | | | | | |

(1) SBA loans that are collateralized by hotel/motel real property.

Fair Values of Financial Instruments

The fair value estimates presented herein are based on pertinent information available to management as of the dates indicated, representing an exit price.

| June 30, 2024 | | | | | | |
|--|-----------------|------------|---------------|------------|----------------------|--|
| (Dollars in thousands) | Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value | |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 899,817 | \$ 899,817 | \$ — | \$ — | \$ 899,817 | |
| Interest-bearing time deposits with financial institutions | 996 | 996 | — | — | 996 | |
| HTM investment securities | 1,710,141 | — | 1,427,324 | — | 1,427,324 | |
| AFS investment securities | 1,320,050 | — | 1,320,050 | — | 1,320,050 | |
| Equity securities | 589 | 589 | — | — | 589 | |
| Loans held for sale | 140 | — | 146 | — | 146 | |
| Loans held for investment, net | 12,489,951 | — | — | 11,796,323 | 11,796,323 | |
| Derivative assets (1) | 6,426 | 4 | 6,422 | — | 6,426 | |
| Accrued interest receivable | 69,629 | — | 69,629 | — | 69,629 | |
| Liabilities | | | | | | |
| Deposit accounts | \$ 14,627,654 | \$ — | \$ 14,643,853 | \$ — | \$ 14,643,853 | |
| FHLB advances | 200,000 | — | 199,323 | — | 199,323 | |
| Subordinated debentures | 332,160 | — | 324,577 | — | 324,577 | |
| Derivative liabilities | 11,987 | — | 11,987 | — | 11,987 | |
| Accrued interest payable | 17,356 | — | 17,356 | — | 17,356 | |

(1) Represents amounts after the application of variation margin payments as settlements with central counterparties, where applicable. See Note 11 – Derivative Instruments for additional information.

| (Dollars in thousands) | Carrying Amount | Level 1 | Level 2 | Level 3 | Estimated Fair Value | |
|--|-----------------|------------|---------------|------------|----------------------|--|
| September 30, 2024 | | | | | | |
| Assets | | | | | | |
| Cash and cash equivalents | \$ 982,249 | \$ 982,249 | \$ — | \$ — | \$ 982,249 | |
| Interest-bearing time deposits with financial institutions | 1,246 | 1,246 | — | — | 1,246 | |
| HTM investment securities | 1,713,575 | — | 1,482,042 | — | 1,482,042 | |
| AFS investment securities | 1,316,546 | — | 1,316,546 | — | 1,316,546 | |
| Equity securities | 737 | 737 | — | — | 737 | |
| Loans held for investment, net | 12,035,097 | — | — | 11,567,236 | 11,567,236 | |
| Derivative assets (1) | 4,202 | 3 | 4,199 | — | 4,202 | |
| Accrued interest receivable | 64,803 | — | 64,803 | — | 64,803 | |
| Liabilities | | | | | | |
| Deposit accounts | \$ 14,480,927 | \$ — | \$ 14,498,492 | \$ — | \$ 14,498,492 | |
| Subordinated debentures | 272,320 | — | 267,936 | — | 267,936 | |
| Derivative liabilities (1) | 8,382 | 2 | 8,380 | — | 8,382 | |

| | | | | | |
|--|----------|---------|---------|---------|------------|
| Accrued interest payable | 13,404 | — | 13,404 | — | 13,404 |
| | | | | | |
| December 31, 2023 | | | | | |
| | | | | | |
| (Dollars in thousands) | Carrying | Level 1 | Level 2 | Level 3 | Estimated |
| | Amount | | | | Fair Value |
| December 31, 2023 | | | | | |
| Assets | | | | | |
| Assets | | | | | |
| Assets | Assets | | | | |
| Cash and cash equivalents | | | | | |
| Interest-bearing time deposits with financial institutions | | | | | |
| HTM investment securities | | | | | |
| AFS investment securities | | | | | |
| Equity securities | | | | | |
| Loans held for investment, net | | | | | |
| Loans held for investment, net | | | | | |
| Loans held for investment, net | | | | | |
| Derivative assets ⁽¹⁾ | | | | | |
| Accrued interest receivable | | | | | |
| Liabilities | | | | | |
| Liabilities | | | | | |
| Liabilities | | | | | |
| Deposit accounts | | | | | |
| FHLB advances | | | | | |
| Subordinated debentures | | | | | |
| Subordinated debentures | | | | | |
| Subordinated debentures | | | | | |
| Derivative liabilities | | | | | |
| Derivative liabilities ⁽¹⁾ | | | | | |
| Accrued interest payable | | | | | |

⁽¹⁾ Represents amounts after the application of variation margin payments as settlements with central counterparties, where applicable. See Note 11 – Derivative Instruments for additional information.

Note 11 – Derivative Instruments

The Company uses derivative instruments to manage its exposure to market risks, including interest rate risk, and to assist customers with their risk management objectives. The Company designates certain derivatives as hedging instruments in a qualifying hedge accounting relationship, while other derivatives serve as economic hedges that do not qualify for hedge accounting.

Derivatives Designated as Hedging Instruments

Fair Value Hedges – The Company is exposed to changes in the fair value of fixed-rate assets due to changes in benchmark interest rates. The Company entered into pay-fixed and receive-floating interest rate swaps associated with certain fixed rate loans, primarily multifamily and commercial real estate loans, to manage its exposure to changes in fair value on these instruments attributable to changes in the designated SOFR benchmark interest rate. These interest rate swaps are designated as fair value hedges using the portfolio layer method. The Company receives variable-rate interest payments in exchange for making fixed-rate payments over the lives of the contracts without exchanging the notional amounts. The fair value hedges are recorded as components of other assets and other liabilities in the Company's consolidated statements of financial condition. The gain or loss on these derivatives, as well as the offsetting loss or gain on the hedged items attributable to the hedged risk, are recognized consistent with the classification of the hedged item in interest income in the Company's consolidated statements of income.

During the three months ended September 30, 2024, as part of its interest rate risk management, the Company voluntarily discontinued portfolio layer method fair value hedges with an aggregate notional amount of \$450.0 million associated with closed pools of fixed rate loans. In addition, a portfolio layer method fair value hedge with a notional amount of \$100.0 million matured during the three months ended September 30, 2024. When a portfolio layer method fair value hedge is discontinued, the hedged item is no longer adjusted for changes in the fair value of the hedged risk, also referred to as the basis adjustment. The basis adjustment, as of the date the fair value hedge is discontinued, is allocated on a proportionate basis to the remaining loans that previously comprised the closed pool. The basis adjustment is subsequently amortized or accreted into interest income using the interest method over the remaining lives of the individual loans. At

June 30, 2024, September 30, 2024 and December 31, 2023, interest rate swaps with an aggregate notional amount of \$1.35 billion, \$800.0 million and \$1.35 billion respectively, were designated as fair value hedges.

The following amounts were recorded on the consolidated statement of financial condition related to cumulative basis adjustment for fair value hedges as of the dates indicated:

| Line Item in the Statement of Financial Position in Which the Hedged Item is Included | Line Item in the Statement of Financial Position in Which the Hedged Item is Included | Carrying Amount of the Hedged Assets | | Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Assets | |
|---|---|--------------------------------------|-------------------|---|-------------------|
| Line Item in the Statement of Financial Position in Which the Hedged Item is Included | | | | | |
| Line Item in the Statement of Financial Position in Which the Hedged Item is Included | | | | | |
| (Dollars in thousands) | | | | | |
| (Dollars in thousands) | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | June 30, 2024 | December 31, 2023 | June 30, 2024 | December 31, 2023 |
| Loans held for investment ⁽¹⁾ | | | | | |
| Loans held for investment ⁽¹⁾ | | | | | |
| Loans held for investment ⁽¹⁾ | | | | | |
| Total | | | | | |
| Total | | | | | |
| Total | | | | | |

⁽¹⁾ These amounts were included in the amortized cost basis of closed portfolios of loans held for investment used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolios anticipated to be outstanding for the designated hedge period. At June 30, 2024, September 30, 2024 and December 31, 2023, the amortized cost basis of the closed portfolios used in these hedging relationships was \$3.13 billion, \$2.04 billion and \$3.25 billion, respectively, the cumulative basis adjustments associated with these hedging relationships was \$(28.2), \$(15.5) million and \$(29.6) million, respectively, and the amounts of the designated hedged items were \$1.35 billion, \$800.0 million and \$1.35 billion, respectively.

⁽²⁾ At September 30, 2024, the balance included \$654,000 hedging adjustment on discontinued hedging relationships.

Derivatives Not Designated as Hedging Instruments

Interest Rate Swap Contracts – From time to time, the Company enters into interest rate swap agreements with certain borrowers to assist them in mitigating their interest rate risk exposure associated with the loans they have with the Company. At the same time, the Company enters into identical offsetting interest rate swap agreements with another financial institution to mitigate the Company's interest rate risk exposure associated with the swap agreements it enters into with its borrowers. The Company has over-the-counter derivative instruments and centrally-cleared derivative instruments with matched terms. The fair values of these agreements are determined through a third-party valuation model used by the Company's swap advisory firm, which uses observable market data such as interest rates, prices of Eurodollar futures contracts, and market swap rates. The fair values of these swaps are recorded as components of other assets and other liabilities in the Company's consolidated statement of financial condition. Changes in the fair value of these swaps, which occur due to changes in interest rates, are recorded in the Company's statement of income as a component of noninterest income. Upon the cessation of LIBOR on June 30, 2023, our LIBOR-indexed interest rate swap contracts transitioned to SOFR as successor rate for both valuations and settlements.

Over-the-counter contracts are tailored to meet the needs of the counterparties involved and, therefore, generally contain a greater degree of credit risk and liquidity risk than centrally-cleared contracts, which have standardized terms. Although changes in the fair value of swap agreements between the Company and borrowers and the Company and other financial institutions offset each other, changes in the credit risk of these counterparties may result in a difference in the fair value of the swap agreements. Offsetting over-the-counter swap agreements the Company has with other financial institutions are collateralized with cash, and swap agreements with borrowers are secured by the collateral arrangements for the underlying loans these borrowers have with the Company. All interest rate swap agreements entered into by the Company are free-standing derivatives and are not designated as hedging instruments.

Foreign Exchange Contracts – The Company offers foreign exchange spot and forward contracts as accommodations to its customers to purchase and/or sell foreign currencies at a contractual price. In conjunction with these products the Company also enters into offsetting contracts with institutional counterparties to mitigate the Company's foreign exchange exposure with its customers, or enters into bilateral collateral and master netting agreements with certain customer counterparties to manage its credit exposure. These contracts allow the Company to offer its customers foreign exchange products while minimizing its exposure to foreign exchange rate fluctuations. These foreign exchange contracts are not designated as hedging instruments and are recorded at fair value in other assets and other liabilities in the Company's consolidated statements of financial condition. Changes in the fair value of these contracts are recorded in the Company's consolidated statements of income as a component of noninterest income.

Equity Warrant Assets – The Company acquired equity warrant assets as a result of the acquisition of Opus. The warrants provide the Bank the right to purchase a specific number of equity shares of the underlying company's equity at a certain price before expiration and contain net settlement terms qualifying as derivatives under ASC Topic 815. Changes in the fair value of the warrants are recognized as a component of noninterest income with a corresponding offset within other assets. The total fair value of the warrants held in private companies was zero in other assets as of **June 30, 2024**, **September 30, 2024** and December 31, 2023. During 2023, the equity warrant assets were either settled or written off as the warrants were determined to not be exercisable until the underlying company's fair market value is greater than the value established in the warrant agreement.

The following tables summarize the Company's derivative instruments included in "other assets" and "other liabilities" in the consolidated statements of financial condition as of the dates indicated:

| (Dollars in thousands) | June 30, 2024 | | | |
|---|-------------------|------------|------------------------|------------|
| | Derivative Assets | | Derivative Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| Derivative instruments designated as hedging instruments: | | | | |
| Fair value hedge - interest rate swap contracts | \$ 1,050,000 | \$ 29,590 | \$ 300,000 | \$ 21 |
| Total derivative designated as hedging instruments | 1,050,000 | 29,590 | 300,000 | 21 |
| Derivative instruments not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 171 | 4 | 55 | — |
| Interest rate swaps contracts | 100,878 | 11,938 | 100,878 | 11,947 |
| Total derivative not designated as hedging instruments | 101,049 | 11,942 | 100,933 | 11,947 |
| Total derivatives | \$ 1,151,049 | 41,532 | \$ 400,933 | 11,968 |
| Netting adjustments - cleared positions ⁽¹⁾ | | 35,106 | | (19) |
| Total derivatives in the Statement of Financial Condition | | \$ 6,426 | | \$ 11,987 |

| (Dollars in thousands) | September 30, 2024 | | | |
|---|--------------------|------------|------------------------|------------|
| | Derivative Assets | | Derivative Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| Derivative instruments designated as hedging instruments: | | | | |
| Fair value hedge - interest rate swap contracts | \$ 500,000 | \$ 17,239 | \$ 300,000 | \$ 67 |
| Total derivative designated as hedging instruments | 500,000 | 17,239 | 300,000 | 67 |
| Derivative instruments not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 81 | 3 | 287 | 2 |
| Interest rate swaps contracts | 95,268 | 8,215 | 95,268 | 8,225 |
| Total derivative not designated as hedging instruments | 95,349 | 8,218 | 95,555 | 8,227 |
| Total derivatives | \$ 595,349 | 25,457 | \$ 395,555 | 8,294 |
| Netting adjustments - cleared positions ⁽¹⁾ | | 21,255 | | (88) |
| Total derivatives in the Statement of Financial Condition | | \$ 4,202 | | \$ 8,382 |

| (Dollars in thousands) | December 31, 2023 | | | |
|---|-------------------|------------|------------------------|------------|
| | Derivative Assets | | Derivative Liabilities | |
| | Notional | Fair Value | Notional | Fair Value |
| Derivative instruments designated as hedging instruments: | | | | |
| Fair value hedge - interest rate swap contracts | \$ 600,000 | \$ 34,541 | \$ 750,000 | \$ 3,184 |
| Total derivative designated as hedging instruments | 600,000 | 34,541 | 750,000 | 3,184 |
| Derivative instruments not designated as hedging instruments: | | | | |
| Foreign exchange contracts | 19 | 1 | 410 | 10 |
| Interest rate swaps contracts | 103,954 | 10,397 | 103,954 | 10,409 |
| Total derivative not designated as hedging instruments | 103,973 | 10,398 | 104,364 | 10,419 |
| Total derivatives | \$ 703,973 | \$ 44,939 | \$ 854,364 | \$ 13,603 |
| Netting adjustments - cleared positions ⁽¹⁾ | | 39,295 | | 2,888 |
| Total derivatives in the Statement of Financial Condition | | \$ 5,644 | | \$ 10,715 |

(1) Netting adjustments represents the variation margin payments that are considered legal settlements of derivative exposure and applied to net the fair value of the respective derivative contracts in accordance with the applicable accounting guidance on the settle-to-market rule for cleared derivatives.

The following table presents the effect of fair value hedge accounting on the consolidated statements of income:

| | | Three Months Ended | | | | Three Months Ended | | | | Three Months Ended | | | | Three Months Ended | | | | |
|--|------------------------|--|--|--|--|--------------------|---------------|---------------|---------------|------------------------|--|--|--|--------------------|--------------------|--------------------|--------------------|--------------------|
| | | Three Months Ended | | | | Six Months Ended | | | | Nine Months Ended | | | | Three Months Ended | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Location of Gain (Loss) Recognized in Income on Derivative Instruments | | | | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | (Dollars in thousands) | Location of Gain (Loss) Recognized in Income on Derivative Instruments | | | | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
| Gain (loss) on fair value hedging relationships: | | | | | | | | | | | | | | | | | | |
| Gain (loss) on fair value hedging relationships: | | | | | | | | | | | | | | | | | | |
| Gain (loss) on fair value hedging relationships: | | | | | | | | | | | | | | | | | | |
| Hedged items | | | | | | | | | | | | | | | | | | |
| Hedged items | | | | | | | | | | | | | | | | | | |
| Hedged items | | | | | | | | | | | | | | | | | | |
| Derivatives designated as hedging instruments | | | | | | | | | | | | | | | | | | |

The following table summarizes the effect of the derivatives not designated as hedging instruments in the consolidated statements of income.

| (Dollars in thousands) | | Three Months Ended | | | | Six Months Ended | | | |
|--|------------------------|---|---------------|---------------|---------------|---|---------------|---------------|---------------|
| | | Location of Gain (Loss) Recognized in Income on | | | | Location of Gain (Loss) Recognized in Income on | | | |
| Derivatives Not Designated as Hedging Instruments: | Derivative Instruments | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 | June 30, 2024 | June 30, 2023 |
| Foreign exchange contracts | Other income | \$ 207 | \$ 263 | \$ 352 | \$ 483 | | | | |
| Interest rate products | Other income | 1 | — | 3 | — | | | | |
| Equity warrants | Other income | — | (535) | — | (786) | | | | |
| Total | | \$ 208 | \$ (272) | \$ 355 | \$ (303) | | | | |

| (Dollars in thousands) | | Three Months Ended | | | | Nine Months Ended | | | |
|--|------------------------|---|--------------------|--------------------|--------------------|---|--------------------|--------------------|--------------------|
| | | Location of Gain (Loss) Recognized in Income on | | | | Location of Gain (Loss) Recognized in Income on | | | |
| Derivatives Not Designated as Hedging Instruments: | Derivative Instruments | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 | September 30, 2024 | September 30, 2023 |
| Foreign exchange contracts | Other income | \$ 181 | \$ 205 | \$ 533 | \$ 688 | | | | |
| Interest rate products | Other income | (1) | (9) | 2 | (9) | | | | |
| Equity warrants | Other income | — | (16) | — | (802) | | | | |
| Total | | \$ 180 | \$ 180 | \$ 535 | \$ (123) | | | | |

Note 12 – Balance Sheet Offsetting

Derivative financial instruments may be eligible for offset in the consolidated statements of financial condition, such as those subject to enforceable master netting arrangements or a similar agreement. Under these agreements, the Company has the right to net settle multiple contracts with the same counterparty. The Company offers an interest rate swap product to qualified customers, which are then paired with derivative contracts the Company enters into with a counterparty bank. While derivative contracts entered into with counterparty banks may be subject to enforceable master netting agreements, derivative contracts with customers may not be subject to enforceable master netting arrangements. With regard to derivative contracts not centrally cleared through a clearinghouse, regulations

require collateral to be posted by the party with a net liability position. Parties to a centrally cleared over-the-counter derivative exchange daily payments that reflect the daily change in the value of the derivative. These payments are commonly referred to as variation margin and are treated as settlements of derivative exposure rather than as collateral. The gross amounts of derivative assets and liabilities for derivative contracts cleared through certain central clearing parties are reported at the fair value of the respective derivative contracts net of the variation margin payments, where applicable.

Financial instruments that are eligible for offset in the consolidated statements of financial condition as of the periods indicated are presented below:

| | Gross Amounts | Gross Amounts | Gross Amounts Offset in the Consolidated Statements of | Net Amounts Presented in the Consolidated Statements of | Gross Amounts Not Offset in the Consolidated Statements of Financial Condition | | Gross Amounts | Gross Amounts Offset in the Consolidated Statements of | Net Amounts Presented in the Consolidated Statements of | Gross Amounts Not Offset in the Consolidated Statements of Financial Condition | | | |
|---------------------------|-------------------|-------------------|---|--|--|---------------|-------------------|---|---|--|---------|----|--------|
| (Dollars in thousands) | Recognized (1) | Recognized (1) | Financial Condition | Financial Condition | | Net Amount | Recognized (1) | Financial Condition | Financial Condition | Net Amount | | | |
| June 30, 2024 | | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | |
| Derivative liabilities: | | | | | | | | | | | | | |
| Derivative liabilities: | | | | | | | | | | | | | |
| Derivative liabilities: | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Interest rate swaps | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | |
| December 31, 2023 | | | | | | | | | | | | | |
| Derivative assets: | | | | | | | | | | | | | |
| Interest rate swaps | | \$ | 5,643 | \$ | — | \$ | 5,643 | \$ | — | \$ | (4,610) | \$ | 1,033 |
| Total | | \$ | 5,643 | \$ | — | \$ | 5,643 | \$ | — | \$ | (4,610) | \$ | 1,033 |
| | | | | | | | | | | | | | |
| Derivative liabilities: | | | | | | | | | | | | | |
| Interest rate swaps | | \$ | 10,705 | \$ | — | \$ | 10,705 | \$ | — | \$ | — | \$ | 10,705 |
| Total | | \$ | 10,705 | \$ | — | \$ | 10,705 | \$ | — | \$ | — | \$ | 10,705 |

(1) Represents amounts after the application of variation margin payments as settlements with central counterparties, where applicable.

(2) Represents the fair value of securities pledged with counterparty bank.

(3) Represents cash collateral received from or pledged with counterparty bank. Amounts are limited to the derivative asset or liability balance and, accordingly, do not include excess collateral, if any, received or pledged.

Note 13 – Variable Interest Entities

The Company is involved with VIEs through its loan securitization activities and affordable housing investments that qualify for the low-income housing tax credit (“LIHTC”). The Company has determined that its interests in these entities meet the definition of variable interests.

As of June 30, 2024, September 30, 2024 and December 31, 2023, the Company determined it was not the primary beneficiary of the VIEs and did not consolidate its interests in VIEs. The following table provides a summary of the carrying amount of assets and liabilities in the Company's consolidated statements

of financial condition and maximum exposure to loss as of **June 30, 2024** **September 30, 2024** and December 31, 2023 that relate to variable interests in non-consolidated VIEs.

| | | | June 30, 2024 | | | December 31, 2023 | | | | | | | | |
|--|---------------------------|-----------------|-----------------------|-------------|-----------------|----------------------|-------------|---------------------------|-----------------|--------|-------------|-----------------|--------|-------------|
| | | | September 30, 2024 | | | December 31, 2023 | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Maximum Loss | Assets | Liabilities | Maximum Loss | Assets | Liabilities | (Dollars in thousands) | Maximum Loss | Assets | Liabilities | Maximum Loss | Assets | Liabilities |
| Multifamily loan securitization: | | | | | | | | | | | | | | |
| Investment securities ⁽¹⁾ | | | | | | | | | | | | | | |
| Investment securities ⁽¹⁾ | | | | | | | | | | | | | | |
| Investment securities ⁽¹⁾ | | | | | | | | | | | | | | |
| Reimbursement obligation ⁽²⁾ | | | | | | | | | | | | | | |
| Affordable housing partnership: | | | | | | | | | | | | | | |
| Other investments ⁽³⁾ | | | | | | | | | | | | | | |
| Other investments ⁽³⁾ | | | | | | | | | | | | | | |
| Other investments ⁽³⁾ | | | | | | | | | | | | | | |
| Unfunded equity commitments ⁽²⁾ | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | |

⁽¹⁾ Included in investment securities AFS on the consolidated statement of financial condition.

⁽²⁾ Included in accrued expenses and other liabilities on the consolidated statement of financial condition.

⁽³⁾ Included in other assets on the consolidated statement of financial condition.

Multifamily Loan Securitization

With respect to the securitization transaction with Freddie Mac discussed in *Note 5 – Loans Held for Investment*, the Company's variable interests reside with the underlying Freddie Mac-issued guaranteed, structured pass-through certificates that were held as AFS investment securities at fair value as of **June 30, 2024** **September 30, 2024**. Additionally, the Company has variable interests through a reimbursement agreement executed by Freddie Mac that obligates the Company to reimburse Freddie Mac for any defaulted contractual principal and interest payments identified after the ultimate resolution of the defaulted loans. Such reimbursement obligations are not to exceed 10% of the original principal amount of the loans comprising the securitization pool.

As part of the securitization transaction, the Company released all servicing obligations and rights to Freddie Mac who was designated as the Master Servicer. In its capacity as Master Servicer, Freddie Mac can terminate the Company's role as sub-servicer and direct such responsibilities accordingly. In evaluating our variable interests and continuing involvement in the VIE, we determined that we do not have the power to make significant decisions or direct the activities that most significantly impact the economic performance of the VIE's assets and liabilities. As sub-servicer of the loans, the Company does not have the authority to make significant decisions that influence the value of the VIE's net assets and, therefore, the Company is not the primary beneficiary of the VIE. As a result, we determined that the VIE associated with the multifamily securitization should not be included in the consolidated financial statements of the Company.

We believe that our maximum exposure to loss as a result of our involvement with the VIE associated with the securitization is the carrying value of the investment securities issued by Freddie Mac and purchased by the Company. Additionally, our maximum exposure to loss under the reimbursement agreement executed with Freddie Mac is 10% of the original principal amount of the loans comprising the securitization pool, or \$50.9 million. However, as the total outstanding principal amount of the underlying loans decreased below the aforementioned threshold, the maximum exposure declined to the total outstanding principal amount of the underlying loans of **\$44.2** **\$42.3** million at **June 30, 2024** **September 30, 2024** and \$48.0 million at December 31, 2023. Based upon our analysis of quantitative and qualitative data over the underlying loans included in the securitization pool, as of **June 30, 2024** **September 30, 2024** and December 31, 2023, our reserve for estimated losses with respect to the reimbursement obligation was \$345,000.

Investments in Qualified Affordable Housing Partnerships

The Company has variable interests through its affordable housing partnership investments. These investments are fundamentally designed to provide a return through the generation of income tax credits and other income tax benefits. The Company has evaluated its involvement with the low-income housing

projects and determined it does not have the ability to exercise significant influence over or participate in the decision-making activities related to the management of the projects, and therefore, is not the primary beneficiary, and does not consolidate these interests.

The Company's maximum exposure to loss, exclusive of any potential realization of tax credits, is equal to the commitments invested, adjusted for amortization. The amount of unfunded commitments was included in the investments recognized as assets with a corresponding liability. The preceding table summarizes the amount of tax credit investments held as assets, the amount of unfunded commitments recognized as liabilities, and the maximum exposure to loss as of **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively.

Note 14 – Tax Equity Investments

The Company makes investments in the equity of certain limited partnerships or limited liability companies that typically qualify for credit under the Community Reinvestment Act. Certain of these equity investments are associated with affordable housing projects that generate LIHTC and other income tax benefits for the Company.

The Company typically accounts for tax equity investments using the proportional amortization method, if certain criteria are met. The election to account for tax equity investments using the proportional amortization method is done so on a tax credit program-by-tax credit program basis. Under the proportional amortization method, the Company amortizes the initial cost of the investment, which is inclusive of any commitments to make future equity contributions, in proportion to the income tax credits and other income tax benefits that are allocated to the Company over the period of the investment. The net benefits of these investments, which are comprised of income tax credits and operating loss income tax benefits, net of investment amortization, are recognized in the income statement as a component of income tax expense. At **June 30, 2024** **September 30, 2024** and December 31, 2023, the carrying value of these investments was **\$81.9 million** **\$83.3 million** and \$88.8 million, respectively, and are included in other assets in the consolidated statements of financial position.

As of **June 30, 2024** **September 30, 2024**, the Company's unfunded commitments associated with tax equity investments, which **comprise** **are comprised of** investments in affordable housing partnerships, were estimated to be paid as follows:

| (Dollars in thousands) | (Dollars in thousands) | Amount | (Dollars in thousands) | Amount |
|----------------------------|------------------------|--------|------------------------|--------|
| Year Ending December 31, | | | | |
| 2024 | | | | |
| 2024 | | | | |
| 2024 | | | | |
| 2025 | | | | |
| 2026 | | | | |
| 2027 | | | | |
| 2028 | | | | |
| Thereafter | | | | |
| Total unfunded commitments | | | | |

The following table presents income tax credits and other income tax benefits, as well as amortization expense, associated with investments in qualified affordable housing partnerships where the proportional amortization method of accounting has been applied for the periods indicated.

| | | Three Months Ended | | Three Months Ended | | Six Months Ended | | Three Months Ended | | Nine Months Ended |
|---|------------------------|--------------------|--|--------------------|--|------------------|--|--------------------|--|-------------------|
| | | June 30, | | June 30, | | June 30, | | June 30, | | June 30, |
| | | September 30, | | September 30, | | September 30, | | September 30, | | September 30, |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | | 2023 | | 2024 | | 2023 | | 2024 |
| Tax credit and other tax benefits recognized ⁽¹⁾ | | | | | | | | | | |
| Amortization of investments ⁽¹⁾ | | | | | | | | | | |

⁽¹⁾ Amounts for income tax credits and other income tax benefits, as well as amortization of investments, are included in income tax expense in the consolidated statements of income, and net change in accrued interest receivable and other assets on the consolidated statements of cash flows, for the periods presented above.

There was no non-income-tax-related activity associated with tax equity investments recorded outside of income tax expense for the three months ended **September 30, 2024**. During the **three and six nine** months ended **June 30, 2024** **September 30, 2024**, non-income-tax-related income of \$371,000 associated with a tax equity investment was included in other income in the consolidated statements of income as well as net change in accrued interest receivable and other assets on the consolidated statements of cash flows. There was no non-income-tax-related activity associated with tax equity investments recorded outside of income tax expense for the three and **six nine** months ended **June 30, 2023** **September 30, 2023**. There were no impairment losses recorded on tax equity investments during the three and **six nine** months ended **June 30, 2024** **September 30, 2024** and 2023.

Note 15 – Subsequent Events

Quarterly Cash Dividend

On **July 22, 2024** **October 22, 2024**, the Corporation's Board of Directors declared a cash dividend of \$0.33 per share, payable on **August 12, 2024** **November 12, 2024** to stockholders of record as of **August 5, 2024** **November 4, 2024**.

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

FORWARD-LOOKING STATEMENTS

All references to "we," "us," "our," "Pacific Premier," or the "Company" mean Pacific Premier Bancorp, Inc. and our consolidated subsidiaries, including Pacific Premier Bank, our primary operating subsidiary. All references to the "Bank" refer to Pacific Premier Bank. All references to the "Corporation" refer to Pacific Premier Bancorp, Inc.

This Quarterly Report on Form 10-Q contains information and statements that are considered "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 represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections, and statements of our beliefs concerning future events, business plans, objectives, expected operating results, and the assumptions upon which those statements are based. Forward-looking statements include without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," or words or phrases of similar meaning.

We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors, which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward-looking statements:

- The strength of the United States ("U.S.") economy in general and the strength of the local economies in which we conduct operations;
- Adverse developments in the banking industry and the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- The effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve");
- Interest rate, liquidity, economic, market, credit, operational, and inflation risks associated with our business, including the speed and predictability of changes in these risks;
- Our ability to attract and retain deposits and to access other sources of liquidity, particularly in a rising or high interest rate environment, and the quality and composition of our deposits;
- Business and economic conditions generally and in the financial services industry, nationally and within our current and future geographic markets, including the tight labor market, ineffective management of the U.S. Federal budget or debt, or turbulence or uncertainty in domestic or foreign financial markets;
- The effect of acquisitions we have made or may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions, and/or the failure to effectively integrate an acquisition target into our operations;
- The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;
- Possible impairment charges to goodwill, including any impairment that may result from increased volatility in our stock price;
- The impact of changes in financial services policies, laws, and regulations, including those concerning taxes, banking, securities, and insurance, and the application thereof by regulatory bodies;
- Compliance risks, including any increased costs of monitoring, testing, and maintaining compliance with complex laws and regulations;
- The effectiveness of our risk management framework and quantitative models;
- The effect of changes in accounting policies and practices or accounting standards, as may be adopted from time to time by bank regulatory agencies, the Securities and Exchange Commission ("SEC"), the Public Company Accounting Oversight Board ("PCAOB"), the Financial Accounting Standards Board ("FASB"), or other accounting standards setters;
- Possible credit-related impairments of securities held by us;
- Changes in the level of our nonperforming assets and charge-offs;
- The impact of governmental efforts to restructure the U.S. financial regulatory system;
- The impact of recent or future changes in Federal Deposit Insurance Corporation (the "FDIC") insurance assessment rate or the rules and regulations related to the calculation of the FDIC insurance assessment amount, including any special assessments;

- Changes in consumer spending, borrowing, and savings habits;
- The effects of concentrations in our loan portfolio, including commercial real estate, and the risks of geographic and industry concentrations;
- The possibility that we may reduce or discontinue the payments of dividends on our common stock;
- The possibility that we may discontinue, reduce, or otherwise limit the level of repurchases of our common stock we may make from time to time pursuant to our stock repurchase program;
- Changes in the financial performance and/or condition of our borrowers;
- Changes in the competitive environment among financial and bank holding companies and other financial service providers;
- Geopolitical conditions, including acts or threats of terrorism, actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, including the war between Russia and Ukraine, Israel and Hamas, and overall tensions in the Middle East, and trade tensions, all of which could impact business and economic conditions in the U.S. and abroad;
- Public health crises and pandemics and their effects on the economic and business environments in which we operate, including on our credit quality and business operations, as well as the impact on general economic and financial market conditions;
- Cybersecurity threats and the cost of defending against them;
- Climate change, including the enhanced regulatory, compliance, credit, and reputational risks and costs;
- Natural disasters, earthquakes, fires, and severe weather;
- Unanticipated regulatory, legal, or judicial proceedings; and
- Our ability to manage the risks involved in the foregoing.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance, or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We will not update the forward-looking information and statements to reflect actual results or changes in the factors affecting the forward-looking information and statements. For information on the factors that could cause actual results to differ from the expectations stated in the forward-looking statements, see “Risk Factors” under Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Form 10-K”) in addition to Part II, Item 1A - Risk Factors of this Quarterly Report on Form 10-Q and other reports as filed with the SEC.

Forward-looking information and statements should not be viewed as predictions, and should not be the primary basis upon which investors evaluate us. Any investor in our common stock should consider all risks and uncertainties disclosed in our filings with the SEC, all of which are accessible on the SEC’s website at <http://www.sec.gov>.

GENERAL

Management’s discussion and analysis of financial condition and results of operations is intended to provide a better understanding of the significant changes in trends relating to the Company’s financial condition, results of operations, liquidity, and capital resources. This discussion should be read in conjunction with our 2023 Form 10-K, plus the unaudited consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The results for the three and **six nine** months ended **June 30, 2024** **September 30, 2024** are not necessarily indicative of the results expected for the year ending December 31, 2024.

The Corporation is a California-based bank holding company incorporated in 1997 in the state of Delaware and registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (“BHCA”). Our wholly owned subsidiary, Pacific Premier Bank, is a California state-chartered commercial bank. The Bank was founded in 1983 as a state-chartered thrift and subsequently converted to a federally-chartered thrift in 1991. The Bank converted to a California-chartered commercial bank and became a member of the Federal Reserve System in March 2007. **The Bank’s deposits are insured by the FDIC through the Deposit Insurance Fund.** The Bank is also a member of the Federal Home Loan Bank of San Francisco (“FHLB”), which is a member of the Federal Home Loan Bank System. As a bank holding company, the Corporation is subject to regulation and supervision by the Federal Reserve and the Federal Reserve Bank of San Francisco (“FRB”). The Federal Reserve may conduct examinations of bank holding companies, such as the Corporation, and its subsidiaries. The Corporation is also a bank holding company within the meaning of the California Financial Code. As such, the Corporation and its subsidiaries are subject to the supervision and examination by, and may be required to file reports with, the California Department of Financial Protection and Innovation (“DFPI”).

A bank holding company, such as the Corporation, is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where the bank holding company might not do so absent such a policy. The Federal Reserve, under the BHCA, has the authority to require a bank holding company to terminate any activity or to relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve’s determination that such activity or control constitutes a serious risk to the financial soundness and stability of any bank subsidiary of the bank holding company.

As a California state-chartered commercial bank, which is a member of the Federal Reserve, the Bank is subject to supervision, periodic examination, and regulation by the DFPI, the Federal Reserve, the Consumer Financial Protection Bureau, and the FDIC. The Bank’s deposits are insured by the FDIC through the Deposit Insurance Fund. In general terms, insurance coverage is up to \$250,000 per depositor for all deposit accounts. As a result of this deposit insurance function, the FDIC also has certain supervisory authority and powers over the Bank. As a California-chartered commercial bank, the Bank is also subject to certain provisions of California law.

Our corporate headquarters is located in Irvine, California. At **June 30, 2024** **September 30, 2024**, we primarily conducted business throughout the Western Region of the United States from our 58 full-service depository branches located in California, Washington, Oregon, Arizona, and Nevada.

In support of our organic and strategic growth strategy we have developed a variety of banking products and services within our targeted markets in the Western U.S. tailored to small- and middle-market businesses, corporations, including the owners and employees of those businesses, professionals, entrepreneurs, real estate investors, and non-profit organizations, as well as consumers in the communities we serve. Through our branches and our website, www.ppbi.com, we provide a wide array of banking products and services such as: various types of deposit accounts, digital banking, treasury management services, online bill payment, and a wide array of loan products, including commercial business loans, lines of credit, Small Business Administration ("SBA") loans, commercial real estate ("CRE") loans, agribusiness loans, quick-service restaurant ("QSR") franchise lending, home equity lines of credit, and construction loans throughout the Western U.S. in major metropolitan markets within Arizona, California, Nevada, Oregon, and Washington. We also offer enhanced nationwide specialty banking products and services for Homeowners' Associations ("HOA") and HOA management companies, as well as experienced owner-operator franchisees in the QSR industry. Our specialty products and services offerings include commercial escrow and exchange services through our Commerce Escrow division, which provides a variety of real-property and non-real property escrow services, including the facilitation of Section 1031 of the Internal Revenue Code, as well as custodial services through our Pacific Premier Trust division for clients with alternative assets held in qualified self-directed IRA accounts, **as well as certain accounts that do not qualify as IRAs pursuant to the Internal Revenue Code, including investments in private equity, real estate, notes, cash, and other non-exchange traded assets.**

The Bank funds its lending and investment activities with retail and commercial deposits obtained through its branches, advances from the FHLB, lines of credit, and wholesale and brokered certificates of deposit.

Our principal source of income is the net spread between interest earned on loans and investments and the interest costs associated with deposits and borrowings used to finance the loan and investment portfolios. Additionally, the Bank generates fee income from loan and investment sales, and various products and services offered to depository, loan, escrow, and IRA custodial clients.

RECENT DEVELOPMENTS

Recent data in financial markets suggested that U.S. economic activity has expanded modestly so far in 2024 and unemployment remains low. While consumer price inflation is below where it was in prior years, inflation remains above the Federal Open Market Committee's ("FOMC") 2% target. To address the persistent level of inflation, the FOMC has taken steps since March 2022 to tighten monetary policy through increases to the federal funds rate, as well as by reducing the size of the Federal Reserve's balance sheet. The FOMC remains committed to monetary policy measures that are designed to bring inflation down. While increases in interest rates have generally resulted in higher levels of interest income for the banking industry, interest expense has also increased due to competition for deposits and higher borrowing costs associated with wholesale funding. Higher interest rates may also reduce economic activity overall or result in recessionary conditions in future periods. The full extent of economic pressures associated with inflation, the labor market strength, the measures taken by the FOMC and the possibility that the FOMC could maintain high interest rates longer than anticipated, and the potential for reduced economic activity on the Company's business are uncertain. Should these persist, we anticipate it could have an impact on the following:

- **Loan growth and interest income** - High interest rates may constrain our lending growth. If economic activity begins to wane, it may have an impact on our borrowers, the businesses they operate, and their financial condition. Our borrowers may have less demand for credit needed to invest in and expand their businesses, as well as less demand for real estate and consumer loans. Such factors would place pressure on the level of interest-earning assets, which may negatively impact our interest income.
- **Credit quality** - Should there be a decline in economic activity, the markets we serve could experience increases in unemployment, declines in consumer confidence, and a reluctance on the part of businesses to invest in and expand their operations, among other things. Such factors may result in weakened economic conditions, place strain on our borrowers, and ultimately impact the credit quality of our loan portfolio. We expect this could result in increases in the level of past due, nonaccrual, and classified loans, as well as higher net charge-offs. While economic conditions have generally been favorable thus far, notwithstanding higher levels of inflation, there can be no assurance favorable economic conditions will continue. In addition, a higher interest rate environment impacts the ability of our borrowers with adjustable rate loans to meet their debt service requirements. As such, should we experience future deterioration in the credit quality of our loan portfolio, it may contribute to the need for additional provisions for credit losses. Higher interest rates may also lower the rate of return on commercial real estate values that could result in higher charge offs and provision for credit losses.
- **Allowance for Credit Losses ("ACL")** - The Company is required to record credit losses on certain financial assets in accordance with the Current Expected Credit Loss ("CECL") model as stipulated under ASC 326, which is highly dependent upon expectations of future economic conditions and requires management judgment. Should expectations of future economic conditions deteriorate, the Company may be required to increase the ACL through additional provisions for credit losses.
- **Impairment charges** - If economic conditions deteriorate or headwinds within the banking industry persist, it could adversely impact the Company's operating results and/or the value of certain of our assets. As a result, the Company may be required to write-down the value of certain assets such as goodwill, intangible assets, or deferred tax assets when there is evidence to suggest their value has become impaired or will not be realizable at a future date.
- **Accumulated other comprehensive income (loss)** - Unrealized gains and losses on available-for-sale ("AFS") investment securities are recognized in stockholders' equity, net of tax, as accumulated other comprehensive income (loss). If economic conditions deteriorate, and/or if interest rates continue to

increase or remain high, the valuation of the Company's AFS investment securities could continue to be negatively impacted, which may lead to other comprehensive loss, the potential for credit losses, decreases to the Company's stockholders' equity, and declines in the Company's tangible book value per share. For additional information, see "Non-GAAP measures" presented under *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations*. The Company's held-to-maturity ("HTM") investment securities are carried at amortized cost and changes in fair value are not recorded, however increases in interest rates may decrease the fair value of the Company's HTM investment securities and increase the unrecognized losses embedded in these securities.

- **Deposits and deposit costs** - Given the expectation in the near-term for interest rates to remain elevated through restrictive monetary policy, it is likely that deposit costs will continue to increase and the competition for deposit relationships will remain challenging. If adverse developments and significant market volatility continue in the banking sector, it may become more challenging for the Company to retain and attract deposit relationships.
- **Liquidity** - Consistent with our prudent, proactive approach to liquidity management, we may take certain actions to further enhance our liquidity, including but not limited to, increasing our FHLB borrowings, increasing our brokered deposits, or obtaining borrowing from the Federal Reserve's discount window. Additional liquidity could be obtained by liquidating loans and AFS investment securities. In the event that we liquidate AFS securities having an unrealized loss position, those losses would become realized. While the Company does not currently intend to sell HTM securities, if the Company were to sell such securities to meet liquidity needs, it would realize the unrecognized losses on these securities.

The Company continues to focus on serving its customers and communities, maintaining the well-being of its employees, and executing its strategic initiatives. The Company continues to monitor the economic environment and industry conditions and will make changes as appropriate.

CRITICAL ACCOUNTING POLICIES

Management has established various accounting policies that govern the application of GAAP in the preparation of our financial statements. Certain accounting policies require management to make estimates and assumptions that involve a significant level of estimation uncertainty and are reasonably likely to have a material impact on the carrying value of certain assets and liabilities as well as the Company's results of operations, which management considers to be critical accounting policies. The estimates and assumptions management uses are based on historical experience and other factors, which management believes to be reasonable under the circumstances. Actual results could differ significantly from these estimates and assumptions, which could have a material impact on the carrying value of the Company's assets and liabilities as well as the Company's results of operations in future reporting periods. The Company's critical accounting policies consist of the allowance for credit losses on loans and off-balance sheet commitments, as well as goodwill. Please see *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* in the Company's 2023 Form 10-K for additional discussion concerning these critical accounting policies. Also, our significant accounting policies are described in *Note 1. Description of Business and Summary of Significant Accounting Policies* to the audited consolidated financial statements in our 2023 Form 10-K.

NON-GAAP MEASURES

The Company uses certain non-GAAP financial measures to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position, or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. However, these non-GAAP financial measures are supplemental and are not a substitute for an analysis based on GAAP measures and may not be comparable to non-GAAP financial measures that may be presented by other companies.

For periods presented below, return on average assets ("ROAA") excluding the FDIC special assessment is a non-GAAP financial measure derived from GAAP based amounts. We calculate this figure by excluding the FDIC special assessment and the related tax impact from net income. Management believes that the exclusion of such nonrecurring items from this financial measure provides useful information to gain an understanding of the operating results of our core business and a better comparison of financial performance.

| | | Three Months Ended | | Six Months Ended | | Three Months Ended | | Nine Months Ended | |
|------------------------------|------------------------|--------------------|-----------|------------------|----------|------------------------|----------|-------------------|---------------|
| | | June 30, | March 31, | June 30, | June 30, | September 30, | June 30, | September 30, | September 30, |
| | | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |
| (Dollars in thousands) | (Dollars in thousands) | | | | | (Dollars in thousands) | | | |
| Net income | | | | | | | | | |
| Add: FDIC special assessment | | | | | | | | | |
| Add: FDIC special assessment | | | | | | | | | |
| Add: FDIC special assessment | | | | | | | | | |
| Less: tax adjustment (1) | | | | | | | | | |

Less: tax adjustment (1)

Adjusted

net

income for

average

assets

Average assets

Average assets

Average assets

ROAA (annualized)

ROAA (annualized)

ROAA (annualized)

Adjusted Adjusted

| ROAA | ROAA |
|------|------|
|------|------|

(annualized) (annualized)

(1) Adjusted by statutory tax rate.

For periods presented below, return on average tangible common equity ("ROATCE") is a non-GAAP financial measure derived from GAAP-based amounts. We calculate this figure by excluding amortization of intangible assets expense from net income and excluding the average intangible assets and average goodwill from the average stockholders' equity during the periods indicated. Management believes that the exclusion of such items from this financial measure provides useful information to gain an understanding of the operating results of our core business. The adjusted net income, adjusted return on average equity ("ROAE"), and adjusted ROATCE further exclude the nonrecurring items to provide a better comparison to the financial results of prior periods.

| Three Months Ended | | Three Months Ended | | Six Months Ended | Three Months Ended |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| June 30, | March 31, | June 30, | June 30, | June 30, | June 30, |
| September 30, | June 30, | September 30, | September 30, | September 30, | September 30, |
| (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) |
| 2024 | 2023 | 2024 | 2023 | 2024 | 2023 |

Net income

Plus:

amortization

of intangible

assets

expense

Less: tax

adjustment

(1)

Net

income for

average

tangible

common

equity

Add: FDIC special

assessment

Add: EDIC special

assessment

Add: EDIC special

assessment

Less: tax adjustment ⁽¹⁾

Less: tax adjustment ⁽¹⁾

Less: tax adjustment ⁽¹⁾

Adjusted net income for average tangible common equity

Average stockholders' equity

Average stockholders' equity

Average stockholders' equity

Less: average intangible assets

Less: average goodwill

Average tangible common equity

ROAE (annualized)

ROAE (annualized)

| | | | | | | | | |
|------------------------------|--------|---------|---------|--------|----------------------|--------|--------|--------|
| ROAE (annualized) | 5.76 % | 6.50 % | 8.11 % | 6.13 % | 8.49 % | 4.91 % | 5.76 % | 6.43 % |
| Adjusted ROAE (annualized) | 5.75 % | 6.55 % | 8.11 % | 6.15 % | 8.49 % (annualized) | 4.91 % | 5.75 % | 6.4 % |
| ROATCE (annualized) | 8.92 % | 10.05 % | 12.66 % | 9.48 % | 13.27 % (annualized) | 7.63 % | 8.92 % | 10.0 % |
| Adjusted ROATCE (annualized) | 8.90 % | 10.13 % | 12.66 % | 9.51 % | 13.27 % (annualized) | 7.62 % | 8.90 % | 10.0 % |

(3) Amortization of intangible assets expense adjusted by statutory tax rate.

Tangible book value per share and tangible common equity to tangible assets (the “tangible common equity ratio”) are non-GAAP financial measures derived from GAAP-based amounts. We calculate tangible book value per share by dividing tangible common stockholders' equity by shares outstanding. We calculate the tangible common equity ratio by excluding the balance of intangible assets from common stockholders' equity and dividing by period end tangible assets, which also excludes intangible assets. We believe that this information is important to shareholders as tangible equity is a measure that is consistent with the calculation of capital for bank regulatory purposes, which excludes intangible assets from the calculation of risk-based ratios.

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| | |
|----------------------------|--|
| Total stockholders' equity | |
| Total stockholders' equity | |
| Total stockholders' equity | |
| Less: intangible assets | |
| Less: intangible assets | |
| Less: intangible assets | |
| Tangible common equity | |
| Tangible common equity | |
| Tangible common equity | |

| |
|---------------------------------------|
| Total assets |
| Total assets |
| Total assets |
| Less: intangible assets |
| Less: intangible assets |
| Less: intangible assets |
| Tangible assets |
| Tangible assets |
| Tangible assets |
| Tangible common equity ratio |
| Tangible common equity ratio |
| Tangible common equity ratio |
| Common shares issued and outstanding |
| Common shares issued and outstanding |
| Common shares issued and outstanding |
| Book value per share |
| Book value per share |
| Book value per share |
| Less: intangible book value per share |
| Less: intangible book value per share |
| Less: intangible book value per share |
| Tangible book value per share |
| Tangible book value per share |
| Tangible book value per share |

Efficiency ratio is a non-GAAP financial measure derived from GAAP-based amounts. This figure represents the ratio of noninterest expense, less amortization of intangible assets and other real estate owned operations, where applicable, to the sum of net interest income before provision for credit losses and total noninterest income less gain from investment securities, (loss) gain from other real estate owned, and gain from debt extinguishment. The adjusted efficiency ratio further excludes the FDIC special assessment to provide a better comparison to the financial results of prior periods. Management believes that the exclusion of such items from this financial measure provides useful information to gain an understanding of the operating results of our core business.

| | Three Months Ended | | | Three Months Ended | | | Six Months Ended | | Three Months | |
|---|------------------------|-----------|--|------------------------|---------------|--|------------------------|--|---------------|------|
| | June 30, | March 31, | | June 30, | June 30, | | June 30, | | June 30, | |
| | September 30, | June 30, | | September 30, | September 30, | | September 30, | | September 30, | |
| (Dollars in thousands) | (Dollars in thousands) | | | (Dollars in thousands) | | | (Dollars in thousands) | | | |
| 2024 | | 2023 | | 2024 | | | 2023 | | 2024 | 2023 |
| Total noninterest expense | | | | | | | | | | |
| Less: amortization of intangible assets | | | | | | | | | | |
| Less: other real estate owned operations, net | | | | | | | | | | |
| Less: other real estate owned operations, net | | | | | | | | | | |
| Less: other real estate owned operations, net | | | | | | | | | | |
| Adjusted noninterest expense | | | | | | | | | | |

Less: FDIC special assessment

Adjusted noninterest expense excluding FDIC special assessment

Net interest income before provision for credit losses

Net interest income before provision for credit losses

Net interest income before provision for credit losses

Add: total noninterest income

Less: net gain from sales of investment securities

Less: net (loss) gain from other real estate owned

Less: net (loss) gain from other real estate owned

Less: net (loss) gain from other real estate owned

Less: net gain from debt extinguishment

Adjusted revenue
Adjusted revenue
Adjusted revenue
Efficiency ratio
Efficiency ratio
Efficiency ratio

| | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Efficiency ratio | 61.3 % | 60.2 % | 54.1 % | 60.7 % | 52.9 % | 66.1 % | 61.3 % | 59.0 % |
| Adjusted efficiency ratio excluding FDIC special assessment | 61.4 % | 59.8 % | 54.1 % | 60.6 % | 52.9 % | 66.2 % | 61.4 % | 59.0 % |

Pre-provision net revenue is a non-GAAP financial measure derived from GAAP-based amounts. We calculate the pre-provision net revenue by excluding income tax and provision for credit losses from net income. The adjusted pre-provision net income further excludes the FDIC special assessment to provide a better comparison of financial performance. Management believes that the exclusion of such items from this financial measure provides useful information to gain an understanding of the operating results of our core business and a better comparison to the financial results of prior periods.

| Three Months Ended | | Three Months Ended | | Six Months Ended | Three Months Ended |
|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| June 30, 2024 | | June 30, 2023 | | June 30, 2024 | June 30, 2023 |
| September 30, 2024 | | September 30, 2023 | | September 30, 2024 | September 30, 2023 |
| (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) | (Dollars in thousands) |
| Interest income | | Interest income | | Interest income | |

Interest
expense

Net interest
income

Noninterest
income

Revenue

Noninterest
expense

Pre-provision net
revenue
Pre-provision net
revenue
Pre-provision net
revenue

Add: FDIC special
assessment

Add: FDIC special
assessment

Add: FDIC special
assessment

Adjusted
pre-
provision
net revenue

Pre-provision net
revenue (annualized)
Pre-provision net
revenue (annualized)
Pre-provision net
revenue (annualized)

Adjusted
pre-
provision
net revenue
(annualized)

Average assets

Average assets

Average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Pre-provision net revenue to
average assets

Share data

| |
|--|
| Earnings per share: |
| Earnings per share: |
| Earnings per share: |
| Basic |
| Basic |
| Basic |
| Diluted |
| Diluted |
| Diluted |
| Common equity dividends declared per share |
| Common equity dividends declared per share |
| Common equity dividends declared per share |

| | | | | | | | | | | | | | | | |
|---------------------------|---------------------------|---------|--|---------|--|---------|--|---------|--|---------|---------------------------|---------|--|---------|---|
| Dividend payout ratio (2) | Dividend payout ratio (2) | 75.94 % | | 67.33 % | | 54.86 % | | 71.39 % | | 52.42 % | Dividend payout ratio (2) | 88.45 % | | 75.94 % | 6 |
|---------------------------|---------------------------|---------|--|---------|--|---------|--|---------|--|---------|---------------------------|---------|--|---------|---|

| |
|-----------------------------------|
| Book value per share |
| Tangible book value per share (1) |

Performance ratios

| | |
|----------|---|
| ROAA (3) | |
| ROAA (3) | |
| ROAA (3) | 0.90 % 0.99 % 1.09 % 0.95 % 1.12 % 0.79 % 0.90 % 0.88 |

| |
|------------------------|
| Adjusted ROAA (1)(3) |
| ROAE (3) |
| Adjusted ROAE (1)(3) |
| ROATCE (1)(3) |
| Adjusted ROATCE (1)(3) |

| |
|--|
| Pre-provision net revenue on average assets (1)(3) |
| Pre-provision net revenue on average assets (1)(3) |
| Pre-provision net revenue on average assets (1)(3) |

| |
|--|
| Adjusted pre-provision net revenue on average assets ⁽¹⁾⁽³⁾ |
| Net interest margin |
| Cost of deposits |
| Average equity to average assets |
| Efficiency ratio ⁽¹⁾ |
| Adjusted efficiency ratio excluding FDIC special assessment ⁽¹⁾ |

- (1) Reconciliations of the non-GAAP measures are set forth in the *Non-GAAP measures* section of *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Quarterly Report on Form 10-Q.
- (2) Dividend payout ratio is defined as common equity dividends declared per share divided by basic earnings per share.
- (3) Ratio is annualized.

In the **second third** quarter of 2024, we reported net income of **\$41.9 million** **\$36.0 million**, or **\$0.43** **\$0.37** per diluted share, compared to net income of **\$47.0 million**, or **\$0.49** per diluted share, for the first quarter of 2024. The decrease in net income was primarily due to an **\$8.7 million** decrease in net interest income and a **\$7.6 million** decrease in noninterest income, partially offset by a **\$5.1 million** decrease in noninterest expense, a **\$3.5 million** decrease in income tax expense, and a **\$2.6 million** decrease in the provision for credit losses.

Net income of **\$41.9 million**, or **\$0.43** per diluted share, for the second quarter of 2024. The decrease in net income was primarily due to a **\$5.5 million** decrease in net interest income and a **\$4.1 million** increase in noninterest expense, partially offset by a **\$2.2 million** decrease in income tax expense, a **\$779,000** decrease in the provision for credit losses, and a **\$645,000** increase in noninterest income.

Net income of **\$36.0 million**, or **\$0.37** per diluted share, for the third quarter of 2024 compared to net income for the **second third** quarter of 2023 of **\$57.6 million** **\$46.0 million**, or **\$0.60** **\$0.48** per diluted share. The decrease in net income was primarily due to a **\$23.7 million** **\$18.7 million** decrease in net interest income, and a **\$2.3 million** decrease in noninterest income, partially offset by a **\$7.0 million** **\$4.3 million** decrease in income tax expense, a **\$3.1 million** **\$3.4 million** decrease in the provision for credit losses, a **\$540,000** decrease in noninterest expense, and a **\$234,000** decrease **\$316,000** increase in the provision for credit losses. noninterest income.

For the **second third** quarter of 2024, the Company's ROAA was **0.90%** **0.79%**, ROAE was **5.76%** **4.91%**, and ROATCE⁽²⁾ was **8.92%** **7.63%**, compared to **0.99%** **0.90%**, **6.50%** **5.76%**, and **10.05%**, respectively, for the first quarter of 2024, and **1.09%**, **8.11%**, and **12.66%** **8.92%**, respectively, for the second quarter of 2024, and **0.88%**, **6.43%**, and **10.08%**, respectively, for the third quarter of 2023. For additional details, see "Non-GAAP measures" presented under *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations*.

For the **six nine** months ended **June 30, 2024** **September 30, 2024**, we reported net income of **\$88.9 million** **\$124.9 million**, or **\$0.92** **\$1.30** per diluted share, compared to net income of **\$120.2 million** **\$166.2 million**, or **\$1.26** **\$1.74** per diluted share, for the **six nine** months ended **June 30, 2023** **September 30, 2023**. The decrease in net income of **\$31.3 million** **\$41.3 million** was mostly due to the **\$47.2 million** **\$65.8 million** decrease in net interest income, and partially offset by a **\$602,000** increase **\$16.8 million** decrease in income tax expense, a **\$2.8 million** decrease in the provision for credit losses, partially offset by a **\$12.4 million** decrease in income tax expense, a **\$2.3 million** **\$2.6 million** increase in noninterest income, and a **\$1.8 million** **\$2.3 million** decrease in noninterest expense.

For the **six nine** months ended **June 30, 2024** **September 30, 2024**, the Company's ROAA was **0.95%** **0.89%**, ROAE was **6.13%** **5.72%**, and ROATCE was **9.48%** **8.86%**, compared to **1.12%** **1.05%**, **8.49%** **7.80%**, and **13.27%** **12.19%**, respectively for the **six nine** months ended **June 30, 2023** **September 30, 2023**. For additional details, see "Non-GAAP measures" presented under *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Net Interest Income

Our primary source of revenue is net interest income, which is the difference between the interest earned on loans, investment securities, and interest-earning balances with financial institutions (“interest-earning assets”) and the interest paid on deposits and borrowings (“interest-bearing liabilities”). Net interest margin is net interest income expressed as a percentage of average interest-earning assets. Net interest income is affected by changes in both interest rates and the volume of interest-earning assets and interest-bearing liabilities.

Net interest income totaled \$136.4 million \$130.9 million in the second third quarter of 2024, a decrease of \$8.7 million \$5.5 million, or 6.0% 4.0%, from the first second quarter of 2024. The decrease in net interest income was primarily attributable to lower average loan balances and a higher cost of funds partially offset by lower average FHLB borrowings, as borrowers continued deploying excess cash reserves to pay down and pay off higher-yielding commercial loan balances.

The net interest margin for the second third quarter of 2024 decreased 13 10 basis points to 3.26% 3.16%, from 3.39% 3.26% in the prior quarter. The decrease was primarily due to a higher cost of funds as the cost of deposits primarily money market accounts, increased 11 basis points from the second quarter of 2024.

Net interest income for the second third quarter of 2024 decreased \$23.7 million \$18.7 million, or 14.8% 12.5%, compared to the second third quarter of 2023. The decrease was attributable to lower average interest-earning asset balances and a higher cost of funds, and lower average interest-earning asset balances, partially offset by lower average interest-bearing liabilities balances and higher yields on average interest-earning assets, all the result of the prolonged higher interest rate environment in the past twelve months and the Company's balance sheet management strategies to prioritize capital accumulation.

For the first six nine months ended 2024, net interest income decreased \$47.2 million \$65.8 million, or 14.4% 13.8%, compared to the first six nine months ended 2023. The decrease was driven by a decrease in average interest-earning assets of \$2.56 billion \$2.54 billion and a higher cost of funds, partially offset by higher average loan and investment interest-earning assets yields, primarily attributable to the benefit from the securities repositioning to higher-yielding available-for-sale (“AFS”) Treasury securities during the fourth quarter of 2023, and lower average interest-bearing liabilities balances of \$1.40 billion \$1.35 billion.

The following table presents the net interest margin, average balances calculated based on daily average, interest income and yields earned on average interest-earning assets and interest expense and rates paid on average interest-bearing liabilities, and the average yield/rate by asset and liability component for the periods indicated:

| Average Balance Sheet | | | | | | | | | | | |
|-------------------------------|-------------------------------|-----------------|-----------|--------------------|------|-----------------|-----------|--------------------|------|-----------------|----------|
| Three Months Ended | | | | | | | | | | | |
| June 30, 2024 | | | | March 31, 2024 | | | | June 30, 2023 | | | |
| September 30, 2024 | | | | June 30, 2024 | | | | September 30, 2023 | | | |
| (Dollars in thousands) | (Dollars in thousands) | Average Balance | Interest | Average Yield/Cost | | Average Balance | Interest | Average Yield/Cost | | Average Balance | Interest |
| Assets | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | |
| Cash and cash equivalents | Cash and cash equivalents | \$1,134,736 | \$ 13,666 | 4.84 | | \$ 1,140,909 | \$ 13,638 | 4.81 | | \$ 1,433,137 | |
| Investment securities | Investment securities | 2,964,909 | 26,841 | 26,841 | 3.62 | 2,948,170 | 26,818 | 26,818 | 3.64 | | 3,926,5 |
| Loans receivable, net (1)(2) | Loans receivable, net (1)(2) | 12,724,545 | 167,547 | 167,547 | 5.30 | 13,149,038 | 172,975 | 172,975 | 5.29 | | 13,927,1 |
| Total interest-earning assets | Total interest-earning assets | 16,824,190 | 208,054 | 208,054 | 4.97 | 17,238,117 | 213,431 | 213,431 | 4.98 | | 19,286,8 |
| Noninterest-earning assets | | | | | | | | | | | |
| Total assets | | | | | | | | | | | |
| Total assets | | | | | | | | | | | |
| Total assets | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | | | |


Interest-bearing deposits:

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- (1) Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees/costs and discounts/premiums, and the basis adjustment of certain loans included in fair value hedging relationships, where applicable.
- (2) Interest income includes net discount accretion of \$2.3 million \$2.6 million, \$2.1 million \$2.3 million, and \$2.9 million \$2.2 million for the three months ended June 30, 2024 September 30, 2024, March 31, 2024 June 30, 2024, and June 30, 2023 September 30, 2023, respectively.
- (3) Represents annualized net interest income divided by average interest-earning assets.
- (4) Represents annualized interest expense on deposits divided by the sum of average interest-bearing deposits and noninterest-bearing deposits.
- (5) Represents annualized total interest expense divided by the sum of average total interest-bearing liabilities and noninterest-bearing deposits.
- (6) Reconciliation of the "Non-GAAP measures" presented under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

| Average Balance Sheet | | | | | | | | | | | | | | |
|--|--|-----------------|----------|-----------|--------------------|--------------------|-----------------|---|--------------|---------|--------------------|------------------------|-----------------|----------------|
| Average Balance Sheet | | | | | | | | | | | | | | |
| Average Balance Sheet | | | | | | | | | | | | | | |
| Six Months Ended | | | | | | | | | | | | | | |
| June 30, 2024 | | | | | | June 30, 2023 | | | | | | | | |
| Nine Months Ended | | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | September 30, 2023 | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Average Balance | Interest | | Average Yield/Cost | | Average Balance | | Interest | | Average Yield/Cost | (Dollars in thousands) | Average Balance | |
| Assets | | | | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | | | | | | |
| Cash and cash equivalents | | | | | | | | | | | | | | |
| Cash and cash equivalents | | \$1,137,822 | \$ | \$ 27,304 | 4.83 | | 4.83 | % | \$ 1,384,643 | \$ | \$30,194 | 4.40 | 4.40 | % \$ 1,124,604 |
| Investment securities | Investment securities | 2,956,540 | 53,659 | 53,659 | 3.63 | | 3.63 | % | 4,045,464 | 52,727 | 52,727 | 2.61 | 2.61 | % |
| Loans receivable, net (1)(2) | Loans receivable, net (1)(2) | 12,936,791 | 340,522 | 340,522 | 5.29 | | 5.29 | % | 14,159,668 | 363,810 | 363,810 | 5.18 | 5.18 | % |
| Total interest-earning assets | Total interest-earning assets | 17,031,153 | 421,485 | 421,485 | 4.98 | | 4.98 | % | 19,589,775 | 446,731 | 446,731 | 4.60 | 4.60 | % |
| Noninterest-earning assets | | | | | | | | | | | | | | |
| Total assets | | | | | | | | | | | | | | |
| Total assets | | | | | | | | | | | | | | |
| Total assets | | | | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | | | | |
| Liabilities and equity | | | | | | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | | | | | | |
| Interest-bearing deposits: | | | | | | | | | | | | | | |
| Interest checking | | | | | | | | | | | | | | |
| Interest checking | | | | | | | | | | | | | | |
| Interest checking | | \$2,793,152 | \$ | \$ 20,080 | 1.45 | | 1.45 | % | \$ 2,876,921 | \$ | \$14,501 | 1.02 | 1.02 | % \$ 2,764,373 |
| Money market | Money market | 4,680,357 | 49,839 | 49,839 | 2.14 | | 2.14 | % | 4,817,394 | 28,697 | 28,697 | 1.20 | 1.20 | % |
| Savings | Savings | 279,774 | 451 | 451 | 0.32 | | 0.32 | % | 402,450 | 610 | 610 | 0.31 | 0.31 | % |
| Retail certificates of deposit | Retail certificates of deposit | 1,779,122 | 40,190 | 40,190 | 4.54 | | 4.54 | % | 1,246,782 | 18,081 | 18,081 | 2.92 | 2.92 | % |
| Wholesale/brokered certificates of deposit | Wholesale/brokered certificates of deposit | 555,786 | 13,175 | 13,175 | 4.77 | | 4.77 | % | 1,606,772 | 31,925 | 31,925 | 4.01 | 4.01 | % |
| Total interest-bearing deposits | Total interest-bearing deposits | 10,088,191 | 123,735 | 123,735 | 2.47 | | 2.47 | % | 10,950,319 | 93,814 | 93,814 | 1.73 | 1.73 | % |

| | | | | | | | | | | | | |
|--|--|------------|---------|---------|----------|--------|------------|---------|---------|----------|---------------------|-----------|
| FHLB advances and other borrowings | FHLB advances and other borrowings | 359,516 | 6,567 | 6,567 | 3.67 | 3.67 % | 893,398 | 15,093 | 15,093 | 3.41 | 3.41 | % other l |
| Subordinated debentures | Subordinated debentures | 332,015 | 9,662 | 9,662 | 5.82 | 5.82 % | 331,373 | 9,122 | 9,122 | 5.51 | 5.51 | % Subon |
| Total borrowings | Total borrowings | 691,531 | 16,229 | 16,229 | 4.70 | 4.70 % | 1,224,771 | 24,215 | 24,215 | 3.97 | 3.97 | % Total |
| Total interest-bearing liabilities | Total interest-bearing liabilities | 10,779,722 | 139,964 | 139,964 | 2.61 | 2.61 % | 12,175,090 | 118,029 | 118,029 | 1.95 | 1.95 | % Tot |
| Noninterest-bearing deposits | | | | | | | | | | | | % bez |
| Other liabilities | | | | | | | | | | | | |
| Other liabilities | | | | | | | | | | | | |
| Other liabilities | | | | | | | | | | | | |
| Total liabilities | | | | | | | | | | | | |
| Total liabilities | | | | | | | | | | | | |
| Total liabilities | | | | | | | | | | | | |
| Stockholders' equity | | | | | | | | | | | | |
| Stockholders' equity | | | | | | | | | | | | |
| Stockholders' equity | | | | | | | | | | | | |
| Total liabilities and equity | | | | | | | | | | | | |
| Total liabilities and equity | | | | | | | | | | | | |
| Total liabilities and equity | | | | | | | | | | | | |
| Net interest income | | | | | | | | | | | | |
| Net interest income | | | | | | | | | | | | |
| Net interest income | | | | | | | | | | | | |
| Net interest margin ⁽³⁾ | | | | | | | | | | | | |
| Net interest margin ⁽³⁾ | | | | | | | | | | | | |
| Net interest margin ⁽³⁾ | | | | | | 3.32 % | | | | | | |
| Cost of deposits ⁽⁴⁾ | Cost of deposits ⁽⁴⁾ | | | | | 1.66 % | | | | | | |
| Cost of funds ⁽⁵⁾ | Cost of funds ⁽⁵⁾ | | | | | 1.79 % | | | | | | |
| Cost of non-maturity deposits ⁽⁶⁾ | Cost of non-maturity deposits ⁽⁶⁾ | | | | | 1.12 % | | | | | | |
| Ratio of interest-earning assets to interest-bearing liabilities | Ratio of interest-earning assets to interest-bearing liabilities | | | | 157.99 % | | | | | 160.90 % | Ratio of interest-t | |

⁽¹⁾ Average balance includes loans held for sale and nonperforming loans and is net of deferred loan origination fees/costs and discounts/premiums, and the basis adjustment of certain loans included in fair value hedging relationships, where applicable.

⁽²⁾ Interest income includes net discount accretion of \$4.4 million \$7.0 million and \$5.4 million \$7.6 million for the six nine months ended June 30, 2024 September 30, 2024 and 2023, respectively.

⁽³⁾ Represents net interest income divided by average interest-earning assets.

⁽⁴⁾ Represents annualized interest expense on deposits divided by the sum of average interest-bearing deposits and noninterest-bearing deposits.

⁽⁵⁾ Represents annualized total interest expense divided by the sum of average total interest-bearing liabilities and noninterest-bearing deposits.

⁽⁶⁾ Reconciliation of the "Non-GAAP measures" presented under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Changes in our net interest income are a function of changes in volume and rates of interest-earning assets and interest-bearing liabilities. Changes in net interest income that are not a function of changes in volume and rates of interest-earning assets and interest-bearing liabilities are allocated proportionately to the change due to volume and the change due to rate. The following tables present the impact that the volume and rate changes have had on our net interest income for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, we have provided information on changes to our net interest income with respect to:

- Changes in volume (changes in volume multiplied by prior rate);
- Changes in interest rates (changes in interest rates multiplied by prior volume and includes the recognition of discounts/premiums and deferred fees/costs); and
- The net change or the combined impact of volume and rate changes allocated proportionately to changes in volume and changes in interest rates.

| | | | | | | | | | |
|--|------------------------------|---------------------------------------|------|-------------|------------------------------|----------------------------------|------|-------------------------|--|
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | | | Compared to | | Three Months Ended June 30, 2024 | | | |
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | | | | | | | Increase (Decrease) Due | |
| | | | | | | | | to | |
| (Dollars in thousands) | (Dollars in thousands) | Volume | Rate | Net | (Dollars in thousands) | Volume | Rate | Net | |
| Interest-earning assets | Interest-earning assets | | | | Interest-earning assets | | | | |
| Cash and cash equivalents | | | | | | | | | |
| Investment securities | | | | | | | | | |
| Loans receivable, net | | | | | | | | | |
| Total interest-earning assets | | | | | | | | | |
| Interest-bearing liabilities | Interest-bearing liabilities | | | | Interest-bearing liabilities | | | | |
| Interest checking | | | | | | | | | |
| Money market | | | | | | | | | |
| Savings | | | | | | | | | |
| Retail certificates of deposit | | | | | | | | | |
| Wholesale/brokered certificates of deposit | | | | | | | | | |
| FHLB advances and other borrowings | | | | | | | | | |
| Subordinated debentures | | | | | | | | | |
| Total interest-bearing liabilities | | | | | | | | | |
| Decrease in net interest income | | | | | | | | | |

| | | | | | | | | | |
|---------------------------|-------------------------|---------------------------------------|------|-------------|-------------------------|----------------------------------|------|---------------------------------------|--|
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | Three Months Ended June 30, 2024 | | | | | | | |
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | Three Months Ended September 30, 2024 | | | | | | | |
| | | | | Compared to | | Three Months Ended June 30, 2023 | | Three Months Ended September 30, 2023 | |
| | | | | | | | | Increase (Decrease) Due to | |
| (Dollars in thousands) | (Dollars in thousands) | Volume | Rate | Net | (Dollars in thousands) | Volume | Rate | Net | |
| Interest-earning assets | Interest-earning assets | | | | Interest-earning assets | | | | |
| Cash and cash equivalents | | | | | | | | | |
| Investment securities | | | | | | | | | |

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Total interest-bearing liabilities
Decrease in net interest income

Provision for Credit Losses

For the third quarter of 2024, the Company recorded a total provision for credit losses of \$486,000, consisting of a \$249,000 reversal of provision expense for loans held for investment, a \$760,000 provision for credit losses for unfunded commitments, and a \$25,000 reversal of provision expense for HTM securities. During the second quarter of 2024, the Company recorded a \$1.3 million total provision for credit losses of \$1.3 million, consisting of a \$1.8 million provision for credit losses for loans held for investment, a \$505,000 reversal of provision expense for unfunded commitments, and a \$14,000 provision for credit losses compared to for HTM securities. For the third quarter of 2023, the Company recorded a total provision for credit losses of \$3.9 million, consisting of a \$2.5 million provision for credit losses for loans held for investment, a \$1.4 million provision for credit losses for unfunded commitments, and a \$15,000 provision for credit losses for HTM securities.

The reversal of provision expense for loans held for investment during the first third quarter of 2024 was principally driven by a reversal of provision for credit losses for commercial loans and a \$1.5 million business loans secured by real estate, offset by provision for credit losses for investor loans secured by real estate. The reversal of provision expense for commercial loans totaled \$7.5 million, and was largely due to declines in the balances of C&I loans, as well as changes associated with economic forecasts for loans within this segment. The reversal of provision expense for business loans secured by real estate loans totaled \$1.6 million, driven by a decline in the loan balances within this segment. The provision for credit losses for investor loans secured by real estate totaled \$8.8 million, and was primarily attributed to changes in economic forecasts for multifamily loans within this segment, partially offset by declines in balances of multifamily and other loans within this segment.

The provision for credit losses for off-balance sheet commitments during the third quarter of 2024 was attributable, in large part, to changes in economic forecasts for C&I loans, partially offset by a decrease in the balance of unfunded commitments. The reversal of provision expense for HTM securities during the third quarter of 2024 was due to the changes in economic forecasts and their impact on HTM securities classified as municipal bonds.

For the second quarter of 2023, 2024, the provision for credit losses for loans held for investment was principally driven by a \$10.6 million provision for credit losses for investor loans secured by real estate. The provision for credit losses for loans in this segment was largely due to changes associated with economic forecasts and the impact on multifamily loans, partially offset by improved asset quality for loans in this segment, as well as the impact of loan duration for construction loans. The reversal of provision for credit losses for commercial loan losses totaled \$8.6 million, and can be attributed largely to the declines in the balances of franchise non-real estate secured and C&I loans. The reversal of provision expense for loans during unfunded commitments for the second quarter of 2024 was largely attributed to increases associated with economic forecasts, which reflect changes in the CRE market overall, and other model updates, offset by a decrease in loans held for investment, changes in loan composition, and changes in asset quality. The provision recapture for off-balance sheet commitments was attributable, in large part, to slightly lower loss rates for C&I loans, changes in economic forecasts, partially offset by a slight increase in unfunded commitments. The provision expense for credit losses for HTM investment securities was due to the changes in economic forecasts and their impact on HTM investment securities classified as municipal bonds during the quarter. bonds.

For the first third quarter of 2024, 2023, the provision expense for loans was attributed to increases associated with economic forecasts, specific reserves, and other model updates, offset by a decrease in credit losses for loans held for investment was principally driven by provision for credit losses in the business loans secured by real estate and commercial loans segments. The provision for credit losses for business loans secured by real estate loan losses totaled \$1.2 million, and was largely attributed to changes in loan composition, economic forecasts and asset quality, partially offset by declines in the balances of loans within this segment. The provision recapture for unfunded credit losses for commercial loans totaled \$955,000, and was due to changes in economic forecasts and asset quality, partially offset by declines in the balances of loans within this segment, primarily C&I loans. The provision for credit losses for off-balance sheet commitments for the first quarter of 2024 was attributable, in large part, to lower unfunded commitments as well as changes in qualitative adjustments.

For the second quarter of 2023, the provision expense for loans was attributed to increases associated with economic forecasts, offset by lower loans held for investment. The provision expense for off-balance sheet commitments was attributable to higher loss rates in certain loan segments, offset by lower unfunded commitments during the quarter. The provision recapture for credit losses for HTM investment securities was due to the changes in weighted macroeconomic economic forecasts and their impact on HTM investment securities classified as municipal bonds during the quarter. bonds.

| | Three Months Ended |
|--|--------------------|
| | Three Months Ended |
| | Three Months Ended |
| | June 30, |
| | June 30, |
| | June 30, |
| | September 30, |
| | September 30, |
| | September 30, |

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| |
|------------------------------------|
| Provision for credit losses |
| Provision for credit losses |
| Provision for credit losses |
| Provision for loan losses |
| Provision for loan losses |
| Provision for loan losses |
| Provision for unfunded commitments |
| Provision for unfunded commitments |
| Provision for unfunded commitments |
| Provision for HTM securities |
| Provision for HTM securities |
| Provision for HTM securities |
| Total provision for credit losses |
| Total provision for credit losses |
| Total provision for credit losses |

For the first **six** nine months of 2024, the Company recorded a **\$5.1 million** total provision **expense** for credit losses **compared to \$4.5 million** recorded of **\$5.6 million**, consisting of a **\$7.8 million** provision for credit losses for loans held for investment, a **\$2.2 million** reversal of provision for credit losses for unfunded commitments, and a **\$22,000** reversal of provision for credit losses for HTM securities. For the first **six** nine months of **2023**, 2023, the total provision for credit losses was **\$8.4 million**, which consisted of a **\$6.1 million** provision for credit losses for loans held for investment, a **\$2.2 million** provision for credit losses for unfunded commitments, and a **\$85,000** provision for credit losses for HTM securities.

The provision **expense** for credit losses for loans held for investment during the first **six** nine months of 2024 was principally driven by a **\$21.3 million** provision for credit losses in the investor loans secured by real estate segment. The provision for credit losses in this segment was largely **attributed** due to **increases associated with** changes in economic forecasts **reflecting** and the associated impact on multifamily loans, partially offset by lower balances for loans within this segment. The provision for credit losses for business loans secured by real estate totaled **\$1.6 million** and was principally driven by changes in **the CRE market overall**, economic forecasts and asset quality, partially offset by a **decrease** decline in balances for loans within this segment. The reversal of provision for credit losses for commercial loans totaled **\$15.9 million**, and was primarily due to the declines in the **balance** balances of C&I loans **held of investment**, and franchise non-real estate secured loans, partially offset by changes in **loan composition and asset quality**, as well as a economic forecasts for loans within this segments.

The reversal of provision **recapture** expense for unfunded commitments during the first nine months of 2024 was principally due **primarily** to lower levels of unfunded **commitments**. commitments during 2024. The reversal of provision expense for HTM securities was due to changes in economic forecasts and the impact on HTM securities classified as municipal bonds.

The provision **expense** for credit losses for loans held for investment during the first **six** nine months of 2023 was principally driven **principally** by **increases** associated with a provision for credit losses for commercial loans which totaled **\$4.7 million**. The provision for credit losses for loans in this segment can be attributed in large part to changes in economic forecasts **changes in and** asset quality **and higher loss rates** associated with C&I loans, partially offset by declines in **certain loan segments** the balances of these loans. The provision for credit losses for unfunded commitments was due to changes in economic forecasts and asset quality, partially offset by lower loans held for investment and lower unfunded commitments.

| | | | | | | | | | |
|------------------------|------------------------|-------------------|------|-------------------|---|------------------------|------|------|----|
| Six Months Ended | | Six Months Ended | | Six Months Ended | | Variance From | | | |
| June 30, | | June 30, | | June 30, | | June 30, 2023 | | | |
| Nine Months Ended | | Nine Months Ended | | Nine Months Ended | | Variance From | | | |
| September 30, | | September 30, | | September 30, | | September 30, 2023 | | | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | 2023 | \$ | % | (Dollars in thousands) | 2024 | 2023 | \$ |

Provision for loans losses

Noninterest Income

| | Three Months Ended | | | Variance From | | | Three Months Ended | |
|------------------------|--------------------|-----------|----------|----------------|------|---------------|--------------------|------------------------|
| | June 30, | March 31, | June 30, | March 31, 2024 | | June 30, 2023 | September 30, | |
| (Dollars in thousands) | 2024 | 2023 | | \$ | % | \$ | % | (Dollars in thousands) |
| Operating income | 1,000 | 1,000 | 1,000 | 1,000 | 100% | 1,000 | 100% | 1,000 |
| Other income | 100 | 100 | 100 | 100 | 100% | 100 | 100% | 100 |
| Income before taxes | 1,100 | 1,100 | 1,100 | 1,100 | 100% | 1,100 | 100% | 1,100 |
| Income tax expense | (200) | (200) | (200) | (200) | 18% | (200) | 18% | (200) |
| Net income | 900 | 900 | 900 | 900 | 82% | 900 | 82% | 900 |

Loan servicing income

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| | | | | | | | | | | | | | |
|--|--|------------------|--------|----------|---------------|----------|---------|------------------------|--------|----------|--------------------|----------|---------|
| Trust custodial account fees | | | | | | | | | | | | | |
| Trust custodial account fees | | 8,950 | 10,642 | 10,642 | 9,360 | 9,360 | (1,692) | (1,692) | (15.9) | (15.9)% | (410) | (4.4) | (4.4)% |
| Escrow and exchange fees | Escrow and exchange fees | 702 | 696 | 696 | 924 | 924 | 6 | 6 | 0.9 | 0.9% | (222) | (24.0) | (24.0)% |
| Other (loss) income | | (167) | | 5,959 | | 2,031 | | (6,126) | | (102.8) | (2,198) | (108.2) | |
| Other income (loss) | | 581 | | (167) | | 223 | | 748 | | 447.9 | 358 | 160.5 | |
| Total noninterest income | Total noninterest income | \$18,222 | \$ | \$25,774 | \$ | \$20,539 | \$ | \$ (7,552) | (29.3) | (29.3)% | \$ (2,317) | (11.3) | (11.3)% |
| | | | | | | | | | | | | | |
| | | Six Months Ended | | | Variance From | | | Nine Months Ended | | | Variance From | | |
| | | June 30, 2024 | | | June 30, 2023 | | | September 30, 2024 | | | September 30, 2023 | | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | | 2023 | | \$ | | (Dollars in thousands) | | 2024 | | 2023 | \$ |
| Noninterest income | | | | | | | | | | | | | |
| Loan servicing income | | | | | | | | | | | | | |
| Loan servicing income | | \$ 1,039 | \$ | \$ 1,066 | \$ | \$ (27) | (2.5) | (2.5) | % | \$ 1,564 | \$ | \$ 1,599 | \$ |
| Service charges on deposit accounts | Service charges on deposit accounts | 5,398 | 5,299 | 5,299 | 99 | 99 | 1.9 | 1.9 | % | 8,109 | 7,972 | 7,972 | |
| Other service fee income | Other service fee income | 645 | 611 | 611 | 34 | 34 | 5.6 | 5.6 | % | 951 | 891 | 891 | |
| Debit card interchange fee income | Debit card interchange fee income | 1,690 | 1,717 | 1,717 | (27) | (27) | (1.6) | (1.6) | % | 2,566 | 2,641 | 2,641 | |
| Earnings on bank owned life insurance | Earnings on bank owned life insurance | 8,377 | 6,861 | 6,861 | 1,516 | 1,516 | 22.1 | 22.1 | % | 12,712 | 10,440 | 10,440 | |
| Net gain from sales of loans | Net gain from sales of loans | 65 | 374 | 374 | (309) | (309) | (82.6) | (82.6) | % | 112 | 419 | 419 | |
| Net gain from sales of investment securities | Net gain from sales of investment securities | — | 138 | 138 | (138) | (138) | (100.0) | (100.0) | % | — | 138 | 138 | |
| Trust custodial account fees | | | | | | | | | | | | | |
| Trust custodial account fees | | | | | | | | | | | | | |
| Trust custodial account fees | | 19,592 | 20,385 | 20,385 | (793) | (793) | (3.9) | (3.9) | % | 28,405 | 29,741 | 29,741 | (1,336) |
| Escrow and exchange fees | Escrow and exchange fees | 1,398 | 1,982 | 1,982 | (584) | (584) | (29.5) | (29.5) | % | 2,071 | 2,920 | 2,920 | |
| Other income | Other income | 5,792 | 3,292 | 3,292 | 2,500 | 2,500 | 75.9 | 75.9 | % | 6,373 | 3,515 | 3,515 | |

| | | | | | | | | | | | | | | |
|--------------------------|--------------------------|----------|----|----------|----|---------|-----|-----|---|--------------------------|----------|----|----------|----|
| Total noninterest income | Total noninterest income | \$43,996 | \$ | \$41,725 | \$ | \$2,271 | 5.4 | 5.4 | % | Total noninterest income | \$62,863 | \$ | \$60,276 | \$ |
|--------------------------|--------------------------|----------|----|----------|----|---------|-----|-----|---|--------------------------|----------|----|----------|----|

Noninterest income for the **second third** quarter of 2024 was **\$18.2 million** **\$18.9 million**, a decrease an increase of **\$7.6 million** **\$645,000** from the **first second** quarter of 2024. The **decrease increase** was primarily due to the prior quarter's **\$5.1 million** a **\$748,000** increase in other income largely attributable to a **\$1.0 million decrease in Community Reinvestment Act ("CRA") investment loss** and a **\$203,000** gain on debt extinguishment resulting from an early redemption of a **\$200.0 million FHLB term advance**, a **\$1.7 million** decrease in trust custodial account fees largely driven by annual tax fees earned during the prior quarter, and a **\$1.3 million decrease in Community Reinvestment Act ("CRA") investment income. advance.**

Noninterest income for the **second third** quarter of 2024 **decreased \$2.3 million increased \$316,000** compared to the **second third** quarter of 2023. The **decrease increase** was primarily due to a **\$2.2 million** **\$756,000** increase in earnings on bank owned life insurance ("BOLI"), partially offset by a **\$543,000** decrease in **other income, trust custodial account fees.**

For the **first six nine** months of 2024, ended September 30, 2024, noninterest income totaled **\$44.0 million** **\$62.9 million**, an increase from **\$41.7 million** **\$60.3 million** for the **first six nine** months of ended 2023. The increase was primarily related to the **\$5.1 million** **\$5.3 million** gain on debt extinguishment resulting from an the early redemption of a **two** **\$200.0 million FHLB term advance advances** and **\$1.5 million** **\$2.3 million** higher earnings from BOLI, partially offset by **\$2.7 million** **\$2.4 million** decrease in other income, a **\$793,000** **\$1.3 million** decrease in trust custodial account fees, and a **\$584,000** **\$849,000** decrease in escrow and exchange fees.

Noninterest Expense

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

| | | Three Months Ended | | | | Variance From | | | | Three Months Ended | | | |
|---|---|--------------------|--------|-----------|--------|---------------|---------|----------------|---------|--------------------|---------|------------------------|---|
| | | June 30, | | March 31, | | June 30, | | March 31, 2024 | | June 30, 2023 | | September 30, | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | | 2023 | | \$ | % | \$ | % | \$ | % | (Dollars in thousands) | |
| Noninterest expense | | | | | | | | | | | | | |
| Compensation and benefits | | | | | | | | | | | | | |
| Compensation and benefits | | | | | | | | | | | | | |
| Compensation and benefits | | \$53,140 | \$ | \$ 54,130 | \$ | \$ 53,424 | \$ | \$ (990) | (1.8) | \$ (284) | (0.5) | | |
| Premises and occupancy | Premises and occupancy | 10,480 | 10,807 | 10,807 | 11,615 | 11,615 | (327) | (327) | (3.0) | (1,135) | (9.8) | (9.8)% | Premises and occupancy |
| Data processing | Data processing | 7,754 | 7,511 | 7,511 | 7,488 | 7,488 | 243 | 243 | 3.2 | 266 | 3.6 | 3.6 % | Data processing |
| Other real estate owned operations, net | Other real estate owned operations, net | — | 46 | 46 | 8 | 8 | (46) | (46) | (100.0) | (8) | (100.0) | (100.0)% | Other real estate owned operations, net |
| FDIC insurance premiums | FDIC insurance premiums | 1,873 | 2,629 | 2,629 | 2,357 | 2,357 | (756) | (756) | (28.8) | (484) | (20.5) | (20.5)% | FDIC insurance premiums |
| Legal and professional services | Legal and professional services | 1,078 | 4,143 | 4,143 | 4,716 | 4,716 | (3,065) | (3,065) | (74.0) | (3,638) | (77.1) | (77.1)% | Legal and professional services |
| Marketing expense | Marketing expense | 1,724 | 1,558 | 1,558 | 1,879 | 1,879 | 166 | 166 | 10.7 | (155) | (8.2) | (8.2)% | Marketing expense |
| Office expense | Office expense | 1,077 | 1,093 | 1,093 | 1,280 | 1,280 | (16) | (16) | (1.5) | (203) | (15.9) | (15.9)% | Office expense |
| Loan expense | Loan expense | 840 | 770 | 770 | 567 | 567 | 70 | 70 | 9.1 | 273 | 48.1 | 48.1 % | Loan expense |
| Deposit expense | Deposit expense | 12,289 | 12,665 | 12,665 | 9,194 | 9,194 | (376) | (376) | (3.0) | 3,095 | 33.7 | 33.7 % | Deposit expense |
| Amortization of intangible assets | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | |
|---|---|------------------|--------|-----------|---------|---------------|--------|-----------|------------------------|---|-----------|---------------|---------|---------------------------|---------|-----------|
| Amortization of intangible assets | | | | | | | | | | | | | | | | |
| Amortization of intangible assets | | 2,763 | 2,836 | 2,836 | 3,055 | 3,055 | (73) | (73) | (2.6) | (2.6)% | (292) | (9.6) | (9.6)% | | | |
| Other expense | Other expense | 4,549 | 4,445 | 4,445 | 5,061 | 5,061 | 104 | 104 | 2.3 | 2.3% | (512) | (10.1) | (10.1)% | Other expense | | |
| Total noninterest expense | Total noninterest expense | \$97,567 | \$ | \$102,633 | \$ | \$100,644 | \$ | \$(5,066) | (4.9) | (4.9)% | \$(3,077) | (3.1) | (3.1)% | Total noninterest expense | | |
| | | Six Months Ended | | | | Variance From | | | | Nine Months Ended | | | | Variance From | | |
| | | June 30, | | June 30, | | June 30, 2023 | | | | September 30, | | September 30, | | | | |
| (Dollars in thousands) | (Dollars in thousands) | 2024 | | 2023 | | \$ | | % | (Dollars in thousands) | | 2024 | | 2023 | | | |
| Noninterest expense | | | | | | | | | | | | | | | | |
| Compensation and benefits | | | | | | | | | | | | | | | | |
| Compensation and benefits | | | | | | | | | | | | | | | | |
| Compensation and benefits | | \$107,270 | \$ | \$107,717 | \$ | \$(447) | (0.4) | (0.4) | % | | \$ | 160,670 | \$ | \$ | 161,785 | \$ |
| Premises and occupancy | Premises and occupancy | 21,287 | 23,357 | 23,357 | (2,070) | (2,070) | (8.9) | (8.9) | % | Premises and occupancy | | 32,186 | | 34,739 | | 34,739 |
| Data processing | Data processing | 15,265 | 14,753 | 14,753 | 512 | 512 | 3.5 | 3.5 | % | Data processing | | 23,042 | | 22,270 | | 22,270 |
| Other real estate owned operations, net | Other real estate owned operations, net | 46 | 116 | 116 | (70) | (70) | (60.3) | (60.3) | % | Other real estate owned operations, net | | 47 | | 112 | | 112 |
| FDIC insurance premiums | FDIC insurance premiums | 4,502 | 4,782 | 4,782 | (280) | (280) | (5.9) | (5.9) | % | FDIC insurance premiums | | 6,424 | | 7,106 | | 7,106 |
| Legal and professional services | Legal and professional services | 5,221 | 10,217 | 10,217 | (4,996) | (4,996) | (48.9) | (48.9) | % | Legal and professional services | | 10,201 | | 14,460 | | 14,460 |
| Marketing expense | Marketing expense | 3,282 | 3,717 | 3,717 | (435) | (435) | (11.7) | (11.7) | % | Marketing expense | | 4,142 | | 5,352 | | 5,352 |
| Office expense | Office expense | 2,170 | 2,512 | 2,512 | (342) | (342) | (13.6) | (13.6) | % | Office expense | | 3,216 | | 3,591 | | 3,591 |
| Loan expense | Loan expense | 1,610 | 1,213 | 1,213 | 397 | 397 | 32.7 | 32.7 | % | Loan expense | | 2,344 | | 1,689 | | 1,689 |
| Deposit expense | Deposit expense | 24,954 | 17,630 | 17,630 | 7,324 | 7,324 | 41.5 | 41.5 | % | Deposit expense | | 37,428 | | 28,441 | | 28,441 |
| Amortization of intangible assets | | | | | | | | | | | | | | | | |
| Amortization of intangible assets | | | | | | | | | | | | | | | | |
| Amortization of intangible assets | | 5,599 | 6,226 | 6,226 | (627) | (627) | (10.1) | (10.1) | % | | 8,361 | 9,281 | | 9,281 | | |
| Other expense | Other expense | 8,994 | 9,756 | 9,756 | (762) | (762) | (7.8) | (7.8) | % | Other expense | | 13,784 | | 15,355 | | 15,355 |
| Total noninterest expense | Total noninterest expense | \$200,200 | \$ | \$201,996 | \$ | \$(1,796) | (0.9) | (0.9) | % | Total noninterest expense | | \$301,845 | \$ | \$304,181 | | \$304,181 |

Noninterest expense totaled ~~\$97.6 million~~ \$101.6 million for the third quarter of 2024, an increase of \$4.1 million compared to the second quarter of 2024, a decrease of \$5.1 million compared to the first quarter of 2024. The ~~decrease~~ increase was primarily due to a \$3.1 million decrease ~~\$3.9 million increase~~ in legal and professional services expense, driven by a the prior quarter's \$4.0 million insurance claim receivable and a \$1.0 million decrease in compensation and benefits related to lower payroll taxes, that decreased the expense during the period.

Noninterest expense for the ~~second~~ third quarter of 2024 decreased by ~~\$3.1 million~~ \$540,000 compared to the ~~second~~ third quarter of 2023. The decrease was primarily due to a ~~\$3.6 million~~ an \$809,000 decrease in legal other expense, due to lower charitable contributions, a \$775,000 decrease in marketing expense, a ~~\$668,000 decrease in compensation~~ and professional services expense, driven by a \$4.0 million insurance claim receivable, benefits, and a ~~\$1.1 million~~ \$483,000 decrease in premises and occupancy expense, partially offset by a ~~\$3.1 million~~ \$1.7 million increase in deposit expense due to higher deposit earnings credit rates and a \$737,000 increase in legal and professional services expense.

Noninterest expense totaled ~~\$200.2 million~~ \$301.8 million for the ~~first six~~ nine months of ended 2024, a decrease of ~~\$1.8 million, or 1%~~ \$2.3 million, compared to the first ~~six~~ nine months of ended 2023. The decrease was driven primarily by a ~~\$5.0 million~~ \$4.3 million decrease in legal and professional services expense, driven by a \$4.0 million insurance claim receivable, a ~~\$2.1 million~~ \$2.6 million decrease in premises and occupancy expense, a ~~\$762,000~~ \$1.6 million decrease in other expense, a ~~\$1.2 million decrease in marketing expense~~, a \$1.1 million decrease in compensation and benefits, and a ~~\$627,000~~ \$920,000 decrease in amortization of intangible assets, partially offset by a ~~\$7.3 million~~ \$9.0 million increase in deposit expense predominately driven by higher deposit earnings credit rates, administration service fees to HOA customers. The Bank pays third-party management companies, which operate as a vendor for the Bank, to provide certain property administrative services related to the servicing of the HOA deposit accounts. This administrative service fee is reported as deposit costs in noninterest expense and is based primarily upon the number of HOA accounts for which a management company provides administrative services, with caps based on the size and composition of the service deposit relationships.

The Company's efficiency ratio was ~~66.1%~~ for the third quarter of 2024, compared to 61.3% for the second quarter of 2024, compared to ~~60.2%~~ and 59.0% for the first quarter of 2024, and 54.1% for the ~~second~~ third quarter of 2023. The Company's efficiency ratio was ~~60.7%~~ 62.4% for the first ~~six~~ nine months of ended 2024, compared to ~~52.9%~~ 54.8% for the first ~~six~~ nine months of ended 2023. For additional details, see "Non-GAAP measures" presented under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations.

Income Taxes

For the three months ended ~~June 30, 2024~~ September 30, 2024, ~~March 31, 2024~~ June 30, 2024, and ~~June 30, 2023~~ September 30, 2023, income tax expense was ~~\$13.9 million~~ \$11.7 million, ~~\$17.4 million~~ \$13.9 million, and ~~\$20.9 million~~ \$16.0 million, respectively, and the effective income tax rate was ~~24.9%~~ 24.5%, ~~27.0%~~ 24.9%, and ~~26.6%~~ 25.8%, respectively. For the ~~six~~ nine months ended ~~June 30, 2024~~ September 30, 2024 and 2023, income tax expense was ~~\$31.3 million~~ \$42.9 million and ~~\$43.7 million~~ \$59.7 million, respectively, and the effective income tax rate was ~~26.0%~~ 25.6% and ~~26.7%~~ 26.4%, respectively. Our effective tax rate for the three and ~~six~~ nine months ended ~~June 30, 2024~~ September 30, 2024 differs from the 21% federal statutory rate due to the impact of state taxes as well as various permanent tax differences, including tax-exempt income from municipal securities and loans, BOLI income, tax benefits associated with low-income housing tax credit investments, Section 162(m) limitation on the deduction of executive compensation, and the exercise of stock options and vesting of other stock-based compensation.

The total amount of unrecognized tax benefits was \$1.4 million at ~~June 30, 2024~~ September 30, 2024 and December 31, 2023, and was comprised of unrecognized tax benefits related to the Opus acquisition in 2020. The total amount of tax benefits that, if recognized, would favorably impact the effective tax rate was \$563,000 at ~~June 30, 2024~~ September 30, 2024 and December 31, 2023. It is reasonably possible that \$1.1 million of the Company's unrecognized tax benefits may be recognized within the next 12 months due to a lapse of the statute of limitations.

The Company recognizes interest and penalties related to unrecognized tax benefits in income tax expense. The Company has accrued ~~\$263,000~~ \$298,000 and \$200,000 for such interest at ~~June 30, 2024~~ September 30, 2024 and December 31, 2023, respectively. No amounts for penalties were accrued.

The Company and its subsidiaries are subject to U.S. Federal income tax, as well as income and franchise tax in multiple state jurisdictions. The statute of limitations related to the consolidated Federal income tax returns is closed for all tax years up to and including 2019. The expirations of the statutes of limitations related to the various state income and franchise tax returns vary by state.

The Company accounts for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and the tax basis of its assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. In assessing the realization of deferred tax assets, management evaluates both positive and negative evidence, including the existence of any cumulative losses in the current year and the prior two years, the forecasts of future income, applicable tax planning strategies, and assessments of current and future economic and business conditions. This analysis is updated quarterly and adjusted as necessary. Based on the analysis, the Company has determined that a valuation allowance for deferred tax assets was not required as of ~~June 30, 2024~~ September 30, 2024 and December 31, 2023.

FINANCIAL CONDITION

At **June 30, 2024** **September 30, 2024**, assets totaled **\$18.33 billion** **\$17.91 billion**, a decrease of **\$694.3 million** **\$1.12 billion**, or **3.6%** **5.9%**, from **\$19.03 billion** at December 31, 2023. The decrease was primarily due to a **\$798.9 million** **\$1.25 billion** decrease in total loans, partially offset by a **\$160.5 million** increase in investment securities and a **\$36.7 million** decrease **\$45.8 million** increase in cash and cash equivalents, partially offset by a **\$160.6 million** increase in investment securities. equivalents.

Total liabilities were **\$15.41 billion** **\$14.97 billion** at **June 30, 2024** **September 30, 2024**, compared to **\$16.14 billion** at December 31, 2023. The decrease of **\$735.5 million** **\$1.18 billion**, or **4.6%** **7.3%**, from December 31, 2023 was primarily due to decreases of **\$400.0 million** **\$659.5 million** in **FHLB term advances total borrowings** and **\$368.0 million** **\$514.7 million** in **deposits**, partially offset by an increase of **\$32.2 million** in other liabilities. deposits.

Total stockholders' equity was **\$2.92 billion** **\$2.94 billion** as of **June 30, 2024** **September 30, 2024**, an increase of **\$41.2 million** **\$61.4 million** from **\$2.88 billion** at December 31, 2023. The increase was primarily due to **\$88.9 million** **\$124.9 million** of net income and **\$9.5 million** **\$19.5 million** of other comprehensive income, partially offset by **\$63.5 million** **\$95.3 million** in cash dividends.

Throughout the first **half nine months** of 2024, we continued to prioritize capital accumulation over balance sheet growth in light of the **uncertain economic outlook**. ongoing macroeconomic uncertainty. As a result of our prudent and proactive capital, liquidity, and credit risk management, coupled with our ability to opportunistically deploy liquidity generated from the securities portfolio repositioning during the fourth quarter of 2023, we were able to reduce FHLB term borrowings and **higher-costing brokered deposits** while maintaining liquidity levels. During the first **half nine months** of 2024, we did not utilize the Federal Reserve's discount window or the Bank Term Funding Program, which expired on March 11, 2024. The strength of our capital position provides us with greater optionality and flexibility in terms of balance sheet management.

Our book value per share increased to **\$30.32** **\$30.52** at **June 30, 2024** **September 30, 2024** from **\$30.07** at December 31, 2023. At **June 30, 2024** **September 30, 2024**, the Company's tangible common equity to tangible assets ratio was **11.41%** **11.83%**, an increase from 10.72% at December 31, 2023. Our tangible book value per share was **\$20.58**, **\$20.81**, compared to **\$20.22** at December 31, 2023. The increases in tangible common equity ratio and tangible book value per share at **June 30, 2024** **September 30, 2024** from the prior year-end were primarily driven by net income, partially offset by dividends paid. The decrease in tangible assets also contributed to the increase in tangible common equity ratio. For additional details, see "Non-GAAP measures" presented under *Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations*.

Loans

Loans held for investment totaled **\$12.49 billion** **\$12.04 billion** at **June 30, 2024** **September 30, 2024**, a decrease of **\$799.1 million** **\$1.25 billion**, or **6.0%** **9.4%**, from **\$13.29 billion** at December 31, 2023. The decrease was a result of lower loan originations due to our continued disciplined approach around credit risk management and loan pricing along with softer loan demand, particularly in our **C&I**, CRE, and multifamily **businesses**, loans, a decrease in credit line draws, loan maturities and prepayments, and loan sales during the first **half nine months** of 2024. Since December 31, 2023, commercial loans decreased **\$558.6 million**, investor loans secured by real estate decreased **\$369.9 million**, commercial loans decreased **\$298.7 million** **\$507.5 million**, business loans secured by real estate decreased **\$128.9 million** **\$199.4 million**, and retail loans decreased **\$2.9 million** **\$1.8 million**. While total commercial loans decreased during the **second third** quarter of 2024, the commercial line average utilization rate increased from an average rate of 37.5% for the fourth quarter of 2023 to **43.9%** **39.9%** for the **second third** quarter of 2024. The decline in loans from prior year-end reflects the strategic actions we have taken to maintain a disciplined approach to our loan production and pricing, as well as prudent credit underwriting standards, in order to manage our balance sheet and capital position, as well as a lower level of **new** loan demand.

The total end-of-period weighted average interest rate on loans, excluding fees and discounts, at **June 30, 2024** **September 30, 2024** was **4.88%** **4.82%**, compared to 4.87% at December 31, 2023. The decrease was largely the result of customers paying down and paying off higher-rate loans, as well as the repricing of loans, primarily in C&I, subsequent to the Federal Reserve's 0.50% decrease in the Fed Funds rate in September 2024.

Loans

We had no loans held for sale primarily represent the guaranteed portion of SBA loans, which the Bank originates for sale, at **September 30, 2024** and totaled **\$140,000** at **June 30, 2024** and zero at December 31, 2023.

The following table sets forth the composition of our loan portfolio in dollar amounts and as a percentage of the portfolio, and gives the weighted average interest rate by loan category at the dates indicated:

| | June 30, 2024 | | | | December 31, 2023 | | | | September 30, 2024 | | | | December 31, 2023 | |
|---------------------------------------|------------------------|---------------------------------------|--------|------------------|--------------------------------|--------|------------------|--------------------------------|---------------------------------------|--------|------------------|--------------------------------|-------------------|------------------|
| | (Dollars in thousands) | (Dollars in thousands) | Amount | Percent of Total | Weighted Average Interest Rate | Amount | Percent of Total | Weighted Average Interest Rate | (Dollars in thousands) | Amount | Percent of Total | Weighted Average Interest Rate | Amount | Percent of Total |
| Investor loans secured by real estate | | Investor loans secured by real estate | | | | | | | Investor loans secured by real estate | | | | | |

| | | | | | | | | | | | | | |
|---|---|-------------|------|--------|--------|-------------|------|--------|--------|---|-------------|------|--------|
| CRE non-owner-occupied | CRE non-owner-occupied | \$2,245,474 | 18.0 | 18.0 % | 4.77 % | \$2,421,772 | 18.2 | 18.2 % | 4.72 % | CRE non-owner-occupied | \$2,202,268 | 18.3 | 18.3 % |
| Multifamily | Multifamily | 5,473,606 | 43.8 | 43.8 % | 4.02 % | 5,645,310 | 42.5 | 42.5 % | 3.97 % | Multifamily | 5,388,847 | 44.8 | 44.8 % |
| Construction and land | Construction and land | 453,799 | 3.6 | 3.6 % | 9.00 % | 472,544 | 3.5 | 3.5 % | 9.08 % | Construction and land | 445,146 | 3.7 | 3.7 % |
| SBA secured by real estate | SBA secured by real estate | 33,245 | 0.3 | 0.3 % | 9.26 % | 36,400 | 0.3 | 0.3 % | 9.37 % | SBA secured by real estate | 32,228 | 0.2 | 0.2 % |
| Total investor loans secured by real estate | Total investor loans secured by real estate | 8,206,124 | 65.7 | 65.7 % | 4.52 % | 8,576,026 | 64.5 | 64.5 % | 4.49 % | Total investor loans secured by real estate | 8,068,489 | 67.0 | 67.0 % |

Business loans secured by real estate

| | | | | | | | | | | | | | |
|---|---|-----------|------|--------|--------|-----------|------|--------|--------|---|-----------|------|--------|
| CRE owner-occupied | CRE owner-occupied | | | | | | | | | | | | |
| CRE owner-occupied | CRE owner-occupied | 2,096,485 | 16.8 | 16.8 % | 4.40 % | 2,191,334 | 16.5 | 16.5 % | 4.36 % | | 2,038,583 | 16.9 | 16.9 % |
| Franchise real estate secured | Franchise real estate secured | 274,645 | 2.2 | 2.2 % | 4.79 % | 304,514 | 2.3 | 2.3 % | 4.77 % | Franchise real estate secured | 264,696 | 2.2 | 2.2 % |
| SBA secured by real estate | SBA secured by real estate | 46,543 | 0.4 | 0.4 % | 8.92 % | 50,741 | 0.4 | 0.4 % | 9.02 % | SBA secured by real estate | 43,943 | 0.4 | 0.4 % |
| Total business loans secured by real estate | Total business loans secured by real estate | 2,417,673 | 19.4 | 19.4 % | 4.53 % | 2,546,589 | 19.2 | 19.2 % | 4.50 % | Total business loans secured by real estate | 2,347,222 | 19.5 | 19.5 % |

Commercial loans

| | | | | | | | | | | | | | |
|-----------------------------------|-----------------------------------|-----------|------|--------|--------|-----------|------|--------|--------|-----------------------------------|-----------|------|--------|
| Commercial and industrial | Commercial and industrial | | | | | | | | | | | | |
| Commercial and industrial | Commercial and industrial | 1,554,735 | 12.3 | 12.3 % | 7.09 % | 1,790,608 | 13.5 | 13.5 % | 7.07 % | | 1,316,517 | 10.9 | 10.9 % |
| Franchise non-real estate secured | Franchise non-real estate secured | 257,516 | 2.1 | 2.1 % | 5.10 % | 319,721 | 2.4 | 2.4 % | 5.01 % | Franchise non-real estate secured | 237,702 | 2.0 | 2.0 % |
| SBA non-real estate secured | SBA non-real estate secured | 10,346 | 0.1 | 0.1 % | 9.93 % | 10,926 | 0.1 | 0.1 % | 9.90 % | SBA non-real estate secured | 8,407 | 0.1 | 0.1 % |
| Total commercial loans | Total commercial loans | 1,822,597 | 14.5 | 14.5 % | 6.83 % | 2,121,255 | 16.0 | 16.0 % | 6.78 % | Total commercial loans | 1,562,626 | 13.0 | 13.0 % |

Retail loans

| | | | | | | | | | | | | | |
|---------------------------|---------------------------|--------|-----|-------|--------|--------|-----|-------|--------|--------------------|--------|-----|-------|
| Single family residential | Single family residential | | | | | | | | | | | | |
| Single family residential | Single family residential | 70,380 | 0.6 | 0.6 % | 7.71 % | 72,752 | 0.5 | 0.5 % | 7.01 % | | 71,552 | 0.6 | 0.6 % |
| Consumer | Consumer | 1,378 | — | — % | 9.64 % | 1,949 | — | — % | 6.66 % | Consumer | 1,361 | — | — % |
| Total retail loans | Total retail loans | 71,758 | 0.6 | 0.6 % | 7.73 % | 74,701 | 0.5 | 0.5 % | 7.00 % | Total retail loans | 72,913 | 0.6 | 0.6 % |

| | | | | | | | | | | | | | | | | | | | | |
|---|---|------------|-------|---------|--------|------------|-------|---------|--------|--|---|------------|-------|---------|--|--|--|--|--|--|
| Loans held for investment before basis adjustment | Loans held for investment before basis adjustment | | | | | | | | | | Loans held for investment before basis adjustment | | | | | | | | | |
| (1) | (1) | 12,518,152 | 100.2 | 100.2 % | 4.88 % | 13,318,571 | 100.2 | 100.2 % | 4.87 % | | (1) | 12,051,250 | 100.1 | 100.1 % | | | | | | |

Basis adjustment associated with fair value hedge ⁽²⁾

| |
|---------------------------|
| Loans held for investment |
| Loans held for investment |
| Loans held for investment |

Allowance for credit losses for loans held for investment

Allowance for credit losses for loans held for investment

Allowance for credit losses for loans held for investment

| |
|--------------------------------|
| Loans held for investment, net |
| Loans held for investment, net |
| Loans held for investment, net |

Total unfunded loan commitments

Total unfunded loan commitments

Total unfunded loan commitments

Loans held for sale, at lower of cost or fair value

Loans held for sale, at lower of cost or fair value

Loans held for sale, at lower of cost or fair value

⁽¹⁾ Includes net deferred origination costs (fees) of \$1.4 \$1.5 million and \$(74,000), and unaccreted fair value net purchase discounts of \$38.6 million \$35.9 million and \$43.3 million as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

⁽²⁾ Represents the basis adjustment associated with the application of hedge accounting on certain loans. The basis adjustment will be allocated to the amortized cost of associated loans within the closed portfolio if the hedge is discontinued. Refer to Note 11 – Derivative Instruments to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

We also have a granular and geographically diverse set of lending relationships. In the tables below, we show the segmentation and geographic dispersion of certain loan portfolios as of June 30, 2024 September 30, 2024 and December 31, 2023.

CRE Non-Owner-Occupied. CRE non-owner-occupied loans totaled \$2.25 billion \$2.20 billion at June 30, 2024 September 30, 2024 and \$2.42 billion at December 31, 2023. We originate loans that are secured by investor owned CRE, such as retail centers, small office locations, light industrial buildings, and mixed-use commercial properties located in our primary market areas. We believe this loan portfolio is a well-balanced portfolio by geography and by property type as presented below:

| | | |
|--|--------------------|-------------------|
| | June 30, 2024 | December 31, 2023 |
| | September 30, 2024 | December 31, 2023 |

| By Property Type | | (Dollars in thousands) | | | | (Dollars in thousands) | | | | (Dollars in thousands) | | | |
|------------------------------|------------------------------|------------------------|-----|-----|-------------|------------------------|-----|------------------------------|-------------|------------------------|------------|-------------|-----|
| | | Amount | % | | Amount | % | | Amount | % | | Amount | % | |
| Hotel and Motel | | | | | | | | | | | | | |
| Hotel and Motel | | | | | | | | | | | | | |
| Hotel and Motel | | \$ 278,762 | 13 | 13 | \$ 285,906 | 12 | 12 | \$ 277,117 | 12 | 12 | \$ 285,906 | 12 | 12 |
| Industrial | Industrial | 294,170 | 13 | 13 | 306,811 | 13 | 13 | Industrial | 281,391 | 13 | 13 | 306,811 | 13 |
| Office | Office | 587,803 | 26 | 26 | 621,857 | 26 | 26 | Office | 574,294 | 26 | 26 | 621,857 | 26 |
| Retail | Retail | 681,691 | 30 | 30 | 809,716 | 33 | 33 | Retail | 674,496 | 31 | 31 | 809,716 | 33 |
| Other | Other | 403,048 | 18 | 18 | 397,482 | 16 | 16 | Other | 394,970 | 18 | 18 | 397,482 | 16 |
| Total CRE non-owner-occupied | Total CRE non-owner-occupied | \$2,245,474 | 100 | 100 | \$2,421,772 | 100 | 100 | Total CRE non-owner-occupied | \$2,202,268 | 100 | 100 | \$2,421,772 | 100 |

(1) Based on location of primary real property collateral. All California information is by respective county.

| | | June 30, 2024 | | December 31, 2023 | | | | | | | |
|------------------------|------------------------|--------------------|---|-------------------|---|------------------------|--------|---|--------|---|--|
| | | September 30, 2024 | | December 31, 2023 | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Amount | % | Amount | % | (Dollars in thousands) | Amount | % | Amount | % | |

10 or fewer units

10 or fewer units

By Geography(1)

California:

(1) Based on location of primary real property collateral. All California information is by respective county.

CRE Owner-Occupied. CRE owner-occupied loans totaled **\$2.10 billion** **\$2.04 billion** at **June 30, 2024** **September 30, 2024** and \$2.19 billion at December 31, 2023. We originate business loans secured by owner-occupied CRE, such as light industrial buildings, mixed-use commercial properties, and small office locations for professional services located in our primary market areas. These loans are underwritten and analyzed based on each business's cash flows. This portfolio is well-diversified by industry, with a geography covering California and the Western U.S.:

By Industry⁽¹⁾

Accommodation and Food Services

Accommodation and Food
Services

| Accommodation and Food Services | | \$ 130,328 | 6 | 6 % | \$ 143,398 | 6 | 6 | % | \$ 117,826 | 6 | 6 | % | \$143,398 | 6 | 6 | % |
|------------------------------------|----------------------------|-------------|-----|-------|-------------|-----|-----|---|----------------------------|-------------|-----|-------|-----------|-------------|-----|-------|
| Administrative and Support | Administrative and Support | 61,852 | 3 | 3 % | 62,286 | 3 | 3 | % | Administrative and Support | 61,645 | 3 | 3 % | | 62,286 | 3 | 3 % |
| Agriculture | Agriculture | 100,576 | 5 | 5 % | 101,344 | 5 | 5 | % | Agriculture | 99,407 | 5 | 5 % | | 101,344 | 5 | 5 % |
| Construction | Construction | 146,846 | 7 | 7 % | 149,821 | 7 | 7 | % | Construction | 142,602 | 7 | 7 % | | 149,821 | 7 | 7 % |
| Educational Services | Educational Services | 159,634 | 8 | 8 % | 171,858 | 8 | 8 | % | Educational Services | 157,871 | 8 | 8 % | | 171,858 | 8 | 8 % |
| Entertainment | Entertainment | 70,713 | 3 | 3 % | 72,801 | 3 | 3 | % | Entertainment | 69,837 | 3 | 3 % | | 72,801 | 3 | 3 % |
| Financial Services | Financial Services | 38,552 | 2 | 2 % | 37,938 | 2 | 2 | % | Financial Services | 36,943 | 2 | 2 % | | 37,938 | 2 | 2 % |
| Health Care | Health Care | 292,793 | 14 | 14 % | 292,813 | 13 | 13 | % | Health Care | 287,364 | 14 | 14 % | | 292,813 | 13 | 13 % |
| Manufacturing | Manufacturing | 225,662 | 11 | 11 % | 237,147 | 11 | 11 | % | Manufacturing | 219,944 | 11 | 11 % | | 237,147 | 11 | 11 % |
| Other Services | Other Services | 212,495 | 10 | 10 % | 233,625 | 11 | 11 | % | Other Services | 226,662 | 11 | 11 % | | 233,625 | 11 | 11 % |
| Professional Services | Professional Services | 98,745 | 5 | 5 % | 101,027 | 5 | 5 | % | Professional Services | 93,936 | 5 | 5 % | | 101,027 | 5 | 5 % |
| Real Estate | Real Estate | 110,304 | 5 | 5 % | 132,824 | 6 | 6 | % | Real Estate | 91,494 | 4 | 4 % | | 132,824 | 6 | 6 % |
| Retail Trade | Retail Trade | 210,211 | 10 | 10 % | 209,609 | 9 | 9 | % | Retail Trade | 199,396 | 10 | 10 % | | 209,609 | 9 | 9 % |
| Transport and Warehouse | Transport and Warehouse | 39,950 | 2 | 2 % | 41,445 | 2 | 2 | % | Transport and Warehouse | 39,536 | 2 | 2 % | | 41,445 | 2 | 2 % |
| Wholesale Trade | Wholesale Trade | 167,399 | 8 | 8 % | 173,371 | 8 | 8 | % | Wholesale Trade | 164,001 | 8 | 8 % | | 173,371 | 8 | 8 % |
| Other | Other | 30,425 | 1 | 1 % | 30,027 | 1 | 1 | % | Other | 30,119 | 1 | 1 % | | 30,027 | 1 | 1 % |
| Total CRE owner-occupied | Total CRE owner-occupied | \$2,096,485 | 100 | 100 % | \$2,191,334 | 100 | 100 | % | Total CRE owner-occupied | \$2,038,583 | 100 | 100 % | | \$2,191,334 | 100 | 100 % |

By Geography⁽²⁾

By Geography⁽²⁾

By Geography⁽²⁾

California:

California:

California:

| | | | | | | | | | | | | | | | | |
|-----------------|-----------------|------------|----|------|------------|----|------|---|-----------------|---------|----|------|-----------|---------|----|------|
| Los Angeles | Los Angeles | | | | | | | | | | | | | | | |
| Los Angeles | Los Angeles | \$ 643,018 | 31 | 31 % | \$ 684,079 | 31 | 31 % | % | 632,903 | 31 | 31 | % | \$684,079 | 31 | 31 | % |
| Orange | Orange | 203,620 | 10 | 10 % | 222,742 | 10 | 10 % | | Orange | 193,900 | 10 | 10 % | | 222,742 | 10 | 10 % |
| Riverside | Riverside | 348,187 | 17 | 17 % | 350,277 | 16 | 16 % | | Riverside | 340,537 | 17 | 17 % | | 350,277 | 16 | 16 % |
| | | | | | | | | | San Bernardino | | | | | | | |
| San Bernardino | San Bernardino | 187,062 | 9 | 9 % | 192,695 | 9 | 9 % | | San Bernardino | 187,288 | 9 | 9 % | | 192,695 | 9 | 9 % |
| San Diego | San Diego | 130,612 | 6 | 6 % | 134,120 | 6 | 6 % | | San Diego | 126,787 | 6 | 6 % | | 134,120 | 6 | 6 % |
| San Luis Obispo | San Luis Obispo | 96,130 | 5 | 5 % | 99,441 | 5 | 5 % | | San Luis Obispo | 92,376 | 5 | 5 % | | 99,441 | 5 | 5 % |
| Santa Barbara | Santa Barbara | 112,435 | 5 | 5 % | 114,758 | 5 | 5 % | | Santa Barbara | 109,070 | 5 | 5 % | | 114,758 | 5 | 5 % |
| Ventura | Ventura | 53,826 | 2 | 2 % | 55,101 | 3 | 3 % | | Ventura | 43,694 | 2 | 2 % | | 55,101 | 3 | 3 % |
| Other CA | Other CA | 133,463 | 6 | 6 % | 137,428 | 6 | 6 % | | Other CA | 131,536 | 6 | 6 % | | 137,428 | 6 | 6 % |
| Arizona | Arizona | 54,638 | 3 | 3 % | 58,872 | 3 | 3 % | | Arizona | 54,267 | 3 | 3 % | | 58,872 | 3 | 3 % |
| Nevada | Nevada | 47,894 | 2 | 2 % | 48,713 | 2 | 2 % | | Nevada | 47,486 | 2 | 2 % | | 48,713 | 2 | 2 % |
| Washington | Washington | 18,567 | 1 | 1 % | 19,950 | 1 | 1 % | | Washington | 18,346 | 1 | 1 % | | 19,950 | 1 | 1 % |
| Other States | Other States | 67,033 | 3 | 3 % | 73,158 | 3 | 3 % | | Other States | 60,393 | 3 | 3 % | | 73,158 | 3 | 3 % |

| | | | | | | | | | | | | | | |
|--------------------------|--------------------------|-------------|-----|-------|-------------|-----|-------|--------------------------|-------------|-----|-------|-------------|-----|-------|
| Total CRE owner-occupied | Total CRE owner-occupied | \$2,096,485 | 100 | 100 % | \$2,191,334 | 100 | 100 % | Total CRE owner-occupied | \$2,038,583 | 100 | 100 % | \$2,191,334 | 100 | 100 % |
|--------------------------|--------------------------|-------------|-----|-------|-------------|-----|-------|--------------------------|-------------|-----|-------|-------------|-----|-------|

(1) Distribution by North American Industry Classification System (NAICS)

(2) Based on location of primary real property collateral. All California information is by respective county.

Commercial & Industrial. C&I loans totaled **\$1.55 billion** **\$1.32 billion** at **June** **September** 30, 2024 and \$1.79 billion at December 31, 2023. We originate C&I loans secured by various business assets, including inventory, receivables, machinery, and equipment. Loan types include revolving lines of credit, term loans, seasonal loans, and loans secured by liquid collateral such as cash deposits or marketable securities. These loans are underwritten and analyzed based on each business's cash flows. This portfolio includes loans to small and middle market businesses by industry and by geography as shown below:

| June 30, 2024 | | | | | December 31, 2023 | | | | | | | | | | |
|---------------------------------|---------------------------------|-------------|-----|-------|-------------------|-----|-----|------------------------|---------------------------------|-------------|-----|----------|-------------|-----|-------|
| September 30, 2024 | | | | | December 31, 2023 | | | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Amount | % | | Amount | % | | (Dollars in thousands) | Amount | % | | Amount | % | | |
| By Industry ⁽¹⁾ | | | | | | | | | | | | | | | |
| Administrative | Administrative | | | | | | | | | | | | | | |
| Administrative | | \$ 12,264 | 1 | 1 % | \$ 55,663 | 3 | 3 | % | \$ 10,649 | 1 | 1 % | \$55,663 | 3 | 3 % | |
| Agriculture | Agriculture | 40,236 | 2 | 2 % | 48,766 | 3 | 3 | % | Agriculture | 14,907 | 1 | 1 % | 48,766 | 3 | 3 % |
| Construction | Construction | 320,249 | 20 | 20 % | 372,965 | 21 | 21 | % | Construction | 193,213 | 15 | 15 % | 372,965 | 21 | 21 % |
| Educational Services | Educational Services | 32,396 | 2 | 2 % | 32,909 | 2 | 2 | % | Educational Services | 29,334 | 2 | 2 % | 32,909 | 2 | 2 % |
| Entertainment | Entertainment | 30,707 | 2 | 2 % | 31,486 | 2 | 2 | % | Entertainment | 29,495 | 2 | 2 % | 31,486 | 2 | 2 % |
| Financial Services | Financial Services | 277,099 | 18 | 18 % | 328,856 | 18 | 18 | % | Financial Services | 219,196 | 17 | 17 % | 328,856 | 18 | 18 % |
| Health Care | Health Care | 57,252 | 4 | 4 % | 57,428 | 3 | 3 | % | Health Care | 55,801 | 4 | 4 % | 57,428 | 3 | 3 % |
| Information | Information | 27,432 | 2 | 2 % | 39,008 | 2 | 2 | % | Information | 26,939 | 2 | 2 % | 39,008 | 2 | 2 % |
| Manufacturing | Manufacturing | 180,451 | 12 | 12 % | 176,248 | 10 | 10 | % | Manufacturing | 175,905 | 13 | 13 % | 176,248 | 10 | 10 % |
| Other Services | Other Services | 112,627 | 7 | 7 % | 126,731 | 7 | 7 | % | Other Services | 108,520 | 8 | 8 % | 126,731 | 7 | 7 % |
| Professional Services | Professional Services | 79,139 | 5 | 5 % | 85,928 | 5 | 5 | % | Professional Services | 83,755 | 7 | 7 % | 85,928 | 5 | 5 % |
| Public Administration | Public Administration | 167,331 | 11 | 11 % | 174,378 | 10 | 10 | % | Public Administration | 161,894 | 12 | 12 % | 174,378 | 10 | 10 % |
| Real Estate | Real Estate | 125,452 | 8 | 8 % | 149,835 | 8 | 8 | % | Real Estate | 117,848 | 9 | 9 % | 149,835 | 8 | 8 % |
| Transport and Warehouse | Transport and Warehouse | 25,242 | 2 | 2 % | 28,651 | 2 | 2 | % | Transport and Warehouse | 22,118 | 2 | 2 % | 28,651 | 2 | 2 % |
| Wholesale Trade | Wholesale Trade | 26,343 | 2 | 2 % | 37,547 | 2 | 2 | % | Wholesale Trade | 27,533 | 2 | 2 % | 37,547 | 2 | 2 % |
| Other | Other | 40,515 | 2 | 2 % | 44,209 | 2 | 2 | % | Other | 39,410 | 3 | 3 % | 44,209 | 2 | 2 % |
| Total Commercial and industrial | Total Commercial and industrial | \$1,554,735 | 100 | 100 % | \$1,790,608 | 100 | 100 | % | Total Commercial and industrial | \$1,316,517 | 100 | 100 % | \$1,790,608 | 100 | 100 % |

By Geography⁽²⁾

By Geography⁽²⁾

By Geography⁽²⁾

California:

California:

California:

Los Angeles

Los Angeles

| | | | | | | | | | | | | | | |
|---------------------------------|---------------------------------|-------------|-----|-------|-------------|-----|-------|---------------------------------|-------------|------|-----------|-------------|------|-------|
| Los Angeles | | \$ 552,432 | 36 | 36 % | \$ 624,418 | 35 | 35 % | \$ 415,450 | 32 | 32 % | \$624,418 | 35 | 35 % | |
| Orange | Orange | 248,376 | 16 | 16 % | 263,012 | 15 | 15 % | Orange | 243,973 | 18 | 18 % | 263,012 | 15 | 15 % |
| Riverside | Riverside | 93,157 | 6 | 6 % | 123,920 | 7 | 7 % | Riverside | 85,028 | 6 | 6 % | 123,920 | 7 | 7 % |
| San Bernardino | San Bernardino | 55,065 | 4 | 4 % | 65,121 | 4 | 4 % | San Bernardino | 54,819 | 4 | 4 % | 65,121 | 4 | 4 % |
| San Diego | San Diego | 99,821 | 6 | 6 % | 126,541 | 7 | 7 % | San Diego | 98,714 | 7 | 7 % | 126,541 | 7 | 7 % |
| San Luis Obispo | San Luis Obispo | 44,618 | 3 | 3 % | 59,314 | 3 | 3 % | San Luis Obispo | 40,058 | 3 | 3 % | 59,314 | 3 | 3 % |
| Santa Barbara | Santa Barbara | 20,967 | 1 | 1 % | 35,556 | 2 | 2 % | Santa Barbara | 18,885 | 1 | 1 % | 35,556 | 2 | 2 % |
| Ventura | Ventura | 34,887 | 2 | 2 % | 38,463 | 2 | 2 % | Ventura | 20,646 | 2 | 2 % | 38,463 | 2 | 2 % |
| Other CA | Other CA | 150,882 | 10 | 10 % | 164,069 | 9 | 9 % | Other CA | 128,265 | 10 | 10 % | 164,069 | 9 | 9 % |
| Arizona | Arizona | 32,883 | 2 | 2 % | 47,610 | 3 | 3 % | Arizona | 12,181 | 1 | 1 % | 47,610 | 3 | 3 % |
| Nevada | Nevada | 18,540 | 1 | 1 % | 22,530 | 1 | 1 % | Nevada | 20,196 | 2 | 2 % | 22,530 | 1 | 1 % |
| Washington | Washington | 55,411 | 4 | 4 % | 59,187 | 3 | 3 % | Washington | 51,479 | 4 | 4 % | 59,187 | 3 | 3 % |
| Other States | Other States | 147,696 | 9 | 9 % | 160,867 | 9 | 9 % | Other States | 126,823 | 10 | 10 % | 160,867 | 9 | 9 % |
| Total Commercial and industrial | Total Commercial and industrial | \$1,554,735 | 100 | 100 % | \$1,790,608 | 100 | 100 % | Total Commercial and industrial | \$1,316,517 | 100 | 100 % | \$1,790,608 | 100 | 100 % |

(1) Distribution by North American Industry Classification System (NAICS)

(2) Based on location of primary real property collateral if available, otherwise borrower address is used. All California information is by respective county.

Delinquent Loans

When a borrower fails to make required payments on a loan and does not cure the delinquency within 30 days, we normally initiate proceedings to pursue our remedies under the loan documents. For loans secured by real estate, we provide the required notices to the borrower and make any required filings, and commence foreclosure proceedings if necessary. If the loan is not reinstated within the time permitted by law, we may sell the property at a foreclosure sale. At these foreclosure sales, we generally acquire title to the property. At **June 30, 2024** **September 30, 2024**, loans delinquent 30 or more days as a percentage of total loans held for investment was **0.14%** **0.08%**, compared to **unchanged from** 0.08% at December 31, 2023. **The increase in delinquent loans during the six months ended June 30, 2024 was primarily due to increases in CRE owner-occupied and franchise non-real estate secured loans.**

The following table sets forth delinquencies in the Company's loan portfolio as of the dates indicated:

| | 30 - 59 Days | | | | 60 - 89 Days | | | | Total | 30 - 59 Days | | | | 60 - 89 Days | | | | Total | |
|---------------------------------------|------------------------|--------------|------------|--------------|--------------|--------------|------------|--------------|-------|---------------------------------------|--------------|------------|--------------|--------------|--------------|------------|--------------|-------|--|
| | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance | | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance | | |
| (Dollars in thousands) | (Dollars in thousands) | | | | | | | | | (Dollars in thousands) | | | | | | | | | |
| At June 30, 2024 | | | | | | | | | | | | | | | | | | | |
| At September 30, 2024 | | | | | | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | Investor loans secured by real estate | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | | | | | | |

Total
investor
loans
secured by
real estate

**Business
loans
secured by
real estate**

CRE owner-occupied
CRE owner-occupied
CRE owner-occupied

Franchise
real estate
secured

Total business loans
secured by real estate
Total business loans
secured by real estate
Total business loans
secured by real estate

**Commercial
loans**

Commercial and
industrial
Commercial and
industrial
Commercial and
industrial

Franchise
non-real
estate
secured

SBA non-real estate
secured
SBA non-real estate
secured

SBA non-
real estate
secured

Total
commercial
loans

Retail loans

Single family residential
Single family residential
Single family residential
Total retail loans
Total retail loans
Total retail loans

Total
Total

Total

| Delinquent loans to loans held for investment | Delinquent loans to loans held for investment | 0.04 % | 0.02 % | 0.08 % | 0.14 % | Delinquent loans to loans held for investment | 0.02 % | — % | 0.06 % |
|---|---|--------------|--------------|--------------|--------------|---|--------------|------------|--------------|
| | | 30 - 59 Days | | 60 - 89 Days | | 90 Days or More | | Total | |
| | | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance | # of Loans | Loan Balance |
| (Dollars in thousands) | | | | | | | | | |
| At December 31, 2023 | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | |
| CRE non-owner-occupied | | — | \$ — | — | \$ — | 1 | \$ 412 | 1 | \$ 412 |
| SBA secured by real estate | | — | — | — | — | 1 | 420 | 1 | 420 |
| Total investor loans secured by real estate | | — | — | — | — | 2 | 832 | 2 | 832 |
| Business loans secured by real estate | | | | | | | | | |
| CRE owner-occupied | | — | — | — | — | 3 | 4,655 | 3 | 4,655 |
| Franchise real estate secured | | 1 | 292 | — | — | — | — | 1 | 292 |
| SBA secured by real estate | | 1 | 137 | — | — | — | — | 1 | 137 |
| Total business loans secured by real estate | | 2 | 429 | — | — | 3 | 4,655 | 5 | 5,084 |
| Commercial loans | | | | | | | | | |
| Commercial and industrial | | 7 | 228 | 9 | 1,294 | 1 | 231 | 17 | 1,753 |
| Franchise non-real estate secured | | 7 | 1,559 | — | — | — | — | 7 | 1,559 |
| SBA non-real estate secured | | 1 | 249 | — | — | 2 | 558 | 3 | 807 |
| Total commercial loans | | 15 | 2,036 | 9 | 1,294 | 3 | 789 | 27 | 4,119 |
| Retail loans | | | | | | | | | |
| Single family residential | | 1 | 19 | — | — | — | — | 1 | 19 |
| Total retail loans | | 1 | 19 | — | — | — | — | 1 | 19 |
| Total | | 18 | \$ 2,484 | 9 | \$ 1,294 | 8 | \$ 6,276 | 35 | \$ 10,054 |
| Delinquent loans to loans held for investment | | | 0.02 % | | 0.01 % | | 0.05 % | | 0.08 % |

Modified Loans to Troubled Borrowers

On January 1, 2023, the Company adopted ASU 2022-02, which introduces new reporting requirements for modifications of loans to borrowers experiencing financial difficulty, which the Company also refers to as modified loans to troubled borrowers ("MLTB"). An MLTB arises from a modification made to a loan in response to a borrower's financial difficulty in order to alleviate temporary impairments in the borrower's financial condition and/or constraints on the borrower's ability to repay the loan, and to minimize potential losses to the Company. GAAP requires that certain types of modifications be reported, which consist of the following:

- Principal forgiveness
- Interest rate reduction
- Other-than-insignificant payment delay
- Term extension
- Any combination of the above

See *Note 1 - Description of Business and Summary of Significant Accounting Policies* of our audited consolidated financial statements included in our 2023 Form 10-K for additional discussion on MLTBs.

As of **June 30, 2024** **September 30, 2024**, the Company had **three MLTBs totaling \$28.0 million**. This consisted **one MLTB of two syndicated C&I participation loan modifications to one borrower totaling \$11.7 million, the modification of which involved other-than-insignificant payment delays, and a loan to another borrower for \$16.3 million \$16.1 million, the modification of which involved a combination of other-than-insignificant payment delays delay and a term extension**. During the three and **six** nine months ended **June 30, 2024** **September 30, 2024**, there were no MLTBs that had a payment default and had been modified within the 12 months preceding the payment default.

As of **June 30, 2023** September 30, 2023, the Company had **no loan** two syndicated C&I participation MLTBs totaling \$13.0 million, the modifications classified as MLTB, of which involved other-than-insignificant payment delays. During the three and **six** nine months ended **June 30, 2023** September 30, 2023, there were no MLTBs that had a payment default and had been modified within the 12 months preceding the payment default.

Credit Quality

We separate our loans by type, and we segregate the loans into various risk grade categories of "Pass," "Special Mention," "Substandard," "Doubtful," or "Loss." Classified loans **consists** consist of those with a credit risk rating of substandard, doubtful, or loss. For additional information on the Company's credit quality and credit risk grades, see *Note 5 – Loans Held for Investment* to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q.

Classified loans totaled **\$183.8** \$120.5 million, or **1.47%** 1.00% of loans held for investment, at **June 30, 2024** September 30, 2024, compared with \$142.0 million, or 1.07% of loans held for investment, at December 31, 2023. The **increase** decrease was primarily driven by the **result** payoff of a single, **diversified** two commercial banking **relationship** relationships with loans in C&I and CRE **non-owner-occupied** and C&I **owner-occupied** categories, totaling **\$26.8** million \$40.0 million, that were downgraded and placed on nonaccrual during the first **half** nine months of 2024.

The following tables stratify the loan portfolio by the Company's internal risk grading as of the dates indicated:

| | | Credit Risk Grades | | | | | | | | | | | | |
|--|------------------------|--------------------|--------------------|-------------|----------|----------------------|------------------------|------|--------------------|-------------|----------|----------------------|--|--|
| (Dollars in thousands) | (Dollars in thousands) | Pass | Special Mention | Substandard | Doubtful | Total Gross Loans | (Dollars in thousands) | Pass | Special Mention | Substandard | Doubtful | Total Gross Loans | | |
| June 30, 2024 | | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | |
| Multifamily | | | | | | | | | | | | | | |
| Construction and land | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | |
| Total investor loans secured by real estate | | | | | | | | | | | | | | |
| Business loans secured by real estate | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| Franchise real estate secured | | | | | | | | | | | | | | |
| SBA secured by real estate | | | | | | | | | | | | | | |
| Total business loans secured by real estate | | | | | | | | | | | | | | |
| Commercial loans | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Franchise non-real estate secured | | | | | | | | | | | | | | |
| SBA non-real estate secured | | | | | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | | | | | |
| Retail loans | | | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | | | |
| Consumer loans | | | | | | | | | | | | | | |
| Total retail loans | | | | | | | | | | | | | | |
| Loans held for investment before basis adjustment ⁽¹⁾ | | | | | | | | | | | | | | |
| December 31, 2023 | | | | | | | | | | | | | | |
| Investor loans secured by real estate | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | \$ | 2,406,719 | \$ | 6,966 | \$ | 8,087 | \$ | — | \$ | | 2,421,772 | | |
| Multifamily | | | 5,633,682 | | 11,628 | | — | | — | | | 5,645,310 | | |

| | | | | | |
|--|---------------|------------|------------|----------|---------------|
| Construction and land | 472,544 | — | — | — | 472,544 |
| SBA secured by real estate | 28,271 | — | 8,129 | — | 36,400 |
| Total investor loans secured by real estate | 8,541,216 | 18,594 | 16,216 | — | 8,576,026 |
| Business loans secured by real estate | | | | | |
| CRE owner-occupied | 2,117,985 | 34,480 | 38,869 | — | 2,191,334 |
| Franchise real estate secured | 288,013 | 9,674 | 6,827 | — | 304,514 |
| SBA secured by real estate | 45,586 | 619 | 4,536 | — | 50,741 |
| Total business loans secured by real estate | 2,451,584 | 44,773 | 50,232 | — | 2,546,589 |
| Commercial loans | | | | | |
| Commercial and industrial | 1,651,102 | 81,250 | 53,714 | 4,542 | 1,790,608 |
| Franchise non-real estate secured | 299,189 | 4,230 | 16,302 | — | 319,721 |
| SBA non-real estate secured | 9,970 | — | 956 | — | 10,926 |
| Total commercial loans | 1,960,261 | 85,480 | 70,972 | 4,542 | 2,121,255 |
| Retail loans | | | | | |
| Single family residential | 72,752 | — | — | — | 72,752 |
| Consumer loans | 1,949 | — | — | — | 1,949 |
| Total retail loans | 74,701 | — | — | — | 74,701 |
| Loans held for investment before basis adjustment ⁽¹⁾ | \$ 13,027,762 | \$ 148,847 | \$ 137,420 | \$ 4,542 | \$ 13,318,571 |

⁽¹⁾ Excludes the basis adjustment of \$28.2 million, \$16.2 million and \$29.6 million to the carrying amount of certain loans included in fair value hedging relationships at June 30, 2024, September 30, 2024 and December 31, 2023. Refer to Note 11 – Derivative Instruments to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

Nonperforming Assets

Nonperforming assets consist of loans whereby we have ceased accruing interest (i.e., nonaccrual loans), other real estate owned (“OREO”), and other repossessed assets owned. Nonaccrual loans generally consist of loans that are 90 days or more past due and loans where, in the opinion of management, there is reasonable doubt as to the full collection of principal and interest regardless of the length of past due status.

Nonperforming assets increased by \$27.1 million to \$52.1 million, or 0.28% of total assets, at June 30, 2024, compared to \$25.1 million, or 0.13% of total assets, at December 31, 2023. The increase in nonperforming assets at June 30, 2024, was primarily the result of a single, diversified commercial banking relationship with loans in CRE non-owner-occupied and C&I categories, totaling \$26.1 million, all of which were current as of June 30, 2024.

At June 30, 2024, nonperforming loans totaled \$52.1 million, or 0.42% of loans held for investment, an increase from \$24.8 million, or 0.19% of loans held for investment, at December 31, 2023.

At June 30, 2024, the Company had no OREO, compared to \$248,000 at December 31, 2023.

The Company had no loans 90 days or more past due and still accruing at June 30, 2024 and December 31, 2023.

The following table sets forth the composition of nonperforming assets at the dates indicated:

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| |
|--|
| Nonperforming assets |
| Nonperforming assets |
| Nonperforming assets |
| Investor loans secured by real estate |
| Investor loans secured by real estate |
| Investor loans secured by real estate |
| CRE non-owner-occupied |
| CRE non-owner-occupied |
| CRE non-owner-occupied |
| SBA secured by real estate |
| SBA secured by real estate |

SBA secured by real estate

Total investor loans secured by real estate

Total investor loans secured by real estate

Total investor loans secured by real estate

Business loans secured by real estate

Business loans secured by real estate

Business loans secured by real estate

CRE owner-occupied

CRE owner-occupied

CRE owner-occupied

Franchise real estate secured

Franchise real estate secured

Franchise real estate secured

Total business loans secured by real estate

Total business loans secured by real estate

Total business loans secured by real estate

Commercial loans

Commercial loans

Commercial loans

Commercial and industrial

Commercial and industrial

Commercial and industrial

Franchise non-real estate secured

Franchise non-real estate secured

Franchise non-real estate secured

SBA non-real estate secured

SBA non-real estate secured

SBA non-real estate secured

Total commercial loans

Total commercial loans

Total commercial loans

Total nonperforming loans

Total nonperforming loans

Total nonperforming loans

Other real estate owned

Other real estate owned

Other real estate owned

Total

Total

Total

Allowance for credit losses

Allowance for credit losses

Allowance for credit losses

Allowance for credit losses as a percent of total nonperforming loans

Allowance for credit losses as a percent of total nonperforming loans

Allowance for credit losses as a percent of total nonperforming loans

Nonperforming loans as a percent of loans held for investment

Nonperforming loans as a percent of loans held for investment

Nonperforming loans as a percent of loans held for investment

Nonperforming assets as a percent of total assets

Nonperforming assets as a percent of total assets

Nonperforming assets as a percent of total assets

MLTBs included in nonperforming loans
MLTBs included in nonperforming loans
MLTBs included in nonperforming loans

Allowance for Credit Losses

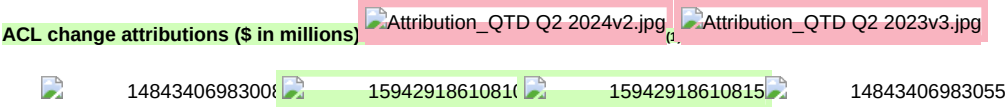
The Company maintains an ACL for loans and unfunded loan commitments in accordance with ASC 326, which requires the Company to record an initial estimate of expected lifetime credit losses for loans and unfunded loan commitments at the time of origination or acquisition. The ACL is maintained at a level deemed appropriate by management to provide for expected credit losses in the portfolio as of the date of the consolidated statements of financial condition. Estimating expected credit losses requires management to use relevant forward-looking information, including the use of reasonable and supportable forecasts. The measurement of the ACL is performed by collectively evaluating loans with similar risk characteristics. Loans that have been deemed by management to no longer possess similar risk characteristics are evaluated individually under a discounted cash flow approach, except those that have been deemed collateral dependent are evaluated individually based on the expected estimated fair value of the underlying collateral.

The Company measures the ACL on commercial real estate and commercial loans using a discounted cash flow approach, using the loan's effective interest rate, while the ACL for retail loans is based on a historical loss rate model. The discounted cash flow methodology relies on several significant components essential to the development of estimates for future cash flows on loans and unfunded commitments. These components consist of: (i) the estimated probability of default ("PD"), (ii) the estimated loss given default ("LGD"), which represents the estimated severity of the loss when a loan is in default, (iii) estimates for prepayment activity on loans, and (iv) the estimated exposure to the Company at default ("EAD"). In the case of unfunded loan commitments, the Company incorporates estimates for utilization, based on historical loan data. PD and LGD for investor loans secured by real estate loans are derived from a third party, using proxy loan information, and loan and property level attributes. PD for both investor and business real estate loans, as well as commercial loans, is heavily impacted by current and expected economic conditions. Forecasts for PDs and LGDs are made over a two-year period, which we believe is reasonable and supportable, and are based on economic scenarios. Beyond this point, PDs and LGDs revert to their historical long-term averages. The Company has reflected this reversion over a period of three years in the ACL model.

The Company's ACL includes assumptions concerning current and future economic conditions using reasonable and supportable forecasts from an independent third party. These economic forecast scenarios are based on past events, current conditions, and the likelihood of future events occurring. Management periodically evaluates economic scenarios used in the Company's ACL model, and thus the scenarios as well as the assumptions within those scenarios, and whether to use a weighted multiple scenario approach, can vary from one period to the next based on changes in current and expected economic conditions, and due to the occurrence of specific events. As of June 30, 2024 September 30, 2024, the Company's ACL model used three weighted scenarios representing a base-case scenario, an upside scenario, and a downside scenario. The use of three weighted scenarios at June 30, 2024 September 30, 2024 is consistent with the approach used in the Company's ACL model at March 31, 2024 June 30, 2024. The Company's ACL model at June 30, 2024 September 30, 2024 includes assumptions concerning the interest rate environment, general uncertainty concerning future economic conditions, and the potential for future recessionary conditions. The Company has identified certain economic variables that have significant influence in the Company's model for determining the ACL. These key economic variables include forecasted changes in the U.S. unemployment rate, U.S. real GDP growth, CRE prices, and interest rates.

The Company considers the need for qualitative adjustments to the ACL on a quarterly basis. Qualitative adjustments may be related to and include, but not be limited to, factors such as (i) management's assessment of economic forecasts used in the model and how those forecasts align with management's overall evaluation of current and expected economic conditions, (ii) organization-specific risks such as credit concentrations, collateral specific risks, regulatory risks, and external factors that may ultimately impact credit quality, (iii) potential model limitations such as limitations identified through back-testing, and other limitations associated with factors such as underwriting changes, acquisition of new portfolios and changes in portfolio segmentation, and (iv) management's overall assessment of the adequacy of the ACL, including an assessment of model data inputs used to determine the ACL. Qualitative adjustments served to increase or decrease the level of allocated ACL to these segments of the loan portfolio: investor loans secured by real estate, business loans secured by real estate, and commercial loans.

The following charts quantify the factors attributing to the changes in the ACL on loans held for investment for the three and six nine months ended June 30, 2024 September 30, 2024 and June 30, 2023 September 30, 2023:



(1) Certain factors attributing to the changes in the ACL for 2023 have been reclassified to conform to the 2024 presentation.

For additional information on the provision for credit losses and ACL on loans and ACL for off-balance sheet commitments related to unfunded loans and lines of credit, refer to "Provision for Credit Losses" presented under Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 6 – Allowance for Credit Losses to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q.

At **June 30, 2024** **September 30, 2024**, the Company believes the ACL was adequate to cover current expected credit losses in the loan portfolio. However, no assurance can be given that we will not, in any particular period, sustain credit losses that exceed the amount reserved, or that subsequent evaluation of our loan portfolio, in light of prevailing factors, including economic conditions that may adversely affect our market area or other circumstances, will not require significant increases in the ACL. In addition, regulatory agencies, as an integral part of their examination process, periodically review our ACL and may require us to recognize changes to the ACL based on judgments different from those of management. Should any of the factors considered by management in evaluating the appropriate level of the ACL change, including the size and composition of the loan portfolio, the credit quality of the loan portfolio, as well as forecasts of future economic conditions, the Company's estimate of current expected credit losses could also significantly change and affect the level of future provisions for credit losses.

The following table sets forth the Company's ACL, its corresponding percentage of the loan category balance, and the percent of loan balance to total loans held for investment in each of the loan categories listed as of the dates indicated:

| (Dollars in thousands) | (Dollars in thousands) | June 30, 2024 | | | | December 31, 2023 | | | | September 30, 2024 | | | | Dec |
|--|--|---------------|-----------------------------|------------------|--------|-----------------------------|------------------|--|--------|---|------------------|--------|-----------------------------|-----|
| | | Amount | Allowance as a % of Segment | % of Total Loans | Amount | Allowance as a % of Segment | % of Total Loans | (Dollars in thousands) | Amount | Allowance as a % of Segment | % of Total Loans | Amount | Allowance as a % of Segment | |
| Investor loans secured by real estate | Investor loans secured by real estate | | | | | | | Investor loans secured by real estate | | | | | | |
| CRE non-owner-occupied | CRE non-owner-occupied | \$ 29,738 | 1.32 | 1.32 % | 18.0 % | \$ 31,030 | 1.28 | 1.28 % | 18.2 % | CRE non-owner-occupied | \$ 29,274 | 1.33 | | |
| Multifamily | Multifamily | 57,298 | 1.05 | 1.05 % | 43.8 % | 56,312 | 1.00 | 1.00 % | 42.5 % | Multifamily | 65,965 | 1.22 | | |
| Construction and land | Construction and land | 10,804 | 2.38 | 2.38 % | 3.6 % | 9,314 | 1.97 | 1.97 % | 3.5 % | Construction and land | 10,984 | 2.47 | | |
| SBA secured by real estate | SBA secured by real estate | 2,142 | 6.44 | 6.44 % | 0.3 % | 2,182 | 5.99 | 5.99 % | 0.3 % | SBA secured by real estate | 2,599 | 8.06 | | |
| Total investor loans secured by real estate | Total investor loans secured by real estate | 99,982 | 1.22 | 1.22 % | 65.7 % | 98,838 | 1.15 | 1.15 % | 64.5 % | Total investor loans secured by real estate | 108,822 | 1.35 | | |
| Business loans secured by real estate | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | 28,531 | 1.36 | 1.36 % | 16.8 % | 28,787 | 1.31 | 1.31 % | 16.5 % | | 27,959 | 1.37 | 1.37 | |
| Franchise real estate secured | Franchise real estate secured | 6,794 | 2.47 | 2.47 % | 2.2 % | 7,499 | 2.46 | 2.46 % | 2.3 % | Franchise real estate secured | 5,114 | 1.93 | | |
| SBA secured by real estate | SBA secured by real estate | 4,134 | 8.88 | 8.88 % | 0.4 % | 4,427 | 8.72 | 8.72 % | 0.4 % | SBA secured by real estate | 3,644 | 8.29 | | |
| Total business loans secured by real estate | Total business loans secured by real estate | 39,459 | 1.63 | 1.63 % | 19.4 % | 40,713 | 1.60 | 1.60 % | 19.2 % | Total business loans secured by real estate | 36,717 | 1.56 | | |
| Commercial loans | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | 32,257 | 2.07 | 2.07 % | 12.3 % | 36,692 | 2.05 | 2.05 % | 13.5 % | | 24,982 | 1.90 | 1.90 | |

| | | | | | | | | | | | | |
|-----------------------------------|-----------------------------------|-----------|------|--------|---------|-----------|------|--------|---------|-----------------------------------|-----------|------|
| Franchise non-real estate secured | Franchise non-real estate secured | 11,130 | 4.32 | 4.32 % | 2.1 % | 15,131 | 4.73 | 4.73 % | 2.4 % | Franchise non-real estate secured | 9,898 | 4.16 |
| SBA non-real estate secured | SBA non-real estate secured | 482 | 4.66 | 4.66 % | 0.1 % | 458 | 4.19 | 4.19 % | 0.1 % | SBA non-real estate secured | 348 | 4.14 |
| Total commercial loans | Total commercial loans | 43,869 | 2.41 | 2.41 % | 14.5 % | 52,281 | 2.46 | 2.46 % | 16.0 % | Total commercial loans | 35,228 | 2.25 |
| Retail loans | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | | |
| Single family residential | | 399 | 0.57 | 0.57 % | 0.6 % | 505 | 0.69 | 0.69 % | 0.5 % | | 388 | 0.54 |
| Consumer loans | Consumer loans | 94 | 6.82 | 6.82 % | — % | 134 | 6.88 | 6.88 % | — % | Consumer loans | 93 | 6.83 |
| Total retail loans | Total retail loans | 493 | 0.69 | 0.69 % | 0.6 % | 639 | 0.86 | 0.86 % | 0.5 % | Total retail loans | 481 | 0.66 |
| Total (1) | Total (1) | \$183,803 | 1.47 | 1.47 % | 100.0 % | \$192,471 | 1.45 | 1.45 % | 100.0 % | Total (1) | \$181,248 | 1.51 |

(1) Total loans utilized in the calculation of the ratio of ACL to total loans held for investment includes \$28.2 million \$16.2 million and \$29.6 million as of June 30, 2024 September 30, 2024 and December 31, 2023, respectively, of the basis adjustment of certain loans included in fair value hedging relationships. Refer to Note 11 – Derivative Instruments to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

At June 30, 2024 September 30, 2024, the ratio of ACL to loans held for investment was 1.47% 1.51%, an increase from 1.45% at December 31, 2023. Our unamortized fair value discount on the loans acquired totaled \$38.6 million \$35.9 million, or 0.31% 0.30% of total loans held for investment, at June 30, 2024 September 30, 2024, compared to \$43.3 million, or 0.33% of total loans held for investment, at December 31, 2023.

The following table sets forth the Company's net charge-offs as a percentage to the average loans held for investment balances in each of the loan categories, as well as other credit related percentages at and for the periods indicated:

| Three Months Ended | | | | | | | | | | | | |
|--|---|------------------------------|----------------------|------------|-------|------------------------------|----------------------|------------|-------|------------------------------|----------------------|------------|
| | | June 30, 2024 | | | | March 31, 2024 | | | | June 30, 2023 | | |
| | | September 30, 2024 | | | | June 30, 2024 | | | | September 30, 2023 | | |
| (Dollars in thousands) | (Dollars in thousands) | Net Charge-offs (Recoveries) | Average Loan Balance | Percentage | | Net Charge-offs (Recoveries) | Average Loan Balance | Percentage | | Net Charge-offs (Recoveries) | Average Loan Balance | Percentage |
| Investor loans secured by real estate | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | |
| CRE non-owner-occupied | | \$ 2,696 | \$ 2,280,616 | 0.12% | 0.12% | \$ 927 | \$ 2,357,553 | 0.04% | 0.04% | | | |
| Multifamily | Multifamily | 7,372 | 5,515,912 | 0.13% | 0.13% | (5) | 5,609,799 | —% | —% | | | |
| Construction and land | Construction and land | — | 461,060 | —% | —% | — | 479,812 | —% | —% | | | |
| SBA secured by real estate | SBA secured by real estate | 67 | 34,110 | 0.20% | 0.20% | 253 | 35,911 | 0.70% | 0.70% | | | |
| Total investor loans secured by real estate | Total investor loans secured by real estate | 10,135 | 8,291,698 | 0.12% | 0.12% | 1,175 | 8,483,075 | 0.01% | 0.01% | | | |

**Business
loans
secured by
real estate**

| | | | | | | | | | | | | | | |
|---|---|-------|-----------|-----------|---------|--|---------|--|-------|-----------|--|-----------|-------|-------|
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | |
| CRE owner-occupied | | (121) | 2,117,338 | 2,117,338 | (0.01)% | | (0.01)% | | 4,389 | 2,182,460 | | 2,182,460 | 0.20% | 0.20% |
| Franchise real estate secured | Franchise real estate secured | — | 282,684 | 282,684 | —% | | —% | | 212 | 300,828 | | 300,828 | 0.07% | 0.07% |
| SBA secured by real estate | SBA secured by real estate | (1) | 47,365 | 47,365 | —% | | —% | | (1) | 49,807 | | 49,807 | —% | —% |
| Total business loans secured by real estate | Total business loans secured by real estate | (122) | 2,447,387 | 2,447,387 | —% | | —% | | 4,600 | 2,533,095 | | 2,533,095 | 0.18% | 0.18% |

**Commercial
loans**

| | | | | | | | | | | | | | | |
|--|--|---------|-----------|-----------|---------|--|---------|--|-----|-----------|--|-----------|---------|---------|
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | |
| Commercial and industrial | | 820 | 1,655,962 | 1,655,962 | 0.05% | | 0.05% | | 546 | 1,769,879 | | 1,769,879 | 0.03% | 0.03% |
| Franchise non-real estate secured | Franchise non-real estate secured | (1,375) | 278,143 | 278,143 | (0.49)% | | (0.49)% | | 100 | 308,832 | | 308,832 | 0.03% | 0.03% |
| SBA non- real estate secured | SBA non- real estate secured | 3 | 11,218 | 11,218 | 0.03% | | 0.03% | | (2) | 10,865 | | 10,865 | (0.02)% | (0.02)% |
| Total commercial loans | Total commercial loans | (552) | 1,945,323 | 1,945,323 | (0.03)% | | (0.03)% | | 644 | 2,089,576 | | 2,089,576 | 0.03% | 0.03% |

Retail loans

| | | | | | | | | | | | | | | |
|---------------------------|-----------------------|-----------|---------------|---------------|--------|--|--------|--|----------|---------------|--|---------------|-------|-------|
| Single family residential | | | | | | | | | | | | | | |
| Single family residential | | (3) | 70,633 | 70,633 | —% | | —% | | — | 72,084 | | 72,084 | —% | —% |
| Consumer | Consumer | 835 | 2,270 | 2,270 | 36.78% | | 36.78% | | — | 2,107 | | 2,107 | —% | —% |
| Total retail loans | Total retail loans | 832 | 72,903 | 72,903 | 1.14% | | 1.14% | | — | 74,191 | | 74,191 | —% | —% |
| Total (1) | Total (1) | \$ 10,293 | \$ 12,724,401 | \$ 12,724,401 | 0.08% | | 0.08% | | \$ 6,419 | \$ 13,149,038 | | \$ 13,149,038 | 0.05% | 0.05% |

| | | | | | | | | | | | | | | |
|---|---|--|--|--|--|--|-------|--|--|--|--|--|--|--|
| Allowance for credit losses to loans held for investment | | | | | | | | | | | | | | |
| Allowance for credit losses to loans held for investment | | | | | | | | | | | | | | |
| Allowance for credit losses to loans held for investment | | | | | | | 1.47% | | | | | | | |
| Nonperforming loans to loans held for investment | Nonperforming loans to loans held for investment | | | | | | 0.42% | | | | | | | |
| Allowance for credit losses to nonperforming loans | Allowance for credit losses to nonperforming loans | | | | | | 353% | | | | | | | |

(1) Average loan balance includes \$32.9 million \$23.4 million, \$30.9 million \$32.9 million, and \$49.3 million \$50.9 million of average basis adjustment of certain loans included in fair value hedging relationships for the three months ended June 30, 2024 September 30, 2024, March 31, 2024 June 30, 2024, and June 30, 2023 September 30, 2023, respectively. Refer to Note 11 – Derivative Instruments to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

| For the Six Months Ended | | | | | | | | | | | | | | | |
|---|---|------------------------------|----------------------|-----------|-------|--|------------------------------|-------|----------------------|----|-----------|---------|------------------------|------------------------------|-------|
| For the Nine Months Ended | | | | | | | | | | | | | | | |
| For the Six Months Ended | | | | | | | | | | | | | | | |
| For the Nine Months Ended | | | | | | | | | | | | | | | |
| For the Six Months Ended | | | | | | | | | | | | | | | |
| June 30, 2024 | | | | | | | June 30, 2023 | | | | | | | | |
| For the Nine Months Ended | | | | | | | | | | | | | | | |
| September 30, 2024 | | | | | | | September 30, 2023 | | | | | | | | |
| (Dollars in thousands) | (Dollars in thousands) | Net Charge-offs (Recoveries) | Average Loan Balance | | | | Net Charge-offs (Recoveries) | | Average Loan Balance | | | | (Dollars in thousands) | Net Charge-offs (Recoveries) | |
| Investor loans secured by real estate | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | | | | | | | | | | | | | | | |
| CRE non-owner-occupied | \$ | 3,623 | \$ | 2,319,085 | 0.16% | | 0.16% | \$ | 2,642 | \$ | 2,616,776 | 0.10% | 0.10% | \$ | 3,623 |
| Multifamily | Multifamily | 7,367 | 5,562,856 | 5,562,856 | 0.13% | | 0.13% | 289 | 5,941,895 | | 5,941,895 | —% | | —% | |
| Construction and land | Construction and land | — | 470,436 | 470,436 | —% | | —% | — | 425,263 | | 425,263 | —% | | —% | |
| SBA secured by real estate | SBA secured by real estate | 320 | 35,011 | 35,011 | 0.91% | | 0.91% | — | 40,112 | | 40,112 | —% | | —% | |
| Total investor loans secured by real estate | Total investor loans secured by real estate | 11,310 | 8,387,388 | 8,387,388 | 0.13% | | 0.13% | 2,931 | 9,024,046 | | 9,024,046 | 0.03% | | 0.03% | |
| Business loans secured by real estate | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | |
| CRE owner-occupied | | | | | | | | | | | | | | | |
| CRE owner-occupied | | 4,268 | 2,149,899 | 2,149,899 | 0.20% | | 0.20% | 2,346 | 2,342,525 | | 2,342,525 | 0.10% | | 0.10% | |
| Franchise real estate secured | Franchise real estate secured | 212 | 291,756 | 291,756 | 0.07% | | 0.07% | — | 359,978 | | 359,978 | —% | | —% | |
| SBA secured by real estate | SBA secured by real estate | (2) | 48,586 | 48,586 | —% | | —% | (80) | 60,229 | | 60,229 | (0.13)% | | (0.13)% | |
| Total business loans secured by real estate | Total business loans secured by real estate | 4,478 | 2,490,241 | 2,490,241 | 0.18% | | 0.18% | 2,266 | 2,762,732 | | 2,762,732 | 0.08% | | 0.08% | |
| Commercial loans | | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | | |
| Commercial and industrial | | | | | | | | | | | | | | | |

| | | | | | | | | | | | |
|-----------------------------------|-----------|-----------|---------------|---------|--|---------|----------|---------------|-----------|---------|-----------|
| Commercial and industrial | 1,366 | 1,712,921 | 1,712,921 | 0.08% | | 0.08% | 968 | 1,955,406 | 1,955,406 | 0.05% | 0.05% |
| Franchise non-real estate secured | (1,275) | 293,488 | 293,488 | (0.43)% | | (0.43)% | (100) | 385,778 | 385,778 | (0.03)% | (0.03)% |
| SBA non-real estate secured | 1 | 11,042 | 11,042 | 0.01% | | 0.01% | (65) | 11,448 | 11,448 | (0.57)% | (0.57)% |
| Total commercial loans | | | | | | | | | | | |
| Total commercial loans | | | | | | | | | | | |
| Total commercial loans | 92 | 2,017,451 | 2,017,451 | —% | | —% | 803 | 2,352,632 | 2,352,632 | 0.03% | 0.03% |
| Retail loans | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | |
| Single family residential | | | | | | | | | | | |
| Single family residential | (3) | 71,359 | 71,359 | —% | | —% | 89 | 71,439 | 71,439 | 0.12% | 0.12% |
| Consumer | 835 | 2,189 | 2,189 | 38.15% | | 38.15% | 860 | 3,188 | 3,188 | 26.98% | 26.98% |
| Total retail loans | 832 | 73,548 | 73,548 | 1.13% | | 1.13% | 949 | 74,627 | 74,627 | 1.27% | 1.27% |
| Total (1) | Total (1) | \$ 16,712 | \$ 12,936,723 | 0.13% | | 0.13% | \$ 6,949 | \$ 14,159,155 | 0.05% | 0.05% | Total (1) |

(1) Average loan balance includes \$31.9 million \$29.0 million and \$54.9 million \$53.5 million of average basis adjustment of certain loans included in fair value hedging relationships for the six nine months ended June 30, 2024 September 30, 2024 and June 30, 2023, 2023, respectively. Refer to Note 11 – Derivative Instruments to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

Investment Securities

Our investment policy, as established by our Asset Liability Committee, is established to provide and maintain liquidity, capital preservation, complement our lending activities, support our interest rate risk management strategies and tax planning, and generate a favorable return on investments without incurring undue interest rate and credit risks. Specifically, our investment policy generally limits our investments to U.S. government securities, federal agency-backed securities, U.S. government-sponsored enterprise (“GSE”) guaranteed mortgage-backed securities (“MBS”), which are guaranteed by Fannie Mae (“FNMA”), Freddie Mac (“FHLMC”), Federal Farm Credit Banks (“FFCB”), or Ginnie Mae (“GNMA”), U.S. Treasury securities, municipal bonds, and corporate bonds, specifically bank debt notes. The Bank has designated all investment securities as AFS or HTM. AFS securities are carried at fair value, with unrealized gains or losses, net of tax, on these securities recognized in stockholders’ equity as accumulated other comprehensive income or loss. HTM securities are carried at amortized cost, net of ACL.

We primarily use our investment portfolio for liquidity purposes, capital preservation, and to support our interest rate risk management strategies. Our investment securities portfolio amounted to \$3.03 billion at June 30, 2024 September 30, 2024, an increase of \$160.6 million \$160.5 million, or 5.6%, from \$2.87 billion at December 31, 2023. The increase was primarily the result of \$613.3 million \$726.6 million in purchases, primarily of AFS U.S. Treasury securities, and a decrease of \$6.1 million \$16.3 million in mark-to-market unrealized loss improvement on AFS securities, partially offset by \$458.8 million \$582.4 million in principal payments, amortization and accretion, and redemptions. The Company did not sell any investment securities during the first half of 2024, nine months ended September 30, 2024. In general, the purchase of investment securities is primarily related to investing excess liquidity from our banking operations. During the first half of 2024, nine months ended September 30, 2024, we have maintained a meaningful portion of the AFS securities portfolio in highly-liquid, shorter term securities. This strategy enhances our interest rate sensitivity profile to the current rate environment and provides us with the flexibility to quickly redeploy these funds into higher-yielding assets or slightly longer duration securities as opportunities arise. The effective duration of AFS securities portfolio was 0.9 0.6 years and 0.7 years at June 30, 2024 September 30, 2024 and December 31, 2023, respectively. The effective duration of total AFS and HTM securities portfolio was 5.3 4.8 years and 5.5 years at June 30, 2024 September 30, 2024 and December 31, 2023, respectively.

At June 30, 2024 September 30, 2024, AFS and HTM investment securities were \$1.32 billion and \$1.71 billion, respectively, compared to \$1.14 billion and \$1.73 billion, respectively, at December 31, 2023.

The ACL on investment securities is determined for both the AFS and HTM classifications of the investment portfolio in accordance with ASC 326 and evaluated on a quarterly basis. As of June 30, 2024 September 30, 2024 and December 31, 2023, the Company had an ACL of \$129,000 \$104,000 and \$126,000, respectively, for HTM investment securities classified as municipal bonds. The Company had no ACL for AFS investment securities at June 30, 2024 September 30, 2024 and December 31, 2023. For additional information, refer to Note 4 – Investment Securities to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q.

The following table sets forth the fair value of AFS and the amortized cost of HTM investment securities as well as the weighted average yields on our investment securities portfolio by contractual maturity as of the date indicated. Weighted average yields are an arithmetic computation of income within each maturity range based on the amortized costs of securities, not on a tax-equivalent basis.

| | | June 30, 2024 | | | | | | | | | | | | | | | | |
|-------------------------------------|-------------------------------------|------------------|------------------------|------------------|------------------------|-----------------------------|------------------------|-----------------------------------|------------------------|--------|------------------------|----------------------------|------------------------|--------|------------------------|--------------|------------------------|--|
| | | One Year or Less | | One Year or Less | | More than One to Five Years | | More than Five Years to Ten Years | | | | More than Ten Years | | | | Total | | |
| (Dollars in thousands) | (Dollars in thousands) | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | Amount | Weighted Average Yield | |
| AFS investment securities: | AFS investment securities: | | | | | | | | | | | AFS investment securities: | | | | | | |
| U.S. Treasury | U.S. Treasury | \$515,683 | 5.16 | 5.16 % | \$247,428 | 4.02 | 4.02 % | \$ — | — | — % | \$ — | — | — % | \$ — | — | \$ 763,111 | 4.79 | |
| Agency | Agency | — | — | — % | 880 | 5.44 | 5.44 % | — | — | — % | 646 | 7.41 | 7.41 % | — | — | 1,526 | 6.28 | |
| Corporate | Corporate | 32,991 | 5.79 | 5.79 % | 201,827 | 5.84 | 5.84 % | 177,844 | 3.55 | 3.55 % | — | — | — % | — | — | 412,662 | 4.77 | |
| Collateralized mortgage obligations | | | | | | | | | | | | | | | | | | |
| Collateralized mortgage obligations | | | | | | | | | | | | | | | | | | |
| Collateralized mortgage obligations | | 49 | 5.66 | 5.66 % | 45,937 | 5.75 | 5.75 % | 52,532 | 5.83 | 5.83 % | 44,233 | 7.06 | 7.06 % | — | — | 142,751 | 6.19 | |
| Total AFS investment securities | | | | | | | | | | | | | | | | | | |
| Total AFS investment securities | | | | | | | | | | | | | | | | | | |
| Total AFS investment securities | | 548,723 | 5.19 | 5.19 % | 496,072 | 4.92 | 4.92 % | 230,376 | 4.07 | 4.07 % | 44,879 | 7.06 | 7.06 % | — | — | 1,320,050 | 4.93 | |
| HTM investment securities: | HTM investment securities: | | | | | | | | | | | | | | | | | |
| Municipal bonds | | | | | | | | | | | | | | | | | | |
| Municipal bonds | | | | | | | | | | | | | | | | | | |
| Municipal bonds | | \$ — | — | — % | \$ 32,388 | 1.45 | 1.45 % | \$ 47,410 | 1.78 | 1.78 % | \$ 1,065,765 | 2.06 | 2.06 % | — | — | \$ 1,145,563 | 2.03 | |
| Collateralized mortgage obligations | Collateralized mortgage obligations | — | — | — % | 69 | 5.71 | 5.71 % | — | — | — % | 323,463 | 4.15 | 4.15 % | — | — | 323,532 | 4.15 | |
| Mortgage-backed securities | Mortgage-backed securities | — | — | — % | 1,923 | 5.77 | 5.77 % | 3,469 | 4.92 | 4.92 % | 219,561 | 1.94 | 1.94 % | — | — | 224,953 | 2.02 | |
| Other | Other | — | — | — % | — | — | — % | — | — | — % | 16,222 | 2.85 | 2.85 % | — | — | 16,222 | 2.85 | |
| Total HTM investment securities | Total HTM investment securities | \$ — | — | — % | \$ 34,380 | 1.70 | 1.70 % | \$ 50,879 | 2.00 | 2.00 % | \$ 1,625,011 | 2.47 | 2.47 % | — | — | \$ 1,710,270 | 2.44 | |
| Total securities | Total securities | \$548,723 | 5.19 | 5.19 % | \$530,452 | 4.72 | 4.72 % | \$ 281,255 | 3.70 | 3.70 % | \$ 1,669,890 | 2.59 | 2.59 % | — | — | \$ 3,030,320 | 3.53 | |

The following table presents the fair value of AFS and the amortized cost of HTM investment securities portfolios by Moody's credit ratings at June September 30, 2024.

| (Dollars in thousands) | (Dollars in thousands) | U.S. Treasury | Agency | Corporate Debt | Municipal Bonds | Collateralized Mortgage Obligations | Mortgage-backed Securities | Other | Total | (Dollars in thousands) |
|------------------------|------------------------|---------------|----------|----------------|-----------------|-------------------------------------|----------------------------|-------|-------------|------------------------|
| Aaa - Aa3 | Aaa - Aa3 | \$763,111 | \$ 1,526 | \$ 19,993 | \$ 1,145,563 | \$ 466,283 | \$ 224,953 | \$ — | \$2,621,429 | 86.5 % |
| A1 - A3 | A1 - A3 | — | — | 206,805 | 206,805 | — | — | — | 206,805 | 6.8 % |

| | | | | | | | | | | | | | | | | | | | |
|----------------|----------------|-----------|---------|----|-----------|---------|-------------|----|-----------|----|-----------|----|----------|--------|-------------|---------|-------|---|-------|
| Baa1 - Baa3 | Baa1 - Baa3 | — | — | — | 185,864 | 185,864 | — | — | — | — | — | — | 16,222 | 16,222 | 202,086 | 202,086 | 6.7 | | |
| Total | Total | \$763,111 | \$1,526 | \$ | \$412,662 | \$ | \$1,145,563 | \$ | \$466,283 | \$ | \$224,953 | \$ | \$16,222 | \$ | \$3,030,320 | 100.0 | 100.0 | % | Total |

All of the municipal bond securities in our portfolio have an underlying rating of investment grade, with the majority insured by the largest bond insurance companies to bring each of these securities to a Moody's A rating or better. The Company has predominantly purchased general obligation bonds that are risk-weighted at 20% for regulatory capital purposes. The Company reduces its exposure to any single adverse event by holding securities from geographically diversified municipalities. We continue to monitor the quality of our investment securities portfolio in accordance with current financial conditions and economic environment.

Deposits

At **June 30, 2024** **September 30, 2024**, deposits totaled **\$14.63 billion** **\$14.48 billion**, a decrease of **\$368.0 million** **\$514.7 million**, or **2.5%** **3.4%**, from \$15.00 billion at December 31, 2023. The decrease was largely driven by decreases of **\$316.7 million** **in noninterest-bearing checking**, **\$126.0 million** **\$310.2 million** in brokered certificates of deposit, **\$123.4 million** **\$293.7 million** **in noninterest-bearing checking**, **\$136.3 million** in interest-bearing checking, and **\$23.9 million** **\$62.9 million** in money market and savings, partially offset by an increase of **\$222.0 million** **\$288.4 million** in retail certificates of deposit.

At **June 30, 2024** **September 30, 2024**, non-maturity deposits totaled **\$12.24 billion** **\$12.21 billion**, or **83.7%** **84.3%** of total deposits, a decrease of **\$464.0 million** **\$492.9 million**, or **3.7%** **3.9%**, from December 31, 2023. The decrease was largely impacted by attributable to clients redeploying funds into higher yielding alternatives, prepaying utilizing their deposit balances to prepay or paying pay down loans, reduced funding needs, and seasonal deposit changes, as well as redeploying funds into higher-yielding alternatives due to elevated benchmark interest rates. Our non-maturity deposits reflect our well-diversified and relationship-focused business model that has resulted in noninterest-bearing checking deposits representing **31.6%** **32.0%** of total deposits as of **June 30, 2024** **September 30, 2024**.

At **June 30, 2024** **September 30, 2024**, maturity deposits totaled **\$2.39 billion** **\$2.27 billion**, an increase a decrease of **\$96.0 million** **\$21.8 million**, or **4.2%** **0.9%**, from December 31, 2023. The increase decrease was primarily driven by an increase a reduction of **\$222.0 million** **\$310.2 million** in retail brokered certificates of deposit, partially offset by the reduction an increase of **\$126.0 million** **\$288.4 million** in brokered retail certificates of deposit.

The total end-of-period weighted average rate of deposits at **June 30, 2024** **September 30, 2024** was **1.81%** **1.80%**, an increase from 1.55% at December 31, 2023, principally driven by higher pricing across all deposit categories and a greater mix of maturity deposits. At **June 30, 2024** **September 30, 2024**, the end-of-period weighted average rate of non-maturity deposits was **1.25%** **1.26%**, compared to 1.04% at December 31, 2023.

As of **June 30, 2024** **September 30, 2024**, the Bank counted one client, a property management holding company, with deposits of **\$758.0 million** **\$704.8 million**, or **5.2%** **4.9%** of total deposits, and **11,028** **10,845** total deposit accounts. No other individual depositor represented more than 1.3% of our total deposits, and our top 50 depositors represented **11.4%** **11.8%** of our total deposits.

Our ratio of loans held for investment to deposits was **85.4%** **83.1%** and 88.6% at **June 30, 2024** **September 30, 2024** and December 31, 2023, respectively.

The following table sets forth the distribution of the Company's deposit accounts at the dates indicated and the weighted average interest rates as of the last day of each period for each category of deposits presented:

| | | June 30, 2024 | | | | | December 31, 2023 | | September 30, 2024 | | | | | December 31, 2023 | | | | |
|------------------------------|------------------------------|---------------|------|---------------------|-----------------------|--------------|-------------------|--------|---------------------|-----------------------|------------------------------|--------------|-----------|---------------------|-----------------------|--------|--|--|
| (Dollars in thousands) | (Dollars in thousands) | Balance | | % of Total Deposits | Weighted Average Rate | | Balance | | % of Total Deposits | Weighted Average Rate | (Dollars in thousands) | Balance | | % of Total Deposits | Weighted Average Rate | | | |
| Noninterest-bearing checking | Noninterest-bearing checking | \$ 4,616,124 | 31.6 | 31.6 % | — % | \$ 4,932,817 | 32.9 | 32.9 % | — | % | Noninterest-bearing checking | \$ 4,639,077 | 32.0 | 32.0 % | — % | | | |
| Interest-bearing deposits: | | | | | | | | | | | | | | | | | | |
| Interest-bearing checking | | | | | | | | | | | | | | | | | | |
| Interest-bearing checking | | | | | | | | | | | | | | | | | | |
| Interest-bearing checking | | 2,776,212 | 19.0 | 19.0 % | 1.53 % | 2,899,621 | 19.3 | 19.3 % | 1.38 | % | 2,763,353 | | 19.1 | 19.1 % | 1.55 % | 2.89 | | |
| Money market | Money market | 4,576,147 | 31.3 | 31.3 % | 2.39 % | 4,572,693 | 30.5 | 30.5 % | 2.00 | % | Money market | | 4,547,006 | 31.4 | 31.4 % | 2.41 % | | |
| Savings | Savings | 268,438 | 1.8 | 1.8 % | 0.35 % | 295,749 | 2.0 | 2.0 % | 0.29 | % | Savings | | 258,510 | 1.8 | 1.8 % | 0.40 % | | |

| | | | | | | | | | | | | | | |
|-----------------------------|-----------------------------|--------------|-------|---------|--------|--------------|-------|---------|--------|-----------------------------|--------------|-------|---------|--------|
| Total non-maturity deposits | Total non-maturity deposits | 12,236,921 | 83.7 | 83.7 % | 1.25 % | 12,700,880 | 84.7 | 84.7 % | 1.04 % | Total non-maturity deposits | 12,207,946 | 84.3 | 84.3 % | 1.26 % |
| Time deposit accounts: | | | | | | | | | | | | | | |
| Less than 1.00% | | | | | | | | | | | | | | |
| Less than 1.00% | | | | | | | | | | | | | | |
| Less than 1.00% | | 38,563 | 0.2 | 0.2 % | 0.20 % | 90,480 | 0.6 | 0.6 % | 0.14 % | | 29,901 | 0.2 | 0.2 % | 0.25 % |
| 1.00 - 1.99 | 1.00 - 1.99 | 18,726 | 0.1 | 0.1 % | 1.83 % | 20,505 | 0.1 | 0.1 % | 1.76 % | | 18,239 | 0.1 | 0.1 % | 1.83 % |
| 2.00 - 2.99 | 2.00 - 2.99 | 18,095 | 0.1 | 0.1 % | 2.61 % | 20,191 | 0.1 | 0.1 % | 2.63 % | | 15,490 | 0.1 | 0.1 % | 2.59 % |
| 3.00 - 3.99 | 3.00 - 3.99 | 203,549 | 1.4 | 1.4 % | 3.56 % | 361,060 | 2.4 | 2.4 % | 3.52 % | | 106,702 | 0.7 | 0.7 % | 3.76 % |
| 4.00 - 4.99 | 4.00 - 4.99 | 1,341,156 | 9.2 | 9.2 % | 4.80 % | 1,084,443 | 7.3 | 7.3 % | 4.49 % | | 1,459,312 | 10.1 | 10.1 % | 4.79 % |
| 5.00 and greater | 5.00 and greater | 770,644 | 5.3 | 5.3 % | 5.13 % | 718,067 | 4.8 | 4.8 % | 5.26 % | | 643,337 | 4.5 | 4.5 % | 5.11 % |
| Total time deposit accounts | Total time deposit accounts | 2,390,733 | 16.3 | 16.3 % | 4.68 % | 2,294,746 | 15.3 | 15.3 % | 4.37 % | | 2,272,981 | 15.7 | 15.7 % | 4.73 % |
| Total deposits | Total deposits | | | | | | | | | | | | | |
| Total deposits | | \$14,627,654 | 100.0 | 100.0 % | 1.81 % | \$14,995,626 | 100.0 | 100.0 % | 1.55 % | | \$14,480,927 | 100.0 | 100.0 % | 1.80 % |
| Total deposits | | | | | | | | | | | | | | |

The following table sets forth the estimated deposits exceeding the FDIC insurance limit:

(Dollars in thousands)

(Dollars in thousands)

(Dollars in thousands)

| | |
|--------------------|--|
| Uninsured deposits | |
| Uninsured deposits | |
| Uninsured deposits | |

The Bank is a member of the IntraFi Network ("IntraFi"), which allows banking customers to access FDIC insurance protection on deposits that exceed the FDIC insurance limit while receiving reciprocal deposits from other FDIC-insured banks. These reciprocal deposits acquired by the Bank through IntraFi, including both the Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Service ("ICS") programs, offer protection to depositors by fully insuring deposits with other network banks.

At **June 30, 2024** **September 30, 2024**, the Company's FDIC-insured deposits as a percentage of total deposits was **61%** **60%**. Insured and collateralized deposits comprised **67%** **66%** of total deposits at **June 30, 2024** **September 30, 2024**, which includes federally-insured deposits, **\$818.7 million** **\$787.9 million** of collateralized municipal and tribal deposits, and \$45.0 million of privately insured deposits. At December 31, 2023, the Company's FDIC-insured deposits as a percentage of total deposits was 60%. Insured and collateralized deposits comprised 66% of total deposits at December 31, 2023, which includes federally-insured deposits, \$732.6 million of collateralized municipal and tribal deposits, and \$70.0 million of privately insured deposits.

The estimated aggregate amount of time deposits in excess of the FDIC insurance limit is **\$634.4 million** **\$611.0 million** at **June 30, 2024** **September 30, 2024** and \$534.8 million at December 31, 2023. The following table sets forth the maturity distribution of the estimated uninsured time deposits:

| | | | | | | |
|---------------------------------|------------------------|---------------|-------------------|------------------------|--------------------|-------------------|
| (Dollars in thousands) | (Dollars in thousands) | June 30, 2024 | December 31, 2023 | (Dollars in thousands) | September 30, 2024 | December 31, 2023 |
| 3 months or less | | | | | | |
| Over 3 months through 6 months | | | | | | |
| Over 6 months through 12 months | | | | | | |
| Over 12 months | | | | | | |
| Total | | | | | | |

Borrowings

At **June 30, 2024** **September 30, 2024**, total borrowings amounted to **\$532.2 million** **\$272.3 million**, a decrease of **\$399.7 million** **\$659.5 million**, or **42.9%** **70.8%**, from \$931.8 million at December 31, 2023. Total borrowings at **June 30, 2024** **September 30, 2024** were comprised of **\$200.0 million** of FHLB term advances and **\$332.2 million** **\$272.3 million** of subordinated debentures. The decrease in borrowings at **June 30, 2024** **September 30, 2024** as compared to December 31, 2023 was primarily due to the decreases of **\$400.0 million** **\$600.0 million** in FHLB term advances, resulting from one **\$200.0 million** **\$400.0 million** in advance redemption redemptions and one \$200.0 million advance maturity during as well as the first half maturity of 2024, **\$60.0 million** of subordinated notes, partially offset by the amortization of the subordinated debt issuance cost. At **June 30, 2024** **September 30, 2024**, total borrowings represented **2.9%** **1.5%** of total assets and had an end-of-period weighted average rate of **5.82%** **6.58%**, compared with 4.9% of total assets and an end-of-period weighted average rate of 3.93% at December 31, 2023.

At **June 30, 2024** **September 30, 2024**, total subordinated debentures were comprised of the following:

- Subordinated notes of **\$60.0 million** at a fixed rate of 5.75% due September 3, 2024 (the "Notes I") and a carrying value of **\$60.0 million**, net of unamortized debt issuance cost of \$30,000. Interest is payable semiannually at 5.75% per annum;
- Subordinated notes of **\$125.0 million** at **8.084%** **7.880%** fixed-to-floating rate due May 15, 2029 (the "Notes II") and a carrying value of **\$123.8 million**, net of unamortized debt issuance cost of \$1.2 million. Interest is payable semiannually at a floating rate equal to three-month term SOFR, plus a spread of 2.762% per annum, payable quarterly in arrears; and
- Subordinated notes of **\$150.0 million** at 5.375% fixed-to-floating rate due June 15, 2030 (the "Notes III") and a carrying value of **\$148.4 million** **\$148.5 million**, net of unamortized debt issuance cost of **\$1.6 million** **\$1.5 million**. Interest on the Notes III accrue at a rate equal to 5.375% per annum from and including June 15, 2020 to, but excluding, June 15, 2025, payable semiannually in arrears. From and including June 15, 2025 to, but excluding, June 15, 2030 or the earlier redemption date, interest will accrue at a floating rate per annum equal to a benchmark rate, which is expected to be three-month term SOFR, plus a spread of 517 basis points, payable quarterly in arrears.

For additional information about the subordinated debentures, see *Note 8 – Subordinated Debentures* to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q.

The following table sets forth certain information regarding the Company's borrowed funds as of and during the periods indicated:

| | | June 30, 2024 | | December 31, 2023 | | September 30, 2024 | | December 31, 2023 | |
|--|--|---------------|-----------------------|-------------------|-----------------------|------------------------|---------|-----------------------|-----------|
| (Dollars in thousands) | (Dollars in thousands) | Balance | Weighted Average Rate | Balance | Weighted Average Rate | (Dollars in thousands) | Balance | Weighted Average Rate | Balance |
| FHLB advances | FHLB advances | \$200,000 | 4.68 % | \$ 600,000 | 3.17 % | FHLB advances | \$ — | — % | \$600,000 |
| Subordinated debentures | | | | | | | | | |
| Subordinated debentures | Subordinated debentures | \$332,160 | 6.51 % | \$331,842 | 5.31 % | \$272,320 | 6.58 % | 6.58 % | \$331,842 |
| Total borrowings | Total borrowings | \$532,160 | 5.82 % | \$ 931,842 | 3.93 % | \$ 272,320 | 6.58 % | 6.58 % | \$931,842 |
| Weighted average cost of borrowings during the quarter | | | | | | | | | |
| Weighted average cost of borrowings during the quarter | Weighted average cost of borrowings during the quarter | 5.59 % | | 4.01 % | | 6.12 % | | 4.01 % | |
| Borrowings as a percent of total assets | Borrowings as a percent of total assets | 2.9 % | | 4.9 % | | 1.5 % | | 4.9 % | |

As of **June 30, 2024** **September 30, 2024**, our unused borrowing capacity was **\$8.65 billion** **\$8.83 billion**, which consisted of available lines of credit with FHLB and other correspondent banks as well as access through the Federal Reserve Bank's discount window. As a result of our proactive liquidity management, we

were able to reduce FHLB borrowings by \$400.0 million during the first half of 2024, nine months ended September 30, 2024, and we did not utilize the Federal Reserve Bank's discount window or the Bank Term Funding Program, which expired on March 11, 2024.

The Company maintains additional sources of liquidity at the Corporation level. Our Corporation maintains a \$25.0 million line of credit with U.S. Bank and had no outstanding balance against it at June 30, 2024, September 30, 2024 and December 31, 2023.

CAPITAL RESOURCES AND LIQUIDITY

Liquidity Management

Our primary sources of funds are deposits, advances from the FHLB and other borrowings, principal and interest payments on loans, and income from investments, to meet our financial obligations, which arise primarily from the withdrawal of deposits, extension of credit, and payment of operating expenses. While maturities and scheduled amortization of loans are a predictable source of funds, deposit inflows and outflows as well as loan prepayments are greatly influenced by market interest rates, economic conditions, and competition.

In addition to the interest payments on loans and investments as well as fees collected on the services we provide, our primary sources of funds generated during the first six months of 2024 were from:

- Principal payments on loans held for investment of \$557.6 million \$915.8 million;
- Proceeds of \$447.3 million \$602.5 million from the sale, payment, sales, payments, or maturity maturities of securities; and
- Proceeds of \$55.6 million \$58.3 million from the sales of loans classified as loans held for investment.

We used these funds to:

- Purchase investment securities of \$564.1 million \$726.6 million;
- Decrease FHLB borrowings of \$400.0 million \$600.0 million;
- Decrease deposits of \$368.0 million \$514.7 million;
- Originate loans held for investment of \$71.4 million \$110.3 million; and
- Return capital to shareholders through \$63.5 million \$95.3 million in dividends, dividends; and
- Pay off matured subordinated debentures of \$60.0 million.

Our most liquid assets are comprised of unrestricted cash, short-term investments, and unpledged AFS investment securities. The levels of these assets are dependent on our operating, lending, and investing activities during any given period. We endeavor to take a prudent, proactive approach to liquidity management, as evidenced by our balance-sheet-oriented initiatives throughout 2023 and into 2024. At June 30, 2024, September 30, 2024, cash and cash equivalents totaled \$899.8 million \$982.2 million. If additional liquidity is needed or otherwise desired as part of our liquidity management strategy, we have additional sources of liquidity that can be accessed, including FHLB advances, federal fund funds lines, the Federal Reserve Board's lending programs, brokered deposits, as well as loan and investment securities sales. As of June 30, 2024, September 30, 2024, the Bank had secured borrowing capacity with the FHLB allowing us to borrow up to 35% of the Bank's total assets equating to a credit line of \$6.58 billion \$6.41 billion, of which \$4.89 billion \$4.97 billion remained available for borrowing, based on collateral pledged of \$7.36 billion \$7.29 billion at market value in qualifying loans, and we had \$200.0 million in no FHLB term borrowings, borrowings outstanding. We also had a \$3.37 \$3.46 billion line with the FRB discount window secured by investment securities and unsecured lines of credit aggregating to \$390.0 million with other correspondent banks from which to purchase federal funds. Our unused borrowing capacity was \$8.65 billion \$8.83 billion, and the combined readily available liquidity with cash and cash equivalents of \$899.8 million \$982.2 million, interest-bearing time deposits with financial institutions of \$1.0 million \$1.2 million, as well as short-term, unpledged, AFS U.S. Treasury securities of \$245.4 million \$148.7 million, totaled approximately \$9.79 billion \$9.96 billion, with a coverage ratio of 199.0% 202.0% to uninsured and uncollateralized deposits.

We believe our level of liquid assets is sufficient to meet current anticipated funding needs. As part of our daily monitoring, we calculate a liquidity ratio by dividing the sum of cash balances plus unpledged AFS securities by total deposits, excluding time deposits maturing one year or more, plus FHLB advances maturing within one year. As of June 30, 2024, September 30, 2024, our liquidity ratio was 15.2% 16.0%, which is above the Company's minimum policy requirement of 10.0%. The Company regularly monitors liquidity, models liquidity stress scenarios to ensure that adequate liquidity is available, and has contingency funding plans in place, which are reviewed and tested on a regular, recurring basis.

A substantial portion of our loans were are funded by our deposits. The Bank's participation in IntraFi's CDARS and ICS programs provides our depositors with full deposit insurance coverage of excess balances, while the Bank receives reciprocal deposits from other FDIC-insured banks, and helps enhance the Bank to retain Bank's funding stability by retaining the full amount of the deposits on its our balance sheet, enhancing the Company's funding stability. sheet. To the extent that 2024 our deposit growth is not sufficient to satisfy our ongoing commitments to fund maturing and withdrawable deposits, repay maturing borrowings, fund existing and future loans, or make investments, we may access funds through our FHLB borrowing arrangement, FRB discount window, unsecured lines of credit, or other sources.

The Bank maintains liquidity guidelines in the Company's Liquidity Policy that permits the purchase of brokered deposit funds, in an amount not to exceed 15% of total deposits or 12% of total assets, as a secondary source for funding. At June 30, 2024, September 30, 2024, we had \$484.2 million \$300.0 million in brokered deposits, which constituted 3.31% 2.07% of total deposits and 2.64% 1.68% of total assets at that date.

The Corporation is a corporate entity separate and apart from the Bank that must provide for its own liquidity. The Corporation's primary sources of liquidity are dividends from the Bank. There are statutory and regulatory provisions that limit the ability of the Bank to pay dividends to the Corporation. Management believes that such restrictions will not have a material impact on the ability of the Corporation to meet its ongoing cash obligations. During the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, the Bank paid **\$63.5 million** **\$155.3 million** in dividends to the Corporation.

The Corporation maintains a line of credit of \$25.0 million with U.S. Bank that will expire on **September 25, 2024** **September 24, 2025**. The Corporation anticipates renewing the line of credit upon expiration. This line of credit provides an additional source of liquidity at the Corporation level. At **June 30, 2024** **September 30, 2024**, the Corporation had no outstanding balances against this line.

During each of the first **two** **three** quarters of 2024, the Corporation declared a quarterly dividend payment of \$0.33 per share. On **July 22, 2024** **October 22, 2024**, the Company's Board of Directors declared a \$0.33 per share dividend, payable on **August 12, 2024** **November 12, 2024** to stockholders of record as of **August 5, 2024** **November 4, 2024**. The Corporation's Board of Directors periodically reviews whether to declare or pay cash dividends, taking into account, among other things, general business conditions, the Company's financial results, future prospects, capital requirements, legal and regulatory restrictions, and such other factors as the Corporation's Board of Directors may deem relevant.

On January 11, 2021, the Company's Board of Directors approved a stock repurchase program, which authorized the repurchase of up to 4,725,000 shares of its common stock, representing approximately 5% of the Company's issued and outstanding shares of common stock and approximately \$150 million of common stock as of December 31, 2020 based on the closing price of the Company's common stock on December 31, 2020. During the **six** **nine** months ended **June 30, 2024** **September 30, 2024**, the Company did not repurchase any shares of common stock. See *Part II, Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds* for additional information.

Material Cash Requirement

Our material cash requirements may include funding existing loan commitments, funding equity investments and affordable housing partnerships for low-income housing tax credit, withdrawal/maturity of existing deposits, repayment of borrowings, operating lease payments, and expenditures necessary to maintain current operations.

The Company enters into contractual obligations in the normal course of business as a source of funds for its asset growth and to meet required capital needs. The following schedule summarizes maturities and principal payments due on our contractual obligations, excluding accrued interest:

| | June 30, 2024 | | | September 30, 2024 | | | |
|--|------------------------|------------------|------------------|------------------------------|------------------|------------------|-------|
| (Dollars in thousands) | (Dollars in thousands) | Less than 1 year | More than 1 year | Total (Dollars in thousands) | Less than 1 year | More than 1 year | Total |
| FHLB advances and other borrowings | | | | | | | |
| FHLB advances and other borrowings | | | | | | | |
| FHLB advances and other borrowings | | | | | | | |
| Subordinated debentures | | | | | | | |
| Subordinated debentures | | | | | | | |
| Subordinated debentures | | | | | | | |
| Certificates of deposit | | | | | | | |
| Operating leases | | | | | | | |
| Affordable housing partnerships commitment | | | | | | | |
| Total contractual cash obligations | | | | | | | |

We believe that the Company's liquidity sources will be sufficient to meet the contractual obligations as they become due through the maintenance of adequate liquidity levels.

In the ordinary course of business, we enter into various transactions to meet the financing needs of our customers which, in accordance with GAAP, are not included in our consolidated balance sheets. These transactions include off-balance sheet commitments, including commitments to extend credit and standby letters of credit, and commitments to fund investments that qualify for CRA credit. The following table presents a summary of the Company's commitments to extend credit by expiration period:

| | June 30, 2024 | | | September 30, 2024 | | | |
|-----------------------------------|------------------------|------------------|------------------|------------------------------|------------------|------------------|-------|
| (Dollars in thousands) | (Dollars in thousands) | Less than 1 year | More than 1 year | Total (Dollars in thousands) | Less than 1 year | More than 1 year | Total |
| Loan commitments to extend credit | | | | | | | |
| Standby letters of credit | | | | | | | |
| Total | | | | | | | |

Since many commitments to extend credit are expected to expire, the total commitment amounts do not necessarily represent future cash requirements. For further information, see *Note 15 - Off-Balance Sheet Arrangements, Commitments, and Contingencies* to the Notes to the audited consolidated financial statements in the Company's 2023 Form 10-K.

Regulatory Capital Compliance

The Corporation and the Bank are 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 Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the Corporation's and the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's and the Bank'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 Bank to maintain capital in order to meet certain capital ratios to be considered adequately capitalized or well capitalized under the regulatory framework for prompt corrective action. As of the most recent formal notification from the Federal Reserve, the Bank was categorized as "well capitalized." There are no conditions or events since that notification that management believes have changed the Bank's categorization.

Final comprehensive regulatory capital rules for U.S. banking organizations pursuant to the capital framework of the Basel Committee on Banking Supervision, generally referred to as "Basel III," implemented a requirement for all banking organizations to maintain a capital conservation buffer of 2.5% above the minimum risk-based capital requirements, which fully phased in by January 1, 2019. The capital conservation buffer is exclusively comprised of common equity Tier 1 capital, and it applies to each of the three risk-based capital ratios but not to the leverage ratio. At **June 30, 2024** **September 30, 2024**, the Company and Bank are in compliance with the capital conservation buffer requirement and exceeded the minimum common equity Tier 1, Tier 1, and total capital ratio, inclusive of the fully phased-in capital conservation buffer, of 7.00%, 8.50%, and 10.50%, respectively, and the Bank qualified as "well capitalized" for purposes of the federal bank regulatory prompt corrective action regulations. The regulatory capital ratios of the Company and Bank further strengthened at **June 30, 2024** **September 30, 2024** compared to the capital ratios at December 31, 2023.

In February 2019, the U.S. federal bank regulatory agencies approved a final rule modifying their regulatory capital rules and providing an option to phase-in over a three-year period the Day 1 adverse regulatory capital effects of the CECL accounting standard. Additionally, in March 2020, the U.S. Federal bank regulatory agencies issued an interim final rule that provides banking organizations an option to delay the estimated CECL impact on regulatory capital for an additional two years for a total transition period of up to five years. The cumulative difference at the end of the second year of the transition period is then phased into regulatory capital at 25% per year over a three-year transition period. The final rule was adopted and became effective in September 2020. The Company implemented the CECL model commencing January 1, 2020 and elected to phase in the full effect of CECL on regulatory capital over the five-year transition period. This cumulative difference at the end of 2021 will be phased in regulatory capital over the three-year period from January 1, 2022 through December 31, 2024.

For regulatory capital purposes, the Corporation's subordinated debt is included in Tier 2 capital, the eligible amount of which is phased out by 20% of the original amount at the beginning of each of the last five years before maturity. See *Note 8 – Subordinated Debentures* to the Notes to the consolidated financial statements in this Quarterly Report on Form 10-Q for additional information.

As defined in applicable regulations and set forth in the table below, the Corporation and the Bank continue to exceed the regulatory capital minimum requirements, and the Bank continues to exceed the "well capitalized" standards and the required conservation buffer at the dates indicated:

| Actual | | Minimum Required | | Minimum Required | |
|--|--|---|--|---|--|
| Actual | | For Well Capitalized Requirement | | For Well Capitalized Requirement | |
| | | Minimum Required for Capital Adequacy Purposes Inclusive of Capital Conservation Buffer | | Minimum Required for Capital Adequacy Purposes Inclusive of Capital Conservation Buffer | |
| Actual | | | | | |
| June 30, 2024 | | | | | |
| September 30, 2024 | | | | | |
| Pacific Premier Bancorp, Inc. Consolidated | | | | | |
| Pacific Premier Bancorp, Inc. Consolidated | | | | | |
| Pacific Premier Bancorp, Inc. Consolidated | | | | | |
| Tier 1 leverage ratio | | | | | |
| Tier 1 leverage ratio | | | | | |

| | | | | | | | | | |
|------------------------------------|------------------------------------|--------|--------|--|-----|------------------------------------|--------|--------|-----|
| Tier 1 leverage ratio | | 11.87% | 4.00% | | N/A | | 12.19% | 4.00% | N/A |
| Common equity tier 1 capital ratio | Common equity tier 1 capital ratio | | | | | | | | |
| | | 15.89% | 7.00% | | N/A | Common equity tier 1 capital ratio | 16.83% | 7.00% | N/A |
| Tier 1 capital ratio | Tier 1 capital ratio | | | | | | | | |
| | | 15.89% | 8.50% | | N/A | Tier 1 capital ratio | 16.83% | 8.50% | N/A |
| Total capital ratio | Total capital ratio | | | | | | | | |
| | | 19.01% | 10.50% | | N/A | Total capital ratio | 20.05% | 10.50% | N/A |

Pacific Premier Bank

Pacific Premier Bank

Pacific Premier Bank

| | | | | | | | | | |
|------------------------------------|------------------------------------|--------|--------|--|--------|------------------------------------|--------|--------|--------|
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | 13.42% | 4.00% | | 5.00% | | 13.45% | 4.00% | 5.00% |
| Common equity tier 1 capital ratio | Common equity tier 1 capital ratio | | | | | | | | |
| | | 17.97% | 7.00% | | 6.50% | Common equity tier 1 capital ratio | 18.56% | 7.00% | 6.50% |
| Tier 1 capital ratio | Tier 1 capital ratio | | | | | | | | |
| | | 17.97% | 8.50% | | 8.00% | Tier 1 capital ratio | 18.56% | 8.50% | 8.00% |
| Total capital ratio | Total capital ratio | | | | | | | | |
| | | 19.22% | 10.50% | | 10.00% | Total capital ratio | 19.81% | 10.50% | 10.00% |

December 31, 2023

December 31, 2023

December 31, 2023

Pacific Premier Bancorp, Inc. Consolidated

Pacific Premier Bancorp, Inc. Consolidated

Pacific Premier Bancorp, Inc. Consolidated

| | | | | | | | | | |
|------------------------------------|------------------------------------|--------|--------|--|-----|------------------------------------|--------|--------|-----|
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | 11.03% | 4.00% | | N/A | | 11.03% | 4.00% | N/A |
| Common equity tier 1 capital ratio | Common equity tier 1 capital ratio | | | | | | | | |
| | | 14.32% | 7.00% | | N/A | Common equity tier 1 capital ratio | 14.32% | 7.00% | N/A |
| Tier 1 capital ratio | Tier 1 capital ratio | | | | | | | | |
| | | 14.32% | 8.50% | | N/A | Tier 1 capital ratio | 14.32% | 8.50% | N/A |
| Total capital ratio | Total capital ratio | | | | | | | | |
| | | 17.29% | 10.50% | | N/A | Total capital ratio | 17.29% | 10.50% | N/A |

Pacific Premier Bank

Pacific Premier Bank

Pacific Premier Bank

| | | | | | | | | | |
|------------------------------------|------------------------------------|--------|--------|--|--------|------------------------------------|--------|--------|--------|
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | | | | | | | | |
| Tier 1 leverage ratio | | 12.43% | 4.00% | | 5.00% | | 12.43% | 4.00% | 5.00% |
| Common equity tier 1 capital ratio | Common equity tier 1 capital ratio | | | | | | | | |
| | | 16.13% | 7.00% | | 6.50% | Common equity tier 1 capital ratio | 16.13% | 7.00% | 6.50% |
| Tier 1 capital ratio | Tier 1 capital ratio | | | | | | | | |
| | | 16.13% | 8.50% | | 8.00% | Tier 1 capital ratio | 16.13% | 8.50% | 8.00% |
| Total capital ratio | Total capital ratio | | | | | | | | |
| | | 17.23% | 10.50% | | 10.00% | Total capital ratio | 17.23% | 10.50% | 10.00% |

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Asset/Liability Management and Market Risk

Market risk is the risk of loss in value or reduced earnings from adverse changes in market prices and interest rates. The Bank's market risk arises primarily from interest rate risk in our lending, investments, and deposit taking activities. Interest rate risk primarily occurs to the degree that the Bank's interest-bearing liabilities reprice or mature on a different basis and frequency than its interest-earning assets. The Bank actively monitors and manages its portfolios to limit the adverse effects on net interest income and economic value due to changes in interest rates. The Asset Liability Committee is responsible for implementing the Bank's interest rate risk management policy established by the Board of Directors that sets forth limits of acceptable changes in net interest income ("NII") and economic value of equity ("EVE") due to specified changes in interest rates. Management monitors asset and liability maturities and repricing characteristics on a regular basis and evaluates its interest rate risk as it relates to operational strategies.

Interest Rate Risk Management

The principal objective of the Company's interest rate risk management function is to maintain an interest rate risk profile close to the desired risk profile in light of the interest rate outlook. The Bank measures the interest rate risk included in the major balance sheet portfolios and compares the current risk profile to the desired risk profile and to policy limits set by the Board of Directors. Management then implements strategies consistent with the desired risk profile. Asset duration is compared to liability, with the desired mix of fixed and floating rate determined based upon the Company's risk profile and outlook. Likewise, the Bank seeks to raise non-maturity deposits. Management often implements these strategies through pricing actions. Finally, management structures its security portfolio and borrowings to offset some of the interest rate sensitivity created by the repricing characteristics of customer loans and deposits.

Management monitors asset and liability maturities and repricing characteristics on a regular basis and evaluates its interest rate risk as it relates to operational strategies. Management analyzes potential strategies for their impact on the interest rate risk profile. Each quarter the Board of Directors reviews the Bank's asset/liability position, including simulations showing the impact on the Bank's EVE in various interest rate scenarios. Interest rate moves, up or down, may subject the Bank to interest rate spread compression, which adversely impacts its net interest income. This is primarily due to the lag in repricing of the indices, to which adjustable rate loans and mortgage-backed securities are tied, as well as their repricing frequencies. Furthermore, large rate moves show the impact of interest rate caps and floors on adjustable rate transactions. This is partly offset by lags in repricing for deposit products. The extent of the interest rate spread compression depends on the direction and severity of interest rate moves and features in the Bank's product portfolios.

The Company's interest rate sensitivity is monitored by management through the use of both a simulation model that quantifies the estimated impact to earnings ("Earnings at Risk") for a twelve- and twenty-four-month period, and a model that estimates the change in the Company's EVE under alternative interest rate scenarios, primarily instantaneous parallel interest rate shifts in 100 basis point increments. The simulation model estimates the impact on NII from changing interest rates on interest-earning assets and interest expense paid on interest- bearing liabilities. The EVE model computes the net present value of equity by discounting all expected cash flows on assets and liabilities under each rate scenario. For each scenario, the EVE is the present value of all assets less the present value of all liabilities. The EVE ratio is defined as the EVE divided by the market value of assets within the same scenario.

The following table shows the projected NII and net interest margin of the Company at June 30, 2024September 30, 2024 and December 31, 2023, assuming instantaneous parallel interest rate shifts in the first month of the following quarter:

| | | |
|--|--------------------------------|------------------|
| | June 30, 2024 | |
| | June 30, 2024 | |
| | June 30, 2024 | |
| | September 30, 2024 | |
| | September 30, 2024 | |
| | September 30, 2024 | |
| | (Dollars in thousands) | |
| | (Dollars in thousands) | |
| | (Dollars in thousands) | |
| | | Earnings at Risk |
| | | Earnings at Risk |
| | | Earnings at Risk |
| | Change in Rates (Basis Points) | |
| | Change in Rates (Basis Points) | |
| | Change in Rates (Basis Points) | |
| | 300 | |
| | 300 | |
| | 300 | |
| | 200 | |
| | 200 | |

| |
|--------|
| 200 |
| 100 |
| 100 |
| 100 |
| Static |
| Static |
| Static |
| -100 |
| -100 |
| -100 |
| -200 |
| -200 |
| -200 |
| -300 |
| -300 |
| -300 |

| December 31, 2023 | | | | |
|--------------------------------|------------------|-----------|----------|-------------------------------|
| (Dollars in thousands) | | | | |
| Change in Rates (Basis Points) | Earnings at Risk | | | Projected Net Interest Margin |
| | \$ Amount | \$ Change | % Change | Rate % |
| 300 | 667,387 | 40,063 | 6.4 | 3.69 |
| 200 | 656,958 | 29,634 | 4.7 | 3.63 |
| 100 | 643,837 | 16,513 | 2.6 | 3.56 |
| Static | 627,324 | — | — | 3.47 |
| -100 | 601,798 | (25,526) | (4.1) | 3.33 |
| -200 | 569,355 | (57,969) | (9.2) | 3.15 |
| -300 | 534,151 | (93,173) | (14.9) | 2.95 |

The following table shows the EVE and projected change in the EVE of the Company at **June 30, 2024** **September 30, 2024** and December 31, 2023, assuming instantaneous parallel interest rate shifts in the first month of the following quarter:

| |
|------------------------|
| June 30, 2024 |
| June 30, 2024 |
| June 30, 2024 |
| September 30, 2024 |
| September 30, 2024 |
| September 30, 2024 |
| (Dollars in thousands) |
| (Dollars in thousands) |
| (Dollars in thousands) |

Economic Value of Equity
Economic Value of Equity
Economic Value of Equity

| |
|--------------------------------|
| Change in Rates (Basis Points) |
| Change in Rates (Basis Points) |
| Change in Rates (Basis Points) |
| 300 |
| 300 |
| 300 |
| 200 |
| 200 |

| |
|--------|
| 200 |
| 100 |
| 100 |
| 100 |
| Static |
| Static |
| Static |
| -100 |
| -100 |
| -100 |
| -200 |
| -200 |
| -200 |
| -300 |
| -300 |
| -300 |

December 31, 2023

(Dollars in thousands)

| Change in Rates (Basis Points) | Economic Value of Equity | | | EVE as % of market value of portfolio assets |
|--------------------------------|--------------------------|-----------|----------|--|
| | \$ Amount | \$ Change | % Change | EVE Ratio |
| 300 | 2,918,718 | (236,315) | (7.5) | 17.70 |
| 200 | 3,073,927 | (81,106) | (2.6) | 18.11 |
| 100 | 3,155,901 | 868 | — | 18.05 |
| Static | 3,155,033 | — | — | 17.51 |
| -100 | 3,022,479 | (132,554) | (4.2) | 16.28 |
| -200 | 2,785,592 | (369,441) | (11.7) | 14.57 |
| -300 | 2,445,055 | (709,978) | (22.5) | 12.42 |

Based on the modeling of the impact on earnings and EVE from changes in interest rates, the Company's sensitivity to changes in interest rates is low for rising rates, aided by the addition of interest rate swaps for hedging purposes. With a slightly asset sensitive profile, the Earnings at Risk is expected to increase as rates rise. It is important to note the above tables are forecasts based on several assumptions and that actual results may vary. The forecasts are based on estimates of historical behavior and assumptions by management that may change over time and may turn out to be different. Factors affecting these estimates and assumptions include, but are not limited to (1) competitor behavior, (2) economic conditions both locally and nationally, (3) actions taken by the Federal Reserve Board, (4) customer behavior, and (5) management's responses to the foregoing. Changes that vary significantly from the assumptions and estimates may have significant effects on the Company's earnings and EVE.

The Company has minimal direct market risk from foreign exchange and no exposure from commodities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended **June 30, 2024** **September 30, 2024** that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in legal proceedings occurring in the ordinary course of business. Management believes that none of the legal proceedings occurring in the ordinary course of business, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Item 1A. Risk Factors

The section titled Risk Factors in Part I, Item 1A of our 2023 Form 10-K included a discussion of the many risks and uncertainties we face, any one or more of which could have a material adverse effect on our business, results of operations, financial condition (including capital and liquidity), prospects, or the value of or return on an investment in the Company. There are no material changes to our risk factors as previously described under Item 1A of our 2023 Form 10-K.

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

On January 11, 2021, the Company’s Board of Directors approved a stock repurchase program, which authorized the repurchase of up to 4,725,000 shares of its common stock. The stock repurchase program may be limited or terminated at any time without notice. During the second third quarter of 2024, the Company did not repurchase any shares of common stock.

The following table provides information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Exchange Act) of our common stock during the second third quarter of 2024.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|--|----------------------------------|------------------------------|--|--|
| April July 1, 2024 to April 30, 2024 July 31, 2024 | — | \$ — | — | 4,245,056 |
| May August 1, 2024 to May 31, 2024 August 31, 2024 | — | — | — | 4,245,056 |
| June September 1, 2024 to June 30, 2024 September 30, 2024 | — | — | — | 4,245,056 |
| Total | — | | — | |

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

During the quarter ended June September 30, 2024, no officer or director of the Company adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Company’s common stock that is intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement as defined in 17 CFR § 229.408(c).

Item 6. Exhibits

| | |
|-----------------|--|
| Exhibit 3.1 | Second Amended and Restated Certificate of Incorporation of Pacific Premier Bancorp, Inc. (1) |
| Exhibit 3.2 | Amended and Restated Bylaws of Pacific Premier Bancorp, Inc. (1) |
| Exhibit 4.1 | Specimen Stock Certificate of Pacific Premier Bancorp, Inc. (2) |
| Exhibit 4.2 | Long-term borrowing instruments are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Company undertakes to furnish copies of such instruments to the SEC upon request. |
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended |
| Exhibit 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended |
| Exhibit 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002 |
| Exhibit 101.INS | 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 |
| Exhibit 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| Exhibit 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| Exhibit 101.DEF | Inline XBRL Taxonomy Extension Definitions Linkbase Document |
| Exhibit 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| Exhibit 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| Exhibit 104 | The cover page of Pacific Premier Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 September 30, 2024 , formatted in Inline XBRL (contained in Exhibit 101) |

(1) Incorporated by reference from the Registrant's Form 8-K filed with the SEC on May 15, 2018.

(2) Incorporated by reference from the Registrant's Registration Statement on Form S-1 (Registration No. 333-20497) filed with the SEC on January 27, 1997.

SIGNATURES

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

PACIFIC PREMIER BANCORP, INC.,

Date: **July 26, October 29, 2024**

By: /s/ Steven R. Gardner

Steven R. Gardner

Chairman, Chief Executive Officer, and President

(Principal Executive Officer)

Date: **July 26, October 29, 2024**

By: /s/ Ronald J. Nicolas, Jr.

Ronald J. Nicolas, Jr.

Senior Executive Vice President and Chief Financial Officer

(Principal Financial Officer)

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Exhibit 31.1

Pacific Premier Bancorp, Inc.,
Quarterly Report on Form 10-Q
for the Quarter ended **June 30, 2024** **September 30, 2024**

CHIEF EXECUTIVE OFFICER CERTIFICATION

Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as Amended

I, Steven R. Gardner, certify that:

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

Date: July 26, October 29, 2024

/s/ Steven R. Gardner
 Steve R. Gardner
 Chairman, Chief Executive Officer, and President

Exhibit 31.2

Pacific Premier Bancorp, Inc.,
 Quarterly Report on Form 10-Q
 for the Quarter ended June 30, 2024 September 30, 2024

CHIEF FINANCIAL OFFICER CERTIFICATION
Pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as Amended

I, Ronald J. Nicolas, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pacific Premier Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, October 29, 2024

/s/ Ronald J. Nicolas, Jr.

Ronald J. Nicolas, Jr.

Sr. Executive Vice President and Chief Financial Officer

Exhibit 32

Pacific Premier Bancorp, Inc.,
Quarterly Report on Form 10-Q
for the Quarter ended June 30, 2024 September 30, 2024

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pacific Premier Bancorp, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2024 September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the undersigned's best knowledge and belief:

- a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 26, October 29, 2024

Pacific Premier Bancorp, Inc.

/s/ Steven R. Gardner

Steven R. Gardner

Chairman, Chief Executive Officer, and President

/s/ Ronald J. Nicolas, Jr.

Ronald J. Nicolas, Jr.

Sr. Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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