Risk Factors Comparison 2024-02-29 to 2023-02-27 Form: 10-K

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The following is a summary of the principal risks that could adversely affect our business, operations and financial results. Risks Relating to Our Operations • New lines of business, new products and services, or strategic project initiatives, or new partnerships may subject us to additional risks. • We are subject to certain risks in connection with our use of technology. • To the extent we acquire other banks, bank branches, other assets or other businesses ~~, such as the Deepstack Acquisition~~ , we may be negatively impacted by certain risks inherent with such acquisitions. • If we fail to comply with the applicable requirements of the payment card networks or NACHA, we could be fined, suspended or have our registrations terminated. • Fraud by merchants or others could adversely affect our business, and our merchants may be unable to satisfy obligations, including chargebacks, for which we may also be liable. • We face ~~significant~~ operational risks **, including fraud and loss due to execution errors, data processing and technology errors** . • Our enterprise risk management framework may not be effective in mitigating risk and ~~reducing the potential for~~ losses. • Managing reputational risk is important to attracting and maintaining clients, investors and employees. • We depend on key management personnel. • We rely on numerous external vendors. • We have a net deferred tax asset that may ~~or may~~ not be fully realized. **• Our level of indebtedness could adversely affect our ability to raise capital and meet our debt obligations. Risks Related to Credit and** Interest Rate ~~and Credit Risks~~ • If actual losses on our loans exceed our estimates used to establish our allowance for credit losses, our business, financial condition **,** and profitability may suffer. • There are risks associated with our lending activities, and our allowance for credit losses may be insufficient **. • Our business and operating results could be adversely affected by the political environment and governmental fiscal and monetary policies** . • Our business may be adversely affected by difficult economic conditions ~~, including inflationary pressures or volatility in the financial markets, which may impact our business, financial position and results of operations~~ . • Our business may be adversely affected by credit risk associated with residential property and declining property values. • Our loan portfolio possesses increased risk due to our level of adjustable rate loans. • Our underwriting practices may not protect us against losses in our loan portfolio. • ~~Our non- traditional and interest only SFR loans expose us to increased lending risk. •~~ Repayment of our commercial and industrial loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may not be sufficient to repay the loan ~~in the event of default. • We are exposed to risks of environmental liabilities with respect to real properties acquired~~ . • Secondary mortgage market conditions could have a material adverse impact on our business ~~, results of operations, financial condition or liquidity~~ . • Any breach of representations and warranties made by us to our residential mortgage loan purchasers or credit default on our loan sales may require us to repurchase such loans. • Credit impairment in our investment securities portfolio could ~~result in losses and~~ adversely affect our continuing operations ~~. • Collateralized loan obligations represent a significant portion of our assets~~ . • Our income property loans ~~, consisting of commercial real estate and multifamily loans,~~ involve higher principal amounts than other loans and repayments of these loans may be dependent on factors outside our control or the control of our borrowers. • Our business is subject to interest rate risk and variations in interest rates may hurt our profits. • ~~Uncertainty~~ **A reduction in our credit** ~~relating~~ -- **ratings could** ~~to the LIBOR transition process and phasing out of LIBOR may~~ adversely affect ~~us~~ **our access to capital and could increase our cost of funds. • We have a number of large credit relationships and individual commitments** . Funding and Liquidity Risks • We may not be able to develop and maintain a strong core deposit base or other low cost funding sources. • Liquidity risk could impair our ability to fund operations and jeopardize our financial condition **. • Problems encountered by, or adverse news concerning, other financial institutions may adversely affect financial and capital markets generally as well as the Bank. • We are subject to regulatory capital requirements, which could be made more stringent by our regulators. • The FRB may require us to commit capital resources or take other action to support the Bank** . • We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed or on acceptable terms. • Our holding company relies on dividends from the Bank for substantially all of its income ~~and as the primary source of funds for cash dividends to our stockholders~~ . • There can be no assurance as to the level of dividends we may pay on our common stock. Legal and Compliance Risks • We ~~are a party to a variety of litigation and other actions. • Changes in federal, state or local tax laws, or audits from tax authorities, could negatively affect our financial condition and results of operations. • We~~ operate in a highly regulated environment and our **business,** operations and income may be adversely affected by changes in laws, rules and regulations governing our operations **. • We are a party to a variety of litigation and other actions. • Changes in federal, state or local tax laws, or audits from tax authorities, could negatively affect our financial condition and results of operations. • Failure to comply with applicable laws or regulations, or to satisfy our regulators' supervisory expectations, could subject us to supervisory or enforcement action. • Non-compliance with laws and regulations could result in fines or sanctions or operating restrictions** . • We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties. • ~~Non~~ **We are subject to a wide range of laws related to anti** - ~~compliance with laws~~ **money laundering, economic sanctions,** and ~~regulations~~ **prevention of financial crime, which** could **increase** ~~result in fines or~~ **our** ~~sanctions~~ **costs** or **subject** ~~operating restrictions. • The Volcker Rule covered fund provisions could adversely affect~~ us **to significant penalties** . Risks Relating to **External Factors and** Markets ~~and External Events~~ • ~~Climate~~ **There is uncertainty surrounding potential legal, regulatory and policy** ~~change~~ **changes by new presidential administrations in** ~~could have a material impact on us and our customers. • Severe weather, natural disasters, pandemics, acts of war or terrorism and other~~ -- **the** ~~external events could significantly impact our business~~ **United States that may directly affect financial institutions and the global economy** . • Our financial condition and results of operations are dependent on the national and local economy **and a** ~~, particularly in the Bank' s market areas. A~~ worsening in economic conditions in the market areas we serve may impact our earnings adversely ~~and could increase the credit risk of our loan portfolio~~ . • We are subject to risk arising from the soundness of other financial institutions and counterparties. • Strong competition within our market areas may limit our growth and profitability ~~. • Our business could be negatively affected as a result of actions by activist stockholders. • Short sellers of our stock may be manipulative and may drive down the market price of our common stock~~ . The foregoing summary of risks should be read in conjunction with the more detailed Risk Factors below and is not an exhaustive summary of all risks facing our business. From time to time, we may seek to implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and / or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and / or new products or services may not be achieved, and price and profitability targets may not prove feasible, which could in turn have a material negative effect on our operating results. New lines of business and / or new products or services also could subject us to additional regulatory requirements, increased scrutiny by our regulators and other legal risks. Additionally, from time to time we undertake strategic project initiatives, including but not limited to, payment processing, investment in technology, process improvement, client experience and fintech partnerships or acquisitions, such as our Deepstack Acquisition. Significant effort and resources are necessary to manage and oversee the successful completion of these initiatives. These initiatives often place significant demands on a limited number of employees with subject matter expertise and management and may involve significant costs to implement as well as increase operational risk as employees learn to process transactions under new systems. The failure to properly execute on these strategic initiatives could adversely impact our business and results of operations. Increasingly, community banks, including the Bank, are partnering with fintech providers to distribute or market ~~our~~ **their** products and services. Bank regulators have, and may in the future, hold banks responsible for the activities of these fintech companies, including in respect of bank secrecy act or anti- money laundering matters, or may take the view that these relationships present safety and soundness issues. Our ~~cyber-security~~ **cybersecurity** measures may not be sufficient to mitigate losses or exposure to cyber- attack or cyber theft. Communications and information systems are essential to the conduct of our business, as we use such systems to manage our client relationships, our general ledger and virtually all other aspects of our business as well as process customer and merchant payments via the Deepstack platform. Our operations rely on the secure processing, storage, and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the security of our computer systems, software, and networks are vulnerable to breaches, unauthorized access either directly or indirectly through our vendors, misuse, computer viruses, or other malicious code and other types of cyber- attacks. ~~Such risks have increased with the work- from- home arrangements implemented in response to the COVID- 19 pandemic.~~ If one or more of these events occur, this could jeopardize our clients' confidential and other information that we process and store, or otherwise cause interruptions in our operations or the operations of our clients or counterparties. In addition, the U. S. banking regulatory agencies recently adopted a rule requiring us to notify the FRB within 36 hours of any significant computer security incident, and in ~~March~~ **July** ~~2022~~ **2023** , the SEC ~~proposed~~ **adopted** new rules that ~~would~~ require reporting on Form 8- K of material cybersecurity incidents. Several states and their governmental agencies also have adopted or proposed cybersecurity laws. Privacy laws in the State of California **and the State of Colorado** , for example, require regulated entities to establish measures to identify, manage, secure, track, produce, and delete personal information. The occurrence of cyber- attacks may require us to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through our current insurance policies. If a cyber- attack succeeds in disrupting our operations or disclosing confidential data, we could also suffer significant reputational damage in addition to possible regulatory fines or client lawsuits. We provide internet banking services to our clients which have additional cyber risks related to our client' s personal electronic devices and electronic communication. Any compromise of personal electronic device security could jeopardize the confidential information of our clients (including user names and passwords) and expose our clients to account take- overs ~~(" ATO ")~~ and the possibility for financial crimes such as fraud or identity theft and deter clients from using our internet banking services. We rely on and employ industry- standard tools and processes to safeguard data. These precautions may not protect our systems from future vulnerabilities, data breaches or other cyber threats. Losses due to unauthorized account activity could harm our reputation and may have a material adverse effect on our business, financial condition, results of operations **,** and prospects. Our security measures may not protect us from systems failures or interruptions. While we have established policies and technical controls to prevent or limit the impact of systems failures and interruptions, there are no absolute assurances that such events will not occur or that the resulting damages will be adequately mitigated. We rely on communications, information, operating and financial control systems technology from third party service providers, and we may suffer an interruption in those systems. We outsource certain aspects of our data processing and operational functions to third party service providers. If our third party service providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely impacted. The occurrence of any systems failure or interruption could damage our reputation and result in a loss of clients and business, could subject us to additional regulatory scrutiny, or could expose us to legal liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations. We rely heavily on third party service providers for much of our communications, information, operating and financial control systems technology, including our online banking services and data processing systems. We rely on third party service providers to help ensure the confidentiality of our client information and acknowledge the additional risks these third parties expose us to. Third party service providers may experience unauthorized access to and disclosure of our consumer or client information or result in the destruction or corruption of Company information. In addition, we are exposed indirectly through our third party service providers who may experience their own cyber breach and as a result compromise our data and / or lead to service interruptions. Any failure or interruption, or breaches in security, of these systems could result in failures or interruptions in our client relationship management, general ledger, deposit, loan origination and servicing systems, thereby harming our business reputation, operating results **,** and financial condition. Additionally, interruptions in service and security breaches could lead existing clients to terminate their banking relationships with us and could make it more difficult for us to attract new banking clients in the future. **To the extent we acquire other banks, bank branches, other assets or other businesses, such as the Merger and the Deepstack Acquisition, we may be negatively impacted by certain risks inherent with such acquisitions.** Acquiring other banks, bank branches, other assets or other businesses involves various risks, including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks, branches or businesses, or in the development of technology platforms, the risk of loss of clients and / or employees of the acquired bank, branch or business, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction' s anticipated benefits. We continue to face these risks in connection with the recently completed **Merger** ~~Deepstack Acquisition~~ . Our ability to address these matters successfully cannot be assured. There ~~is~~ **are** also ~~the risk that the requisite~~ regulatory **risks in connection with acquisitions, including remaining in good standing with existing regulatory bodies or receiving any necessary pre- closing or post- closing** approvals ~~might not be received~~ **, as well as being subject to new regulators with oversight over** ~~and~~ **an acquired business** ~~other conditions to consummation of a transaction might not be satisfied during the anticipated timeframes, or at all~~ . In addition, pursuing an acquisition may divert resources or management' s attention from ongoing business operations, may require investment in integration and in development and enhancement of additional operational and reporting processes and controls, and may subject us to additional regulatory scrutiny. To finance an acquisition, we may borrow funds, thereby increasing our leverage and diminishing our liquidity, or raise additional capital, which could dilute the interests of our existing stockholders. Acquiring other banks, bank branches, other assets or other businesses, such as the **Merger** ~~Deepstack Acquisition~~ , also ~~involve~~ **involves** risks associated with integration, which may cause us to not fully realize the benefits of an acquisition. The success of any such transaction will depend on, among other things, our ability to combine and integrate the acquired assets or business into our business. If we are not able to successfully achieve this objective, the anticipated benefits of the transaction may not be realized fully, or at all, or may take longer to realize than expected. The integration process for an acquisition will likely result in the diversion of management' s time on integration- related issues and could result in the disruption of our business. These transition matters could have an adverse effect on us for an undetermined amount of time after the completion of any acquisition. If we fail to comply with the applicable requirements of the payment card networks or NACHA, they could seek to fine us, suspend us or terminate our registrations. Our subsidiary, Deepstack, offers payment processing solutions to clients. In order to provide our payment processing services, we are registered with Visa and Mastercard and other networks as members or service providers for purposes of conducting merchant acquiring and interacting with the applicable payment networks. As such, we are subject to these payment card and other network rules. If we fail to comply with these rules, we could be fined, and our membership registrations or certifications could be suspended or terminated. The termination of our registrations or our membership or our status as a service provider or a merchant processor, could limit our ability to provide merchant acquiring or transaction processing services to clients and could have a material adverse effect on our business, financial condition **,** and results of operations. If a merchant or client fails to comply with these rules, it could be subject to a variety of fines or penalties levied by the payment card associations or other networks. If we cannot collect the amounts from the applicable client or merchant, we may have to bear the cost of the fines or penalties, resulting in lower earnings for us. In addition, changes to the networks' rules or how they are interpreted, including those that increase the cost of doing business or that would impair our registrations or otherwise limit our ability to provide transaction processing services to merchants, could have a significant impact on our business, financial condition **,** and results of operations. We maintain business relationships with certain independent sales organizations that act as intermediaries in providing our merchant acquiring services that may expose us to losses. These independent sales organizations may engage in activities such as merchant acquiring, soliciting merchants and other clients and client service, among other activities. We face risks related to our oversight and supervision of these independent sales organizations, as well as to the reputation and financial viability of the independent sales organizations with which we do business. Any failure by us to appropriately oversee and supervise our independent sales organizations could damage our reputation, result in regulatory or compliance issues, result in third party litigation, and cause financial losses to us. In connection with our merchant acquiring and payment processing business, we face potential chargeback liability for fraudulent payment transactions initiated by merchants or others. In the event a transaction dispute between a cardholder and a merchant is not resolved in favor of the merchant, the transaction is normally charged back to the merchant and the purchase price is refunded to the cardholder. If we are unable to collect such amounts from the merchant, either due to their refusal, closure, bankruptcy, or otherwise, we are responsible to the card issuing bank for the amount of the refund paid to the cardholder. Failure to effectively manage these risks and prevent fraud could increase our chargeback liability or other liabilities due to merchant failures. Increases in chargebacks or other liabilities not paid by our merchants could have a material adverse effect on our business, financial condition **,** and results of operations **. We face significant operational risks, including fraud and loss due to execution errors, data processing and technology errors** . We operate many different financial service functions and rely on the ability of our employees, third party vendors and systems to process a significant number of transactions. Operational risk is the risk of loss from operations, including fraud by employees or outside persons, employees' execution of incorrect or unauthorized transactions, data processing and technology errors or hacking and breaches of internal control systems. ~~These~~ **Our enterprise** ~~risks~~ - **risk management framework may not be** ~~have increased in light of work- from- home arrangements implemented in response to, and remain in effect~~ **effective** ~~as a result of,~~ **in mitigating risk and reducing** the **potential for losses** ~~COVID- 19 pandemic~~ . Our enterprise risk management framework seeks to mitigate risk and loss to us. We have established comprehensive policies and procedures and an internal control framework designed to provide a sound operational environment for the types of risk to which we are subject, including credit risk, market risk (interest rate and price risks), liquidity risk, operational risk, compliance risk, strategic risk, and reputational risk. However, as with any risk management framework, there are inherent limitations to our current and future risk management strategies, including risks that we have not appropriately anticipated or identified. In certain instances, we rely on models to measure, monitor and predict risks. However, these models are inherently limited because they involve techniques, including the use of historical data in some circumstances, and judgments that cannot anticipate every economic and financial outcome in the markets in which we operate, nor can they anticipate the specifics and timing of such outcomes. There is no assurance that these models will appropriately capture all relevant risks or accurately predict future events or exposures. Accurate and timely enterprise- wide risk information is necessary to enhance management' s decision- making in times of crisis. In addition, our businesses and the markets in which we operate are continuously evolving. We may fail to fully understand the implications of changes in our businesses or the financial markets or fail to adequately or timely enhance our enterprise risk framework to address those changes. If our enterprise risk framework is ineffective, either because it fails to keep pace with changes in the financial markets, regulatory requirements, our businesses, our counterparties, clients or service providers or for other reasons, we could incur losses, suffer reputational damage or find ourselves out of compliance with applicable regulatory or contractual mandates. Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, regulatory investigations, marketplace rumors and questionable or fraudulent activities of our clients. We have policies and procedures in place to promote ethical conduct and protect our reputation. However, these policies and procedures may not be fully effective and cannot adequately protect against all threats to our reputation. Negative publicity regarding our business, employees, or clients, with or without merit, may result in the loss of clients, investors and employees, costly litigation, a decline in revenues and **/ or** increased governmental oversight. If the public perception of financial institutions remains negative, then our reputation and business may be adversely affected by negative publicity or information regarding our business and personnel, whether or not accurate or true. Such information **has in the past and** may **in the future** be posted on social media or other Internet forums or published by news organizations and the speed and pervasiveness with which information can be disseminated through these channels, in particular social media, may magnify risks relating to negative publicity. Our success will, to a large extent, depend on the continued employment of our key management personnel. The unexpected loss of the services of any of these individuals could have a detrimental effect on our business. Although we have entered into employment agreements with our Chief Executive Officer and our Chief Financial Officer, no assurance can be given that these individuals, or any of our key management personnel, will continue to be employed by us. The loss of any of these individuals could negatively affect our ability to achieve our business plan and could have a material adverse effect on our results of operations and financial condition. **In addition, if we are not able to successfully combine and integrate the senior management teams of the Company and legacy PacWest following the Merger, our business, operations and financial results may be adversely affected.** We rely on numerous external vendors to provide us with products and services necessary to maintain our day- to- day operations. Accordingly, our operations are exposed to risk that these vendors will not perform in accordance with the contracted arrangements under service level agreements. The failure of an external vendor to perform in accordance with the contracted arrangements under service level agreements because of changes in the vendor' s organizational structure, financial condition, support for existing products and services or strategic focus or for any other reason, could be disruptive to our operations, which in turn could have a material negative impact on our financial condition and results of operations. We also could be adversely affected to the extent such an agreement is not renewed by the third party vendor or is renewed on terms less favorable to us **. In addition, our use of third party vendors is subject to increasingly demanding regulatory requirements and attention by our regulators. Regulations require us to perform due diligence, ongoing monitoring and control over our third party vendors and other ongoing third party business relationships. We expect that our regulators will hold us responsible for deficiencies in our oversight and control of our third party relationships and in the performance of the parties with which we have these relationships. As a result, if our regulators conclude that we have not exercised adequate oversight and control over our third party vendors or other ongoing third party business relationships or that such third parties have not performed appropriately, we could be subject to enforcement actions, including civil money penalties or other administrative or judicial penalties or fines as well as requirements for customer remediation, any of which could have a material adverse effect our business, financial condition, or results of operations** . We have a net DTA and cannot assure that it will be fully realized. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between the carrying amounts and the tax basis of assets and liabilities computed using enacted tax rates. If we determine that we will not achieve sufficient future taxable income to realize our net deferred tax asset, we are required under GAAP to establish a full or partial valuation allowance. If we determine that a valuation allowance is necessary, we are required to incur a charge to operations. We regularly assess available positive and negative evidence to determine whether it is more likely than not that our net deferred tax asset will be realized. Realization of a deferred tax asset requires us to apply significant judgment and is inherently speculative because it requires estimates that cannot be made with certainty. As of December 31, ~~2022~~ **2023** , we had a net DTA of $ ~~50~~ **739** . ~~5~~ **1** million. For additional information, see Note ~~13 —~~ **16.** Income Taxes of the Notes to Consolidated Financial Statements included in Item 8. ~~Risks Related~~ **We have suffered significant losses from the balance sheet repositioning and may suffer significant losses from future asset sales. In connection with the Merger, legacy Banc of California, legacy Pacific Western Bank and the combined company sold approximately $ 6. 1 billion in assets as part of the balance sheet repositioning strategy, comprised of (i) $ 2. 7 billion of Pacific Western Bank' s securities portfolio, which included agency commercial mortgage- backed securities, agency collateralized mortgage obligations (" CMO "), treasury bonds, municipal bonds, and corporate bonds, (ii) $ 1. 3 billion**

of Banc of California’ s securities portfolio, which included agency mortgage- backed securities, CMOs, and bonds, (iii) the forward sale of $ 1. 5 billion book value of Banc of California’ s single- family residential (" SFR") mortgage portfolio and (iv) $ 673 million book value of Banc of California’ s multi- family residential mortgage portfolio. Some of these assets were sold at significant losses. In a short period of time, we were able to **complete our planned asset sales effecting our initial balance sheet repositioning strategy. We will continue to evaluate all available options as we seek to optimize our balance sheet. Depending on the existence of various potential buyers and competitive prices, we may sell assets at a significant loss, which could affect our financial condition and results of operations. In connection with the Merger the Company' s outstanding debt obligations increased, and the combined company' s level of indebtedness following the completion of the Merger could adversely affect the combined company' s ability to raise additional capital and to meet its debt obligations. After the closing of the Merger, at December 31, 2023, the Company had outstanding indebtedness in the amount of approximately $ 3. 8 billion. Our existing indebtedness, together with any future incurrence of additional indebtedness, could have important consequences for our creditors and stockholders. For example, it could: • limit our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; • restrict us from making strategic acquisitions or cause us to make non- strategic divestitures; • restrict us from paying dividends to our stockholders; • increase our vulnerability to general economic and industry conditions; and • require a substantial portion of cash flow from operations to be dedicated to the payment of principal and** ~~Interest~~ **interest** ~~Rate~~ **on our indebtedness, thereby reducing our ability to use cash flows to fund our operations, capital expenditures** and **future business opportunities. If actual losses on our loans exceed our estimates used to establish our allowance for** ~~Credit~~ **credit losses, our business, financial condition and profitability may suffer.** The determination of the appropriate level of the allowance for credit losses inherently involves a high degree of subjectivity and requires us to make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for credit losses, we review our loans and the loss and delinquency experience, and evaluate economic conditions and make significant estimates of current credit risks and future trends, all of which may undergo material changes. If our estimates are incorrect, the allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in the need for additions to our allowance through an increase in the provision for loan losses. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, fraud and other factors, both within and outside of our control, may require an increase in the allowance for loan losses. Our allowance for credit losses was 1. ~~28~~ **22** % of ~~total~~ loans **and leases** held ~~–~~ for ~~–~~ investment and ~~165~~ **497** . ~~18~~ **80** % of ~~nonperforming~~ **nonaccrual** loans **and leases** as of December 31, ~~2022~~ **2023** . In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for credit losses or the recognition of further charge- offs (which ~~will~~ **may** in turn also require an increase in the provision ~~for credit losses if the charge- offs exceed the allowance~~ for credit losses), based on judgments different than that of management. Any increases in the provision for credit losses will result in a decrease in net income and may have a material adverse effect on our financial condition and results of operations. ASU 2016- 13, Measurement of Credit Losses on Financial Instruments, which we adopted on January 1, 2020, substantially changed the accounting for credit losses on loans and other financial assets held by banks, financial institutions and other organizations. The standard changed the previous incurred loss impairment methodology in GAAP with a methodology that reflects lifetime expected credit losses and requires consideration of a broader range of reasonable and supportable information for credit loss estimates. The CECL model materially impacts how we determine our allowance for credit losses and required us to ~~significantly~~ increase our allowance for credit losses. Furthermore, we may experience more fluctuations in our allowance for credit losses, which may be significant **. Additionally, loans to venture- backed borrowers support the borrowers’ operations, including operating losses, working capital requirements and fixed asset acquisitions. Venture- backed borrowers are at various stages in their development and are, generally, reporting operating losses. The primary sources of repayment are future additional venture capital equity investments or the sale of the company or its assets. Our venture- backed borrowers’ business plans may fail, increasing the likelihood for credit losses related to loans to venture- backed borrowers. See also Risks Relating to Funding and Liquidity Risks – A slowdown in venture capital investment levels has reduced the market for venture capital investment for our venture banking clients, which has, and could continue to, adversely affect our deposit balances, business, results of operations, and financial condition included in this section of this Annual Report on Form 10- K. In accordance with GAAP, we maintain an allowance for loan and lease losses to provide for loan defaults and non- performance. Our allowance for loan and lease losses allocable to loans to venture- backed borrowers may not be adequate to absorb actual credit losses arising from these loans, and future provisions for credit losses could materially and adversely affect our operating results** . There are risks associated with our lending activities and our allowance for credit losses may prove to be insufficient to absorb actual losses in our loan portfolio. Lending money is a substantial part of our business. Every loan carries a certain risk that it will not be repaid in accordance with its terms or that any underlying collateral will not be sufficient to assure repayment. This risk is affected by, among other things: • Cash flow of the borrower and / or the project being financed; • In the case of a collateralized loan, the changes and uncertainties as to the future value of the collateral; • The credit history of a particular borrower; • Changes in interest rates; • Changes in economic and industry conditions; and • The duration of the loan. We maintain an allowance for credit losses which we believe is appropriate to provide for probable losses inherent in our loan portfolio. The amount of this allowance is determined by our management through a periodic review and consideration of several factors, including, but not limited to: • An ongoing review of the quality, size and diversity of the loan portfolio; • Evaluation of ~~nonperforming~~ **nonaccrual** loans; • Historical default and loss experience; • Historical recovery experience; • Existing and forecasted economic conditions; • Risk characteristics of the various classifications of loans; and •

The amount and quality of collateral, including guarantees, securing the loans. **An unpredictable or volatile political environment in the United States, including any related social unrest and uncertainty as a result of the upcoming U. S. presidential election, could negatively impact business and market conditions, economic growth, financial stability, and business, consumer, investor, and regulatory sentiments, any one or more of which in turn could cause our business and financial results to suffer. Our business and financial results are also significantly affected by the fiscal and monetary policies of the U. S. government and its agencies. We are particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States in pursuit of maximum employment, stable prices, and moderate long- term interest rates. The FRB and its policies influence the availability and demand for loans and deposits, the rates and other terms for loans and deposits, the conditions in equity, fixed- income, currency, and other markets, and the value of securities and other financial instruments. Additionally, tax and other fiscal policies, moreover, impact not only general economic and market conditions but also give rise to incentives or disincentives that affect how we and our customers prioritize objectives, deploy resources, and run households or operate businesses. Both the timing and the nature of any changes in monetary or fiscal policies, as well as their consequences for the economy and the markets in which we operate, are beyond our control and difficult to predict but could adversely affect our business and operating results. Also, the FRB regulates the supply of money and credit in the United States. Its fiscal and monetary policies determine in a large part our cost of funds for lending and investing and the return that can be earned on those loans and investments, both of which affect our net interest margin. FRB policies can also materially affect the value of financial instruments that we hold, such as debt securities, certain mortgage loans held- for- sale and MSRs. Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. Changes in policies of the FRB are beyond our control and the impact of changes in those policies on our activities and results of operations can be difficult to predict. Our business may be adversely affected by difficult economic conditions, including inflationary pressures or volatility in the financial markets, which may impact our business, financial position, and results of operations.** Robust demand, labor shortages **,** and supply chain constraints have led to persistent inflationary pressures throughout the economy. In response to these inflationary pressures, the FRB has raised benchmark interest rates in the past **two** ~~year~~ **years** and **may** ~~is expected to~~ continue raising interest rates in response to economic conditions, particularly a continued high rate of inflation **. However, in the final three policy meetings of 2023, the FRB left rates unchanged, and in January 2024, the FRB signaled that it could begin cutting interest rates in the year 2024 if there is continuing evidence that inflation has been stabilized on a sustained basis** . Amidst these uncertainties, including potential recessionary economic conditions, financial markets have continued to experience volatility. Changes in interest rates can affect numerous aspects of our business and may impact our future performance. Prolonged periods of inflation **have impacted, and** may **continue to** impact **,** our profitability by negatively impacting our costs and expenses, including increasing funding costs and expense related to talent acquisition and retention, and negatively impacting the demand for our products and services. Additionally, inflation **has led to, and** may **continue to** lead to **,** a decrease in consumer and clients purchasing power and negatively affect the need or demand for our products and services. If significant inflation continues, our business could be negatively affected by, among other things, increased default rates leading to credit losses which could decrease our appetite for new credit extensions. If financial markets remain volatile, this may impact the future performance of various segments of our business, including the value of our investment securities portfolio. We continue to closely monitor economic conditions and the pace of inflation and the impacts of inflation on the larger market, including labor and supply chain impacts. Any of the effects of these adverse economic conditions would likely have an adverse impact on our earnings, with the significance of the impact generally depending on the nature and severity of such adverse economic conditions. As of December 31, ~~2022~~ **2023** , $ **5.** 1 ~~. 94~~ billion, or ~~27~~ **19** . ~~2~~ **9** % of our total loans held ~~-~~ for ~~-~~ investment, was secured by SFR mortgage loans and HELOCs, as compared with $ ~~1~~ **6** . ~~44~~ **3** billion, or ~~19~~ **21** . 9 % of our total loans held ~~-~~ for ~~-~~ investment, as of December 31, ~~2021~~ **2022** . This type of lending is particularly sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values as a result of a downturn in the California housing markets **has reduced in some areas, and** may **continue to** reduce **,** the value of the real estate collateral securing these types of loans and increase the risk that we would incur losses if borrowers default on their loans. ~~Residential loans with high combined loan- to- value ratios generally will be more sensitive to declining property values than those with lower combined loan- to- value ratios and therefore may experience a higher incidence of default and severity of losses. In addition, if the borrowers sell their homes, the borrowers may be unable to repay their loans in full from the sale proceeds.~~ As a result, these loans may experience higher rates of delinquencies, defaults and losses, which will in turn adversely affect our financial condition and results of operations. ~~A majority~~ **Approximately 31 %** of our ~~real estate secured~~ loans held ~~-~~ for ~~-~~ investment are adjustable rate loans. Any rise in prevailing market interest rates may result in increased payments for some borrowers who have adjustable rate ~~mortgage~~ loans, increasing the possibility of defaults. We seek to mitigate the risks inherent in our loan portfolio by adhering to specific underwriting practices, including: analyzing a borrower' s credit history, financial statements, tax returns and cash flow projections; valuing collateral based on reports of independent appraisers; and verifying liquid assets. Notwithstanding these practices, we have incurred losses on loans that have met these criteria, and may continue to experience higher than expected losses depending on economic factors and borrower behavior. In addition, our ability to assess the creditworthiness of our clients may be impaired if the models and approaches we use to select, manage, and underwrite our clients become less predictive of future behaviors, or in the case of borrower fraud. Finally, we may have higher credit risk, or experience higher credit losses, to the extent our loans are concentrated by loan type, industry segment, borrower type, or location of the borrower or collateral. ~~As of December 31, 2022, 64. 7 % of our commercial real estate loans, 58. 5 % of our multifamily loans and 63. 2 % of our SFR mortgage loans were secured by collateral in Southern California.~~ Deterioration in real estate values and underlying economic conditions in Southern California could result in significantly higher credit losses to our portfolio. ~~Many~~ **Repayment** of ~~the residential mortgage~~ **our commercial and industrial** loans **is often dependent** ~~we have originated for investment consist of non~~ - **on** ~~- traditional SFR mortgage loans that do not conform to Fannie Mae or Freddie Mac underwriting guidelines as a result of loan- to- value ratios or debt- to- income ratios, loan terms, loan size (exceeding agency limits) or other~~ -- **the cash flows of the borrower** ~~exceptions from agency underwriting guidelines. Moreover~~ , **which** ~~many~~ - **may** ~~of~~ **be unpredictable, and the collateral securing** these loans ~~do not meet the qualified mortgage definition established by the CFPB, and therefore contain additional regulatory and legal risks. In addition, the secondary market demand for nonconforming mortgage loans generally is limited, and consequently, we~~ may ~~have a difficult time selling the nonconforming loans in our portfolio should we decide to do so. In the case of interest only loans, a borrower' s monthly payment is subject to change when the loan converts to fully- amortizing status. Since the borrower' s monthly payment may increase by a substantial amount, even without an increase in prevailing market interest rates, the borrower might~~ not be ~~able~~ **sufficient** to **repay** ~~afford the increased monthly payment. In addition, interest only loans have a large, balloon payment at the end of~~ the loan ~~term, which the borrower may be unable to pay. Negative amortization involves a greater risk to us because credit risk exposure increases when the loan incurs negative amortization and the value of the home serving as collateral for the loan does not increase proportionally. Negative amortization is only permitted up to 110 % of the original loan to value ratio during the first five years the loan is outstanding, with payments adjusting periodically as provided~~ in ~~the loan documents, potentially resulting in higher payments by the borrower. The adjustment of these~~ -- **the event** ~~loans to higher payment requirements can be a substantial factor in higher loan delinquency levels because the borrowers may not be able to make the higher payments. Also, real estate values may decline, and credit standards may tighten in concert with the higher payment requirement, making it difficult for borrowers to sell their homes or refinance their loans to pay off~~ - **of** ~~their mortgage obligations. For these reasons, interest only loans and negative amortization loans are considered to have an increased risk of delinquency,~~ default ~~and foreclosure than conforming loans and may result in higher levels of realized losses. Our interest only loans increased during the year ended December 31, 2022, to $ 855. 3 million, or 12. 0 % of our total loans held- for- investment from $ 613. 3 million, or 8. 5 % of our total loans held- for- investment, as of December 31, 2021~~ . We make our commercial and industrial loans primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Collateral securing commercial and industrial loans may depreciate over time, be difficult to appraise and fluctuate in value and in the event we are required to assume direct responsibility for the collateral, including but not limited to residential mortgage loans in the case of warehouse credit facilities that we provide to non- bank financial institutions, our allowance for credit losses may increase, which may, in turn, adversely affect our financial condition and results of operations. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect the amounts due from its clients. As of December 31, ~~2022~~ **2023** , our commercial and industrial loans totaled $ ~~1~~ **5** . ~~85~~ **8** billion, or **23** ~~25. 9~~ % of our total loans held ~~-~~ for ~~-~~ investment. We are exposed to risk of environmental liabilities with respect to real properties acquired. In prior years, due to weakness of the U. S. economy and, more specifically, the California economy, including higher levels of unemployment than the nationwide average and declines in real estate values, certain borrowers have been unable to meet their loan repayment obligations and, as a result, we have had to initiate foreclosure proceedings with respect to and take title to a number of real properties that had collateralized their loans. As an owner of such properties, we could become subject to environmental liabilities and incur substantial costs for any property damage, personal injury, investigation and clean- up that may be required due to any environmental contamination that may be found to exist at any of those properties, even though we did not engage in the activities that led to such contamination. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties seeking damages for environmental contamination emanating from the site. If we were to become subject to significant environmental liabilities or costs, our business, financial condition, results of operations **,** and prospects could be adversely affected **. Secondary mortgage market conditions could have a material adverse impact on our business, results of operations, financial condition, or liquidity** . In addition to being affected by interest rates, the secondary mortgage markets are subject to investor demand for mortgage loans and mortgage- backed securities and investor yield requirements for those loans and securities. These conditions may fluctuate or even worsen in the future. From time to time, as part of our balance sheet management process, we may also sell SFR loans and other types of mortgage loans from our portfolio, including ~~multifamily~~ **multi- family** loans. We may use the proceeds of loan sales for generating new loans or for other purposes. If secondary mortgage market conditions were to deteriorate in the future and we cannot sell loans at our desired levels, our balance sheet management objectives might not be met. As a result, our business, results of operations, financial condition **,** or liquidity may be adversely affected. Any breach of representations and warranties made by us to our loan purchasers or credit default on our loan sales may require us to repurchase loans we have sold. We have sold or securitized loans we originated into the secondary market pursuant to agreements that generally require us to repurchase loans in the event of a breach of a representation or warranty made by us to the loan purchaser. Any fraud or misrepresentation during the loan origination process, whether by us, the borrower, or other party in the transaction, or, in some cases, upon any early payment default on such loans, may require us to repurchase such loans. We believe that, as a result of the increased defaults and foreclosures during the 2007 to 2009 recession resulting in increased demand for repurchases and indemnification in the secondary market, many purchasers of loans are particularly sensitive to obtaining indemnification or the requirement of originators to repurchase loans, and would benefit from enforcing any repurchase remedies they may have. Our exposure to repurchases under our representations and warranties could include the current unpaid balance of all loans we have sold. During the years ended December 31, **2023,** 2022, **and** 2021 ~~and 2020~~ , we sold ~~multifamily~~ **multi- family** and SFR mortgage loans aggregating ~~zero,~~ $ ~~10~~ **3** . ~~7~~ **0 billion, $ 33. 5** million, and $ ~~17~~ **11** . ~~4~~ **8** million, respectively. To recognize the potential loan repurchase or indemnification losses on all SFR mortgage and ~~multifamily~~ **multi- family** loans sold, we maintained a total reserve of $ ~~3~~ **2** . ~~0~~ **1** million as of December 31, ~~2022~~ **2023** . Increases to this reserve as a result of the sale of loans are a reduction in our gain on the sale of loans. Increases and decreases to this reserve subsequent to the sale are included as a component of noninterest expense. The determination of the appropriate level of the reserve inherently involves a high degree of subjectivity and requires us to make estimates of repurchase and indemnification risks and expected losses. The estimates used could be inaccurate, resulting in a level of reserve that is less than actual losses. Deterioration in the economy, an increase in interest rates or a decrease in home and collateral values could increase client defaults on loans that were sold and increase demand for repurchases and indemnification and increase our losses from loan repurchases and indemnification. If we are required to indemnify loan purchasers or repurchase loans and incur losses that exceed our reserve, this could adversely affect our business, financial condition **,** and results of operations. In addition, any claims asserted against us in the future by loan purchasers may result in liabilities or legal expenses that could have a material adverse effect on our results of operations and financial condition. **Credit impairment in our investment securities portfolio could result in losses and adversely affect our continuing operations.** As of December 31, ~~2022~~ **2023** , we had $ ~~868~~ **2** . 3 ~~million~~ **billion** of securities available- for- sale, as compared with $ ~~1~~ **4** . ~~32~~ **8** billion of securities available- for- sale as of December 31, ~~2021~~ **2022** . As of December 31, ~~2022~~ **2023** , securities available- for- sale that were in an unrealized loss position had a total fair value of $ ~~865~~ **2** . ~~4~~ **3** ~~million~~ **billion** with aggregate unrealized losses of $ ~~41~~ **352** . ~~3~~ **5** million. These unrealized losses related primarily to changes in overall interest rates and the resulting impact on valuations of mortgage- backed securities, collateralized mortgage obligations, municipal securities and ~~collateralized loan obligations~~ **corporate debt securities** . As of December 31, ~~2021~~ **2022** , securities available- for- sale that were in an unrealized loss position had a **total** fair value of $ ~~580~~ **4** . ~~7~~ **8** ~~million~~ **billion** ~~and~~ **with** aggregate unrealized losses of $ ~~7~~ **811** . ~~3~~ **1** million ~~.~~ These unrealized losses related primarily to **changes in overall interest rates and the resulting impact on valuations of mortgage- backed securities, U. S. Treasury securities,** collateralized ~~loan~~ **mortgage** obligations **and municipal securities** . As of December 31, ~~2022~~ **2023** , we had $ ~~328~~ **2** . ~~6~~ **3** ~~million~~ **billion** of securities held- to- maturity, ~~of~~ which ~~all were in an unrealized loss position and~~ had a total fair value of $ ~~262~~ **2** . ~~5~~ **2** ~~million~~ **billion** . ~~There were no~~ **As of December 31, 2022, we had $ 2. 3 billion of** securities held- to- maturity ~~as of December 31~~ , ~~2021~~ **which had a total fair value of $ 2. 1 billion** . The Company monitors to ensure it has adequate credit support and, as of December 31, ~~2022~~ **2023** we believed there was no credit losses and did not have the intent to sell any of our securities in an unrealized loss position and it is likely that we will not be required to sell such securities before their anticipated recovery. Debt securities held- to- maturity and available- for- sale are analyzed for credit losses under ASC 326, Financial Instruments- Credit Losses. For debt securities held- to- maturity **and** ~~, the Company estimates current expected credit losses. For debt securities~~ available- for- sale, the Company **estimates current expected** ~~determines whether impairment exists as of the reporting date and whether that impairment is due to~~ credit losses. An allowance for credit losses is established for losses on debt securities held- to- maturity and available- for- sale due to credit losses and is reported as a component of provision for credit losses. Accrued interest is excluded from our expected credit loss estimates. For more information about ASC Topic 326, see Note 1 ~~—~~ **. Nature of Operations and** Significant Accounting Policies of the Notes to Consolidated Financial Statements included in Item 8. We closely monitor our investment securities for changes in credit risk. The valuation of our investment securities also is influenced by external market and other factors, including implementation of SEC and FASB guidance on fair value accounting. Accordingly, if market conditions deteriorate further and we determine our holdings of other investment securities have experienced credit losses, our future earnings, stockholders’ equity, regulatory capital and continuing operations could be materially adversely affected. ~~As of December 31, 2022, based on fair value, $ 476. 6 million, or 5. 2 % of our total assets, was invested in CLOs. Our CLO portfolio consists entirely of variable rate securities, which we believe supports our interest rate risk management strategy by lowering the extension risk and duration risk inherent to certain fixed rate investment securities. However, in a decreasing interest rate environment, our interest income may be negatively impacted. As of December 31, 2022, based on amortized cost, $ 24. 4 million of our CLO holdings were AAA rated and $ 467. 8 million were AA rated. As of December 31, 2022, there were no CLOs rated below AA and none of the CLOs were subject to ratings downgrade in 2022. All of our CLOs are floating rate, with rates set on a quarterly basis at a benchmark rate (3- Month LIBOR or 3- Month Term SOFR) plus a spread. As an investor in CLOs, we purchase specific tranches of debt instruments that are secured by professionally managed portfolios of senior secured loans to corporations. CLOs are not secured by residential or commercial mortgages. CLO managers are typically large non- bank financial institutions or banks. CLOs are typically $ 300 million to $ 1 billion in size, contain 100 or more loans, and have five to six credit tranches including AAA, AA, A, BBB, BB, and B and an equity tranche. Interest and principal are typically paid to the AAA tranche first then move down the capital stack. Losses are typically borne by the equity tranche first then move up the capital stack. CLOs typically have subordination levels that range from approximately 33 % to 39 % for AAA, 20 % to 28 % for AA, 15 % to 18 % for A and 10 % to 14 % for BBB. The market value of CLOs may be affected by, among other things, perceived changes in the economy, performance by the manager and performance of the underlying loans. The CLOs we currently hold, from time to time, may not be actively traded, and under certain market conditions may be relatively illiquid investments, and volatility in the CLO trading market may cause the value of these investments to decline. Although we attempt to mitigate the credit and liquidity risks associated with CLOs by purchasing CLOs with credit ratings of AA or higher and by maintaining a pre- purchase due diligence and ongoing review process by a dedicated credit administration team, no assurance can be given that these risk mitigation efforts will be successful. A deterioration in market conditions and decline in the market value of CLOs could adversely impact our financial condition, results of operations and stockholders' equity.~~ Our income property loans, consisting of commercial real estate and ~~multifamily~~ **multi- family** loans, involve higher principal amounts than other loans and repayment of these loans may be dependent on factors outside our control or the control of our borrowers. We originate commercial real estate and ~~multifamily~~ **multi- family** loans for individuals and businesses for various purposes, which are secured by commercial properties. These loans typically involve higher principal amounts than other types of loans, and repayment is dependent upon income generated, or expected to be generated, by the property securing the loan in amounts sufficient to cover operating expenses and debt service, which may be adversely affected by changes in the economy or local market conditions. For example, if the cash flow from the borrower' s project is reduced as a result of leases not being obtained or renewed in a timely manner or at all, the borrower' s ability to repay the loan may be impaired. Commercial real estate and ~~multifamily~~ **multi- family** loans also expose us to credit risk because the collateral securing these loans often cannot be sold easily. In addition, many of our commercial real estate and ~~multifamily~~ **multi- family** loans are not fully amortizing and contain large balloon payments upon maturity. Such balloon payments may require the borrower to either sell or refinance the underlying property in order to make the payment, which may increase the risk of default or non- payment. **The COVID- 19 pandemic has had a potentially long- term negative impact on some commercial real estate portfolios. We continue to monitor our real estate loans secured by office properties because of the risk that tenants may continue to reduce the office space they lease as some portion of the workforce continues to work remotely on a hybrid or permanent basis and that we may not collect all amounts contractually owed to us.** If we foreclose on a commercial real estate or ~~multifamily~~ **multi- family** loan, our holding period for the collateral typically is longer than for residential mortgage loans because there are fewer potential purchasers of the collateral. Additionally, commercial real estate and ~~multifamily~~ **multi- family** loans generally have relatively large balances to single borrowers or groups of related borrowers. Accordingly, if we make any errors in judgment in the collectability of our commercial real estate and ~~multifamily~~ **multi- family** loans, any resulting charge- offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios. Our commercial real estate and ~~multifamily~~ **multi- family** loans increased during the year ended December 31, ~~2022~~ **2023** , to $ ~~2~~ **11** . ~~95~~ **1** billion, or **43** ~~41. 5~~ % of our total loans held ~~-~~ for ~~-~~ investment from $ ~~2~~ **9** . ~~67~~ **5** billion, or **33** ~~36. 8~~ % of our total loans held ~~-~~ for ~~-~~ investment, as of December 31, ~~2021~~ **2022 . In recent years, commercial real estate markets have been experiencing substantial growth, and increased competitive pressures have contributed significantly to historically low capitalization rates and rising property values. However, commercial real estate markets have been facing downward pressure since 2022 due in large part to increasing interest rates and declining property values. Accordingly, the federal banking agencies have expressed concerns about weaknesses in the current commercial real estate market and have applied increased regulatory scrutiny to institutions with commercial real estate loan portfolios that are fast growing or large relative to the institutions' total capital. To address supervisory expectations with respect to financial institutions' handling of commercial real estate borrowers who are experiencing financial difficulty, in June of 2023, the federal banking agencies, issued an interagency policy statement addressing prudent commercial real estate loan accommodations and workouts. Our failure to adequately implement enhanced risk management policies, procedures and controls could adversely affect our ability to increase this portfolio going forward and could result in an increased rate of delinquencies in, and increased losses from, this portfolio** . To be profitable, we have to earn more money in interest that we receive on loans and investments than we pay to our depositors and lenders in interest. If interest rates rise, our net interest income and the value of our assets could be reduced if interest paid on interest-bearing liabilities, such as deposits and borrowings, increases more quickly than interest received on interest- earning assets, such as loans, and investment securities. This is most likely to occur if short- term interest rates increase at a faster rate than long- term interest rates, which would cause our net interest income to go down. In addition, rising interest rates may hurt our income, because that may reduce the demand for loans and the value of our securities. In a rapidly changing interest rate environment, we may not be able to manage our interest rate risk effectively, which would adversely impact our financial condition and results of operations. ~~In March 2021, the administrator of LIBOR announced that the cessation date for the wide majority of U. S. Dollar LIBOR tenors will be June 30, 2023.~~ The **credit rating** ~~U. S. federal banking regulatory~~ agencies **regularly evaluate** ~~issued guidance strongly encouraging banking organizations to cease using~~ the **Company** ~~U. S. Dollar LIBOR as a reference rate in " new " contracts by December 31, 2021,~~ and ~~have said that use of~~ the **Bank** ~~U. S. Dollar LIBOR rates as a reference rate in new contracts after that date would create safety and soundness risks~~ , ~~including litigation, operational~~ and **credit ratings are** ~~consumer protection risks. The Adjustable Interest Rate (LIBOR) Act (the " LIBOR Act "), enacted in March 2022, provides a statutory framework to replace U. S. Dollar LIBOR with a benchmark rate~~ based on **a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including conditions affecting** the ~~SOFR~~ **financial services industry, the economy, and changes in rating methodologies. In December 2023 in connection with the closing of the Merger, Kroll Bond Rating Agency, LLC affirmed its ratings** for ~~contracts governed by U. S. law that have no fallback or fallbacks that would require~~ the ~~use~~ **Company (senior unsecured debt rating** of **' BBB'** ~~a LIBOR based rate. In addition~~ , ~~in December 2022~~ **subordinated debt rating of ' BBB-'** , ~~the FRB adopted rules which identified different SOFR based replacement rates for derivative contracts, for cash instruments such as floating rate notes~~ and **short- term debt rating of ' K3') and the Bank (deposit and senior unsecured debt rating of ' BBB ', subordinated debt rating of ' BBB', and the short- term deposit and debt ratings of ' K2') and assigned a** preferred stock **rating** ~~, for consumer loans, for certain government sponsored enterprise contracts and for certain asset backed securities. The Company continues to evaluate the effects~~ of **' BB' with a stable outlook assigned to all long** ~~the LIBOR Act and its implementing regulations on the Company and its LIBOR~~ - **term** ~~linked contracts. The discontinuation of a benchmark rate, changes in a benchmark rate, or changes in market perceptions of the acceptability of a benchmark rate, including LIBOR, could, among other things~~ - **ratings** ~~, adversely affect the value of and return on certain of our assets or products, result in changes to our risk exposures, or require renegotiation of previous transactions~~ . ~~In addition, any such discontinuation or changes, whether actual or anticipated, could result in market volatility, increased compliance, legal and operational costs, and risks associated with customer disclosures and contract negotiations. Although the LIBOR Act includes safe harbors if the FRB- identified SOFR- based replacement rate is selected, these safe harbors are untested. As a result, and despite the enactment of the LIBOR Act, the implementation of substitute indices for the calculation of interest rates under our loan agreements with our borrowers, may cause us to incur significant expenses in effecting the transition, and may be subject to disputes or litigation with clients over the appropriateness or comparability to LIBOR of the substitute indices, which could have~~

~~a material adverse effect on our results of operations and financial condition. At December 31, 2022, approximately 15. 9 % of our total loan portfolio was indexed to 30- day, 90- day, 180- day and one- year LIBOR. These~~ **There** ~~amounts include our warehouse lending portfolio which totals 8. 4 % of our total loan portfolio and will renew or mature prior to the cessation of LIBOR publication, which is expected to discontinue on June 30, 2023. Many of our loan agreements that are indexed to LIBOR include provisions that do not require us to default to any alternative index recommendations but instead allow us, in our sole discretion, to designate an alternative interest rate index in the event that LIBOR should become unavailable or unstable. While we believe these provisions within our loan agreements address the future unavailability of LIBOR, there~~ can be no assurance that **we** ~~such provisions~~ will **maintain** ~~be effective or~~ **our** ~~that~~ **current credit ratings. A downgrade of** ~~they~~ - **the** ~~, or~~ **credit ratings of the Company** ~~our~~ - **or** ~~actions in this respect~~ **the Bank could adversely affect our access to liquidity and capital and could significantly increase our cost of funds** , **trigger additional collateral** ~~will not be challenged by our~~ - **or** ~~borrowers~~ **funding requirements, and decrease the number of investors and counterparties willing to lend to us or purchase our securities, reducing our ability to generate earnings** . At December 31, ~~2022~~ **2023** , **there** ~~approximately 40. 7 % of our debt securities held- to- maturity and available- for- sale portfolios~~ were ~~indexed to~~ **two** ~~30- day~~ **individual real estate construction and land commitments greater than** or ~~90- day LIBOR~~ **equal to $ 100 million with the largest commitment being $ 135 million** . ~~We~~ **At December 31, 2023, these two individual commitments totaled $ 240 million and had an aggregate outstanding balance of $ 140 million. The projects financed by these commitments** are ~~monitoring those investments~~ **two multifamily projects. At December 31, 2023, we had** ~~for~~ **four** ~~updates~~ **individual loan commitments greater than or equal to $ 150 million that ranged in size** from **$ 150 million to $ 500 million and totaled $ 1. 0 billion and had an aggregate outstanding balance of $ 465 million. Two of** ~~the~~ **these** ~~related issuers related to alternative indexes~~ **commitments totaling $ 695 million were equity fund loans, one of these commitments totaling $ 175 million was a loan secured by a multifamily property, and one of these commitments totaling $ 150 million was a loan secured by timeshare receivables** . We depend on checking, savings and money market deposit account balances and other forms of deposits as the primary source of funding for our lending activities. Our future growth will largely depend on our ability to expand core deposits, to provide a less costly and stable source of funding. The deposit markets are competitive, and therefore it may prove difficult to grow our core deposit base. ~~Beginning in 2019~~ **Changes we make to the rates offered on our deposit products may affect our finances and liquidity. In addition** , **our ability to maintain existing or obtain additional deposits may be impacted by factors beyond our control, including perceptions about our reputation, financial strength or the banking industry generally, which could reduce the number of consumers choosing to place deposits with us. Our ability to obtain deposit funding and offer competitive interest rates on deposits is also dependent on capital levels of our bank subsidiary. While** the Bank ~~focused~~ **met the FDIC’ s definition of “ well- capitalized ” as of December 31, 2023, there can be no assurance that it will continue to meet this definition. Our regulators can adjust the requirements to be “ well- capitalized ” at any time and have authority to place limitations** on ~~remixing~~ **our deposit businesses, including** the **interest rate we pay on deposits. An inability to develop and maintain a strong** deposit base **could have a material adverse impact on** ~~towards core relationship deposits. The Bank experienced net deposit outflows from high- rate large balance accounts (defined as $ 100 million or~~ **our** ~~more in balances) primarily in the former Institutional Banking~~ business ~~unit. The Bank increased its focus and attention toward expanding its core relationship deposit business~~ , ~~including recruiting sales~~ **financial condition,** and **results of operations** ~~product personnel and adding subject matter expertise~~ . ~~The~~ **2020 saw a** competitive landscape for deposits **, which competition** continued ~~throughout~~ --- **through** ~~2020 and~~ 2021 and was exacerbated in 2022 **and 2023** by the rising interest rate environment ~~. Outflows were partially offset by new account and client acquisitions~~ . In a competitive market, depositors have many choices as to where to place their deposit accounts. As the Bank continues to grow its core deposit base and seeks to reduce its exposure to high rate / high volatility accounts, it may experience a net deposit outflow, which could negatively impact our business, financial condition **,** and results of operations. Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of loans **,** and other sources **has had, and** could **continue to** have **,** a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or on terms that are acceptable to us **has been, and** could **continue to** be **,** impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow **has also been, and** could ~~also~~ **continue to** be **,** impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. **As we and other regional banking organizations experienced in 2023, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed “ too big to fail ” or remove deposits from the banking system entirely. As of December 31, 2023, approximately 23 % of our deposits were uninsured and uncollateralized and we rely on these deposits for liquidity. A failure to maintain adequate liquidity could have a material adverse effect on our business, financial condition, and results of operations. The soundness and stability of financial institutions are closely interrelated as a result of credit, trading, clearing, and other relationships between institutions. As a result, concerns about, or a default or threatened default by, or failure or threatened failure of, one or more institutions could lead to significant market- wide liquidity problems, losses or defaults by us or other institutions, or credit risk in the event of default of our counterparty or customer. Even rumors or adverse news developments concerning other financial institutions or the Bank may result in rapid deterioration in investor and customer confidence. This interconnectedness of financial institutions has been starkly evidenced by the recent events affecting the banking industry, as banks including the Bank have been impacted by concerns regarding the soundness or creditworthiness of other financial institutions, which has caused substantial and cascading disruption within the**

financial markets and increased expenses. In addition to the disruption of financial, credit and capital markets, the recent banking industry events may have other adverse impacts on the Bank. For example, these developments may result in increased regulatory requirements and scrutiny, increasing our costs and adversely affecting our profitability. In addition, the premiums of the FDIC' s deposit insurance program have increased and are expected to further increase as a result of the March 2023 bank failures, and we are no longer eligible to utilize credits to reduce our FDIC insurance premiums as a result of us exceeding $ 10 billion in assets. These increased premiums would have an adverse effect on our net income and results of operations. Changes resulting from these events could include increased regulatory oversight, higher capital requirements or changes in the way regulatory capital is calculated, and impositions of additional restrictions through regulatory changes or supervisory or enforcement activities, and, as a result, our operating margins, financial condition, and results of operations may be materially adversely affected. We are **subject to regulatory capital requirements, which could be made more stringent in the discretion of our regulators. We are subject to capital and other regulatory requirements specifying minimum amounts and types of capital that we must maintain. From time to time, the regulators may change these regulatory capital and related requirements. If we fail to meet these minimum capital and related requirements, we or our subsidiaries may be restricted in the types of activities we may conduct and we may be prohibited from taking certain capital actions, such as paying dividends and repurchasing or redeeming capital securities. In addition, the failure to meet such requirements could result in one or more of our regulators placing limitations or conditions on our activities, including our growth initiatives, or restricting the commencement of new activities, and could affect customer and investor confidence, our costs of funds and level of** required **deposit insurance assessments to the FDIC, our ability to pay dividends on our capital stock, our ability to make acquisitions, and our business, results of operations, and financial condition, generally. A bank holding company is required to act as a source of financial and managerial strength to its subsidiary banks and to commit resources to support its subsidiary banks. The FRB may require a bank holding company to make capital injections into, or take other action in support of, a troubled subsidiary bank at times when the bank holding company may not be inclined to do so and may charge the bank holding company with engaging in unsafe and unsound practices for failing to commit resources to such a subsidiary bank. Accordingly, we could be required to provide financial assistance to the Bank if it experiences financial distress — even if doing so is not otherwise in the best interest of the Company. Such a capital injection or other support may be required at a time when our resources are limited and we may be required to borrow the funds to make the required capital injection. In the event of a bank holding company' s bankruptcy, the bankruptcy trustee will assume any commitment** by **the holding company to a** federal **bank** regulatory ~~authorities~~ **agency** to maintain **the** ~~adequate levels of~~ capital ~~to support our operations~~ **of a subsidiary bank** . **Moreover** ~~At some point~~ , ~~we~~ **bankruptcy law provides that claims based on any such commitment will be entitled to a priority of payment over the claims of the holding company' s general unsecured creditors, including the holders of any note obligations. We face significant capital and other regulatory requirements as a financial institution. We** may need to raise additional capital **in the future** to ~~support continued growth~~ **provide sufficient capital resources and liquidity to meet our commitments and business needs, which could include the possibility of financing acquisitions** . ~~Our ability~~ **In addition, we, on a consolidated basis, and the Bank, on a standalone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. Importantly, regulatory capital requirements could increase from current levels, which could require us** to raise additional capital ~~, if needed, will~~ **or reduce our operations. Our ability to raise additional capital** ~~depend~~ **depends** on conditions in the capital markets, economic conditions, ~~our financial performance~~ and a number of other factors, ~~many of which are outside~~ **including investor perceptions regarding the financial services and banking industry, market conditions and governmental activities, and on** our ~~control~~ **financial condition and performance** . Accordingly, we **may be unable** ~~cannot assure you of our ability~~ to raise additional capital if needed or on **acceptable** terms ~~acceptable to us~~ . If we ~~cannot raise additional~~ **fail to maintain** capital ~~when needed, our ability~~ to ~~further expand~~ **meet regulatory requirements,** our **liquidity, business, financial condition, and results of** operations could be ~~materially impaired and our financial condition and liquidity could be materially and~~ adversely affected. Our holding company relies on dividends from the Bank for substantially all of its income and as the primary source of funds for cash dividends to our preferred ~~and~~ **,** common **, and NVCE** stockholders. ~~Our primary source~~ **The Company is the parent company** of ~~revenue~~ **, and a separate and distinct legal entity from, the Bank. Legal entity liquidity is an important consideration as there are legal, regulatory, contractual and other limitations on our ability to utilize liquidity from one legal entity to satisfy the liquidity requirements of another, which could result in adverse liquidity events** at **either the Company and / or the Bank. In particular, the Bank is subject to laws that restrict dividend payments, or authorize federal bank regulators to block or reduce the flow of funds from** ~~the~~ **those** ~~holding~~ **subsidiaries to the parent** company **or** ~~level is dividends from the~~ **other** ~~Bank~~ **subsidiaries. Applicable laws** and **regulations, including** ~~we also have previously relied on the net proceeds of~~ capital ~~raising transactions as the primary source of funds for cash dividends to our preferred~~ and **liquidity requirements** ~~common stockholders. To the extent the holding company is limited in the amount of dividends the Bank pays to the holding company or in its ability to raise capital in the future~~ , ~~the holding company' s ability to pay cash dividends to its stockholders~~ could **restrict** ~~likewise be limited. The OCC regulates and, in some cases, must approve the amounts the Bank pays as dividends to us. Currently, the Bank does not have sufficient dividend-paying capacity to declare and pay such dividends to us without obtaining prior approval from the OCC under applicable regulations, which requires prior approval if a cash dividend would exceed the sum of current period net income and retained earnings from the past two years, after deducting dividends previously declared (among other amounts). Further,~~ the Bank' s ability to pay dividends **or distribute capital to the Company, which could adversely affect our cash flow and financial condition. There** can be ~~restricted or eliminated if the Bank does not~~ - **no assurance as to** ~~meet the capital conservation buffer requirement or for other~~ -- **the level of dividends we may** ~~supervisory reasons. If the Bank is unable to~~ pay ~~dividends to the~~

~~holding company, then we may not be able to service our debt, including our senior notes and subordinated notes, pay our other obligations or pay cash dividends~~ on our ~~preferred and~~ common stock ~~. Our inability to service our debt, pay our other obligations or pay dividends to our stockholders could have a material adverse impact on our financial condition~~ and **NVCE stock** ~~the value of your investment in our securities~~. Holders of our common **stock and NVCE** stock are only entitled to receive such dividends as our ~~board~~ **Board** of ~~directors~~ **Directors** declares out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and there may be circumstances under which we would reduce, suspend, or eliminate our common stock dividend in the future. This could adversely affect the market price of our common stock. **As a bank holding company, our ability to pay dividends is affected by the policies and enforcement powers of the FRB and any future payment of dividends will depend on the Bank' s ability to make distributions and payments to the Company as our principal source of funds to pay such dividends. The Bank is also subject to various legal, regulatory and other restrictions on its ability to make distributions and payments to the Company. There are numerous laws and banking regulations that restrict the Bank' s ability to pay dividends or make capital distributions to the Company. These statutes and regulations require, among other things, that the Bank maintain certain levels of capital in order to pay a dividend. Further, our banking authorities have the ability to restrict the Bank' s payment of dividends through supervisory action.** In addition, **in the future, we may enter into borrowing or** ~~the~~ **other** ~~FRB supervisory staff issued Federal Reserve~~ **contractual arrangements that restrict its ability to pay dividends. As a consequence of these various limitations and restrictions, we may not be able to make the payment of dividends on our common stock and NVCE stock. See also" Item 1. Business-** Supervision and Regulation ~~Letter SR~~ - ~~09~~ **Banc of California, Inc.** - **Repurchases / Redemptions;** ~~4, which reiterates and heightens expectations that bank holding companies inform and consult with Federal Reserve supervisory staff prior to declaring and paying a dividend~~ **Dividends** ~~that exceeds earnings for the period for which the~~ **" and" Item 1. Business- Supervision and Regulation- The Bank-** ~~dividend~~ **Dividends** ~~is being paid. If the Company experiences losses in a series of consecutive quarters~~ , ~~it~~ **" each included in this Annual Report on Form 10- K. We operate in a highly regulated environment and our business, operations, and income** may be **adversely affected by changes in laws** ~~required to inform and consult with the Federal Reserve supervisory staff prior to declaring or paying any dividends. In this event~~ , **rules, and** ~~there can be no assurance that the Company' s regulators~~ **regulations governing our operations** ~~will approve the payment of such dividends~~. We are subject to ~~regulations~~ and policies for possible changes.We face the risk of becoming subject to new or more stringent requirements in connection with the introduction of new regulations or modifications of existing regulations,which could require us to hold more capital or liquidity or have other adverse effects on our businesses or profitability.Any change in such regulation and oversight,whether in the form of regulatory policy,new regulations or legislation,that applies to us or additional deposit insurance premiums could have a material adverse impact on our operations.Because our business is highly regulated,the laws and applicable regulations are subject to frequent **change** a variety of litigation pertaining to fiduciary and other claims and legal proceedings **in the ordinary course of business and in connection with the Merger**. Currently, there are certain legal proceedings pending against us in the ordinary course of business **and in connection with the Merger. Such legal proceedings have caused us to incur costs and diverted the time and attention of our board and management, and may continue to do so in the future**. While the outcome of any legal proceeding is inherently uncertain, we believe that any liabilities arising from pending legal matters would be immaterial based on information currently available. However, if actual results differ from our expectations, it could have a material adverse effect on the Company ~~'~~ **'** s financial condition, results of operations, or cash flows. For a ~~detailed~~ discussion on current legal proceedings, see **"** Item 3 ~~—~~ **.** Legal Proceedings, **"** and Note ~~26 — Litigation~~ **13. Commitments and Contingencies** of the Notes to Consolidated Financial Statements included in Item 8. We are subject to changes in tax law that could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. In particular, the Tax Cuts and Jobs Act, which was signed into law in December 2017, includes a number of provisions impacting the banking industry and the borrowers and the market for residential and commercial real estate. Changes include a lower limit on the deductibility of interest on residential mortgage loans and home equity loans; a limitation on the deductibility of business interest expense; a limitation on the deductibility of property taxes and state and local income taxes, etc. The law' s limitation on the mortgage interest deduction and state and local tax deduction for individual taxpayers has increased the after- tax cost of owning a home for many of our existing clients. The ~~Inflation Reduction Act, which was signed into law in the United States in August 2022, among other things, imposes a surcharge on stock repurchases. The~~ value of the properties securing loans in our loan portfolio may be adversely impacted as a result of the changing economics of home ownership, which could require an increase in our provision for loan losses, which would reduce our profitability and could materially adversely affect our business, financial condition **,** and results of operations. Further, these changes implemented by this tax law could make some businesses and industries less inclined to borrow, potentially reducing demand for our commercial loan products. Finally, we may be negatively impacted more than our competitors because our business strategy focuses on California, which has a higher cost real estate market compared to other states. We are also subject to potential tax audits in various jurisdictions and in such event, tax authorities may disagree with certain positions we have taken and assess penalties or additional taxes. While we assess regularly the likely outcomes of these potential audits, there can be no assurance that we will accurately predict the outcome of a potential audit, and an audit could have a material adverse impact on our business, results of operations, and financial condition. ~~We~~ **Failure to comply with applicable laws or regulations, or to satisfy our regulators' supervisory expectations, could subject us to supervisory or enforcement action, which could adversely affect our business, financial condition, and results of operations. If we do not comply with applicable laws or regulations, if we** are **deemed to have engaged in unsafe or unsound conduct, or if we do not satisfy our regulators' supervisory expectations, then we may be** subject to ~~extensive regulation and~~ **increased scrutiny,** ~~supervision~~ - **supervisory criticism** ~~by the FRB~~ , ~~the OCC~~ **governmental or private litigation** and **/ or a wide range** ~~the~~

~~CFPB. The FRB regulates the supply~~ of **potential** ~~money and credit in the United States. Its fiscal and~~ monetary **penalties** ~~policies determine in a large part our~~ - **or** ~~cost~~ **enforcement actions. Such actions could arise even if we are acting in good faith or operating under a reasonable interpretation** of ~~funds~~ **the law. Such actions may be public or of a confidential supervisory nature. Such actions could include,** for ~~lending and investing and the return that can be earned~~ **example, monetary penalties, payment of damages, restitution or disgorgement of profits, directives to take remedial action or to cease or modify practices, restrictions** on **growth or expansionary proposals, denial or refusal to accept applications, removal of officers or directors, prohibition on dividends or capital distributions, increases in capital or liquidity requirements and / or termination of** ~~those~~ -- **the** ~~loans~~ **Bank' s deposit insurance. Such actions could have** ~~and~~ - **an adverse** ~~investments, both of which affect~~ **effect on** our **business,** ~~net interest margin. FRB policies can also materially affect the value of~~ financial ~~instruments that we hold~~ **condition and results of operations** , ~~such~~ **including** as **a** ~~debt securities, certain mortgage loans held- for- sale and MSRs. Its policies also can affect our borrowers, potentially increasing the risk that they may fail to repay their loans or satisfy their obligations to us. Changes in policies of the FRB are beyond our control and the impact of changes in those policies on our activities and results~~ - **result** of **reputational harm** ~~operations can be difficult to predict~~ . **Our** ~~The Company and the Bank are heavily regulated. This oversight is to protect depositors, the~~ federal ~~Deposit Insurance Fund (" DIF ") and the banking system as a whole, and not stockholders or debt holders. These regulatory~~ **regulators** ~~authorities~~ have extensive discretion in connection with their supervisory and enforcement activities **over our** ~~, including the ability to impose increased capital requirements and restrictions on a bank' s~~ operations ~~, to reclassify assets, to determine the adequacy of a bank' s allowance for credit losses~~ and **compliance** ~~to set the level of deposit insurance premiums assessed. Congress, state legislatures and federal and state agencies continually review banking, lending and other~~ laws ~~,~~ **and** regulations and policies for possible changes. We...... applicable regulations are subject to frequent change . Any new laws ~~, rules~~ and regulations ~~such as the California Consumer Privacy Act (" CCPA ")~~ could make compliance more difficult ~~,~~ **or** expensive ~~, costly to implement~~ or ~~may~~ otherwise adversely affect our business **. One aspect of our business that we believe presents risks in this particular area is the conflict between federal and state law** , **including but not limited to cannabis and cannabis related businesses, which are legal in the State of California and the State of Colorado and prohibited by federal law. If our risk management and compliance programs prove to be ineffective, incomplete or inaccurate, we could suffer unexpected losses and / or incur fines, penalties or restrictions to operations, which could materially adversely affect our results of operations or** financial condition **. As part of** ~~or~~ **our** ~~growth prospects~~ **federal regulators' enforcement authority, significant civil or criminal monetary penalties, consent orders, or other regulatory actions can be assessed against the Bank** . Such **actions could require us to make** changes ~~could subject us~~ to ~~additional costs~~ **our operations** , ~~limit~~ **including** the ~~types~~ **clients that we serve, and may have an adverse impact on our operating results. The provision** of financial services **to consumers is governed by a wide range** ~~and products we may offer and / or increase the ability~~ of ~~non~~ **laws and regulations, including the Equal Credit Opportunity Act, the Fair Housing Act, the GLBA, and the Dodd** - **Frank Wall Street Reform** ~~banks to offer competing financial services~~ and ~~products, among other things~~ **Consumer Protection Act of 2010** . The CFPB ~~is~~ **, the Justice Department and other federal agencies are generally responsible for enforcing these laws and regulations. Failure to comply with these laws could result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on mergers and acquisitions activity, and restrictions on expansion activity. Private parties may also have the ability to challenge** an ~~independent federal agency with~~ **institution' s performance under certain of these in private or class action litigation. In addition, the CFPB has** broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws ~~, including the laws referenced above, fair lending laws and certain other statutes. The CFPB has examination and primary enforcement authority~~ with respect to **banking organizations with** ~~depository institutions, their affiliates, their service providers and certain non-depository entities such as debt collectors and consumer reporting agencies if the~~ assets of ~~the institution exceed the~~ $ 10 billion ~~threshold~~ **or more** . ~~As~~ **The examination, supervision and enforcement of those laws and implementing regulations by the CFPB have created** a ~~smaller~~ **more intense and complex environment for consumer** ~~financial~~ **finance** ~~institution with~~ **regulation. The Bank has** assets ~~under~~ **of at least** $ 10 billion **; therefore** , we are ~~generally~~ subject to **the** supervision **, examination,** and **primary** enforcement ~~by~~ **jurisdiction of** the ~~OCC~~ **CFPB** with respect to ~~compliance with~~ federal consumer financial protection laws ~~and regulations. However, we are still subject to regulations issued by the CFPB~~ . Compliance with the rules and policies adopted by the CFPB has limited the products we may offer to some or all of our clients, or limited the terms on which those products may be issued, or may adversely affect our ability to conduct our business as previously conducted. We may also be required to add compliance personnel or incur other significant compliance- related expenses. Our business, financial condition, results of operations and / or competitive position may be adversely affected as a result. ~~Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution' s performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the CRA and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.~~ We are subject to ~~government legislation~~ **a wide range of laws related to anti- money laundering, economic sanctions** and ~~regulation~~ **prevention of financial crime** , including but not limited to the **BSA, the** USA PATRIOT ~~and Bank Secrecy Acts~~ - **Act and economic sanctions** ~~, which require financial institutions to develop~~ programs **. We are required** to ~~detect~~ **, among other things, maintain an effective anti-** money laundering ~~,~~ **and counter-** terrorist ~~financing~~ **compliance program** , **identify** and ~~other financial crimes. If detected~~ **file suspicious activity and currency**

transaction reports , ~~financial institutions~~ **and block transactions with sanctioned persons or jurisdictions. Compliance with these laws requires significant investment of management attention and resources. These laws** are ~~obligated to report such activity to~~ **enforced by a number of regulatory authorities, including the FRB, OFAC,** the Financial Crimes Enforcement Network, ~~a bureau of~~ the ~~United States~~ **U. S.** Department of **Justice, Drug Enforcement Administration,** ~~the Treasury. These regulations require financial institutions to establish procedures for identifying~~ and **Internal Revenue Service** ~~verifying the identity of clients and beneficial owners of clients that establish and maintain a relationship with a financial institution~~ . Failure to comply with these **laws, or to meet our** ~~regulations~~ **regulators ' supervisory expectations in connection with these laws,** could **subject** ~~result in fines, sanctions or restrictions that could have a material adverse effect on our strategic initiatives and operating results, and could require~~ us to **supervisory** ~~make changes to our~~ **or** ~~operations~~ **enforcement action, significant financial penalties, criminal liability** and **/ or reputational harm** ~~the clients that we serve~~ . Several banking institutions have received large fines, or suffered limitations on their operations, for non- compliance with these laws and regulations. Although we have developed policies, procedures and processes designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in detecting violations of these laws and regulations. **Severe weather, natural disasters, pandemics, acts of war** ~~Our federal regulators have extensive discretion in connection with their supervisory and enforcement activities over our~~ **or** ~~operations~~ **terrorism** and ~~compliance with the~~ **other external events** ~~USA PATRIOT and Bank Secrecy Acts. Any new laws and regulations~~ could **significantly impact** ~~make compliance more difficult or expensive or otherwise adversely affect~~ our business ~~. One aspect of our business that we believe presents risks in this particular area is the conflict between federal and state law, including but not limited to cannabis and cannabis related businesses, which are legal in the State of California and prohibited by federal law. If our risk management and compliance programs prove to be ineffective, incomplete or inaccurate, we could suffer unexpected losses and / or incur fines, penalties or restrictions to operations, which could materially adversely affect our results of operations or financial condition. As part of our federal regulators' enforcement authority, significant civil or criminal monetary penalties, consent orders, or other regulatory actions can be assessed against the Bank. Such actions could require us to make changes to our operations, including the clients that we serve, and may have an adverse impact on our operating results. The so-called " Volcker Rule " (adopted pursuant to the Dodd- Frank Act) restricts our ability to sponsor or invest in " covered funds " (as defined in the applicable regulations). The Volcker Rule excludes from the definition of " covered fund " loan securitizations that meet specified investment criteria and do not invest in impermissible assets. Accordingly, investments in CLOs that qualify for the loan securitization exclusion are not prohibited by the Volcker Rule. It is our practice to invest only in CLOs that meet the Volcker Rule' s definition of permissible loan securitizations and therefore are Volcker Rule compliant. However, it is possible that certain CLOs in which we have invested may be found subsequently to be covered funds. If so, we may be required to divest our interest in nonconforming CLOs, and we could incur losses on such divestitures. Risks Relating to Markets and External Factors Climate change could have a material negative impact on us and our customers Our business, as well as the operations and activities of our customers, is subject to the potential risks associated with climate change. Climate change presents both immediate and long- term risks to us and our customers and these risks are expected to increase over time. Climate changes presents multi- faceted risks, including (i) operational risk from the physical effects of climate events on our facilities and other assets as well as those of our customers; (ii) credit risk from borrowers with significant exposure to climate risk; and (iii) reputational risk from stakeholder concerns about our practices related to climate change and our carbon footprint. Our business, reputation and ability to attract and retain employees may also be harmed if our response to climate changed is perceived to be ineffective or insufficient. Climate change exposes us to physical risk as its effects may lead to more frequent and more extreme weather events, such as prolonged droughts, an increase in the number and severity of wildfires and extreme seasonal weather; and longer- term shifts, such as increasing average temperatures, ozone depletion and rising sea levels. Such events and long- term shifts may damage, destroy or otherwise impact the value or productivity of our properties and other assets; reduce the availability of insurance; and / or disrupt our operations and other activities through prolonged outages. Such events and long- term shifts may also have a significant impact on our customers, which could amplify credit risk by diminishing borrowers' repayment capacity or collateral values, and other businesses and counterparties with whom we transact, which could have a broader impact on the economy, supply chains and distribution networks. Climate change also exposes us to transition risks associated with the transition to a less carbon- dependent economy. Transition risks may result from changes in policies; laws and regulations; technologies; and / or market preferences to address climate change. Such changes could materially, negatively impact our business, results of operations, financial condition and / or our reputation, in addition to having a similar impact on our customers. Federal and state banking regulators and supervisory authorities, investors and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their customers, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon- intensive environment, we face regulatory risk of increasing focus on our resilience to climate- related risks, including in the context of stress testing for various climate stress scenarios. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit and reputational risks and costs~~ . Severe weather, natural disasters such as earthquakes and wildfires, acts of war or terrorism (and any responses thereto), pandemics (including the ongoing COVID- 19 pandemic), epidemics and other health- related crises, and other adverse external events have had and could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of our borrowers to repay their outstanding loans, cause significant property damage or otherwise impair the value of collateral securing our loans, and result in loss of revenue and / or cause us to incur additional expenses. Although we have established disaster recovery and business continuity plans and procedures, and we monitor the effects of any such events on our loans, properties and investments, the occurrence of any such event could have a material adverse effect on us or our results of operations and our financial condition. ~~Our business, financial condition, liquidity, capital and results of operations have been, and will likely continue to be, adversely affected by the COVID- 19 pandemic. The COVID- 19 pandemic created economic and financial disruptions that have adversely affected, and may continue to adversely affect, our business, financial condition, liquidity, capital and results of operations. We cannot predict at this time the extent to which the COVID- 19 pandemic will continue to negatively affect our business, financial condition, liquidity, capital and results of operations. The extent of any continued or future adverse effects of the COVID- 19 pandemic will depend on future developments, which are highly uncertain and outside our control, including the scope and duration of the pandemic, the direct and indirect impact of the pandemic on our employees, clients, customers, counterparties and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.~~ Ongoing geopolitical instability, including as a result of Russia' s invasion of Ukraine **and the recent Middle East conflict** , has negatively impacted, and could in the future negatively impact, the global and U. S. economies, including by causing supply chain disruptions, rising prices for oil and other commodities, volatility in capital markets and foreign currency exchange rates, rising interest rates and heightened cybersecurity risks. The extent to which such geopolitical instability ~~, such as Russia' s invasion of Ukraine,~~ adversely affects our business, financial condition and results of operations, as well as our liquidity and capital profile, will depend on future developments, which are highly uncertain and unpredictable, including with respect to Russia' s invasion **of Ukraine and the Middle East conflict** , **and** the extent and duration of the ~~invasion~~ **conflict in Ukraine** and **in the Middle East** ~~economic sanctions imposed on Russia~~ , and the humanitarian toll inflicted ~~on Ukraine~~ **by such conflicts. The upcoming U. S. presidential election may also create additional domestic and global economic uncertainty** . If geopolitical instability adversely affects us, it may also have the effect of heightening other risks related to our business. **There is uncertainty surrounding potential legal, regulatory, and policy changes by new presidential administrations in the United States that may directly affect financial institutions and the global economy. 2024 is a presidential election year in the United States. At this time, it is difficult to predict the legislative and regulatory changes that will result due to the upcoming election. A new administration, or a change in the make- up of either the Senate and / or House of Representatives may cause broader economic changes due to changes in governing ideology and governing style. New appointments to the Board of Governors of the Federal Reserve could affect monetary policy and interest rates, and changes in fiscal policy could affect broader patterns of trade and economic growth. Future legislation, regulation, and government policy could affect the banking industry as a whole, including our business and results of operations, in ways that are difficult to predict. In addition, our results of operations also could be adversely affected by changes in the way in which existing statutes and regulations are interpreted or applied by courts and government agencies.** Our financial condition and results of operations are dependent on the national and local economy, particularly in the Bank' s market areas. A worsening in economic conditions in the market areas we serve may impact our earnings adversely and could increase the credit risk of our loan portfolio. We cannot accurately predict the possibility of the national or local economy' s return to recessionary conditions or to a period of economic weakness, which would adversely impact the markets we serve. Our primary market area is concentrated in the greater Los Angeles, Orange, San Diego, ~~and Santa~~ -- **San** ~~Barbara~~ **Bernardino, Riverside and Ventura** counties **of California, with full- service branches also located in Denver, Colorado and Durham, North Carolina** . Adverse economic conditions in any of these areas can reduce our rate of growth, affect our clients' ability to repay loans and adversely impact our financial condition and earnings. General economic conditions, including inflation, unemployment and money supply fluctuations, also may affect our profitability adversely. A deterioration in economic conditions could result in a number of consequences, including but not limited to the following, any of which could have a material adverse effect on our business, financial condition **,** and results of operations: • Demand for our products and services may decline; • Loan delinquencies, problem assets and foreclosures may increase; • Collateral for our loans may decline in value; and • The amount of our low cost or noninterest- bearing deposits may decrease. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and routinely execute transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose us to credit risk in the event of a default by a counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to us. Any such losses could have a material adverse effect on our business, financial condition **,** and results of operations. Competition in the banking and financial services industry is intense. In our market areas, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, non- bank lenders, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Many of these competitors have substantially greater name recognition, resources and lending limits than we do and may offer certain services or prices for services that we do not or cannot provide. Our profitability depends upon our continued ability to successfully compete in our markets. Continued technological advances, including cryptocurrencies and blockchain and other distributed ledger technologies, and the growth of e- commerce have made it possible for non- depository institutions to offer products and services that traditionally were banking products, and for financial institutions and other companies to provide electronic and internet- based financial solutions, including electronic securities trading, lending and payment solutions. In addition, technological advances, including digital currencies and alternative payment methods, may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, our future success will depend, in part, upon our ability to address the needs of our clients by using technology to provide products and services that will satisfy client demands for convenience, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology- driven products and services or be successful in marketing these products and services to our clients. ~~Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase stockholder value through various corporate actions. In the past, we have added to our board of directors members affiliated with two of our major stockholders, PL Capital Advisors LLC (" PL Capital ") and Patriot Financial Partners. However, we may have disagreements with activist stockholders which could prove disruptive to our operations. Activist stockholders could seek to elect their own candidates to our board of directors or could take other actions intended to challenge our business strategy and corporate governance. Responding to actions by activist stockholders may adversely affect our profitability or business prospects, by diverting the attention of management and our employees from executing our strategic plan. Any perceived uncertainties as to our future direction or strategy arising from activist stockholder initiatives could also cause increased reputational, operational, financial, regulatory and other risks, harm our ability to raise new capital, or adversely affect the market price or increase the volatility of our securities. Short selling is the practice of selling securities that the seller does not own but rather has borrowed or intends to borrow from a third party with the intention of buying identical securities at a later date to return to the lender. A short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares. Some short sellers may seek to drive down the price of shares they have sold short by disseminating negative reports about the issuers of such shares. During late 2016, we became aware of certain allegations posted anonymously in various financial blog posts. The authors of the blog posts have typically disclosed that they hold a short position in our stock. Following the blog posting in late 2016, the market price of our common stock initially dropped significantly. While the price of our common stock subsequently increased, any additional postings and other negative publicity that have previously led to intense public scrutiny, may cause further volatility in our stock price and a decline in the value of a stockholder' s investment in us. When the market price of a company' s stock drops significantly, as ours did initially following the posting of the first blog, it is not unusual for stockholder lawsuits to be filed or threatened against the company and its board of directors and for a company to suffer reputational damage. Multiple lawsuits were in fact threatened and filed against us shortly following the posting of the first blog. These lawsuits, and any other lawsuits, have caused us to incur substantial costs and diverted the time and attention of our board and management, and may continue to do so in the future. In addition, reputational damage to us may affect our ability to attract and retain deposits and may cause our deposit costs to increase, which could adversely affect our liquidity and earnings. Reputational damage may also affect our ability to attract and retain loan clients and maintain and develop other business relationships, which could likewise adversely affect our earnings. Continued negative reports issued by short sellers could also negatively impact our ability to attract and retain employees.~~