Risk Factors Comparison 2024-02-28 to 2023-02-28 Form: 10-K

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In the course of conducting our business operations, we are exposed to a variety of risks. Some of these risks are inherent in the financial services industry and others are more specific to our own business. Together with the other information on the risks we face and our management of risk contained in this Annual Report, the following presents the most significant risks of which we are currently aware ~~which~~ **that** may affect us. Events or circumstances arising from one or more of these risks could adversely affect our business, financial condition, operating results and prospects and the value and price of our common stock could decline. The risks identified below are not intended to be a comprehensive list of all risks we face, and additional risks that we may currently view as not material may also impair our business operations, financial condition and **operating** results ~~. Risks relating to the COVID- 19 Pandemic The COVID- 19 pandemic has significantly impacted the banking industry and our business, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic. The COVID- 19 pandemic has negatively impacted the global, U. S., California and local economies, disrupted supply chains, affected equity market valuations, and created significant volatility and disruption in financial markets, although economic growth and employment levels had largely rebounded by the end of 2021. Similarly, the initial imposition of temporary business closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities have been relaxed or rescinded as the COVID- 19 pandemic has become more endemic. Our operations, like those of other financial institutions that operate in our markets, are significantly influenced by economic conditions in California, including the strength of the real estate market and business conditions in the industries to which we lend or from which we gather deposits. The COVID- 19 pandemic has resulted in heightened volatility with respect to the revenues of many business sectors as well as in commercial and residential property sales and construction activities. As a result, the demand for our products and services has been significantly impacted by the actions of federal, state and local governments in response to the pandemic. As there continues to be a degree of remaining uncertainty around the epidemiological assumptions and impact of government responses to the pandemic, no assurance can be given that resulting impacts to economic conditions could adversely affect the Company' s service areas or other circumstances that could be reflected in an increased allowance for credit losses in future periods. For the year ended December 31, 2022, our allowance for credit losses increased $ 10. 6 million, compared to a decrease of $ 25. 5 million in provision for credit losses for 2021. Depending on the scope and duration of various impacts of the COVID- 19 pandemic, there is a possibility that additional provisions for credit losses may be necessary in the future. Similarly, because of possible changing economic and market conditions affecting bond issuers, we may be required to recognize credit losses in future periods on the securities we hold as well as reductions in other comprehensive income. Our business operations could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of COVID- 19 in our market areas. Although we have business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. In addition, we rely upon our third- party vendors to conduct business and to process, record, and monitor transactions. If any of these vendors are unable to continue to provide us with these services, it could negatively impact our ability to serve our customers. The extent to which the COVID- 19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are uncertain and cannot be predicted, including the scope and duration of the various impacts from the pandemic, including the effectiveness, distribution and uptake rates of vaccines, boosters and medical treatments, and actions taken by governmental authorities and other third parties in response to the pandemic. Our bank elected to participate as a lender in the Small Business Administration' s Paycheck Protection Program (PPP) and has accordingly become subject to a number of significant risks applicable to lenders under the PPP. As one set of responses to the COVID- 19 pandemic, our federal, state and local governments have promulgated a wide variety of laws, regulations, executive orders and programs designed to ameliorate the severe and widespread economic distress caused by the mandatory closings of many businesses throughout the State of California and counties in which we operate. One such program is the PPP enacted under the federal CARES Act and Economic Aid Act. This program is designed, among other things, to provide employee payroll maintenance support for small and medium- sized businesses throughout the United States, including in the State of California, through loans made by authorized lenders and guaranteed by the federal Small Business Administration (SBA). Because the Company is an authorized SBA lender and our primary customer base consists of small and medium- sized businesses, the Company has actively participated in the PPP. Including the second round of funding, after legislation passed on April 24, 2020, we originated and funded approximately 4, 100 PPP loans totaling approximately $ 1. 1 billion, substantially all of which was forgiven through December 31, 2021. On January 13, 2021, the SBA reopened the PPP for" Second Draw" loans to small businesses and non- profit organizations. We originated and funded more than 1, 900 Second Draw loan applications totaling approximately $ 420 million. As of December 31, 2022, $ 9. 1 million PPP loans remained outstanding. Under interim final regulations promulgated by the SBA, PPP lenders are entitled to rely on borrower certifications with respect to issues such as program eligibility and eligible loan amounts, and PPP loans are designed to be subsequently forgivable, in whole or part, if certain additional criteria are met by the borrower with respect to employee payroll maintenance. However, in view of the fact that the PPP was by design intended to support economically distressed businesses, the SBA' s guarantee of PPP loan amounts to participating lenders is a critical feature of the program. In this regard, because the PPP was quickly implemented into operation and the SBA' s interim regulations were frequently revised, there are significant risks to the Company' s participation in the PPP, including whether certain borrowers~~

~~will ultimately be found to have been eligible for PPP loans, whether eligible PPP loan amounts for certain borrowers were correctly calculated, whether certain PPP loans will ultimately be determined to be forgivable, and if not, whether the SBA's guarantee will continue to apply to any unforgiven PPP loan amounts. To date, our customers who have had their forgiveness requests reviewed by the SBA have received nearly 100 % loan forgiveness~~ . Credit Risks Our allowance for credit losses may not be sufficient to cover actual losses **.** A significant source of risk arises from the possibility that we could sustain losses because borrowers, guarantors, and related parties may fail to perform in accordance with the terms of their loans and leases. The underwriting and credit monitoring policies and procedures that we have adopted to address this risk may not prevent unexpected losses that could have a material adverse effect on our business, financial condition, results of operations and cash flows. We maintain an allowance for credit losses to provide for loan and lease defaults and non- performance, which also includes increases for new loan growth. While we believe that our allowance for credit losses is appropriate to cover currently expected losses, we cannot assure you that we will not increase the allowance for credit losses in the future or that our regulators will not require us to increase this allowance. We may be required to make additional provisions for credit losses and charge- off additional loans in the future, which could adversely affect our results of operations **.** For the year ended December 31, ~~2022~~ **2023** , we recorded $ **2** ~~10. 6~~ million in provision for credit losses. During ~~2022~~ **2023** , we experienced charge- offs of $ ~~197~~ **405** , 000 and recoveries of $ **130, 000** ~~1. 1 million~~ , resulting in net ~~recoveries~~ **charge- offs** of $ ~~893~~ **275** , 000. **We** ~~Because we~~ have a significant amount of real estate loans **, therefore** , decreases in real estate values could adversely affect the value of property used as collateral for our loans. As of December 31, ~~2022~~ **2023** , we had $ 6. ~~88~~ **78** billion in commercial real estate loans, $ ~~88~~ **66** . ~~3~~ **7** million in construction loans, and $ ~~266~~ **269** . ~~0~~ **9** million in single- family residential mortgages. Low interest rates through the pandemic caused real estate values in general to increase materially due to low cost of funding with inflationary upward pressures on cash flow. There is no assurance that recent rental rate increases across any segment of the real estate property classes is sustainable with reasonable possibility of moderate decline to stabilization. Capitalization Rates used to determine value have increased due to overall cost of capital causing some downward pressure on real estate values. These issues could affect the ability of our loan customers to refinance or service their debts, including those customers whose loans are secured by commercial or residential real estate. This, in turn, could result in loan charge- offs and provisions for credit losses in the future, which could have a material adverse effect on our financial condition, net income and capital. Our dairy & livestock and agribusiness lending presents unique credit risks. As of December 31, ~~2022~~ **2023** , approximately 4. ~~8~~ **7** % of our total gross loan portfolio was comprised of dairy & livestock and agribusiness loans. As of December 31, ~~2022~~ **2023** , we had $ ~~433~~ **412** . ~~6~~ **9** million in dairy & livestock and agribusiness loans, including $ ~~388~~ **374** . ~~5~~ **9** million in dairy & livestock loans and $ ~~45~~ **38** . ~~1~~ **0** million in agribusiness loans. Repayment of dairy & livestock and agribusiness loans depends primarily on the successful raising and feeding of livestock or planting and harvest of crops and marketing the harvested commodity (including milk production). Collateral securing these loans may be illiquid. In addition, the limited purpose of some agricultural- related collateral affects credit risk because such collateral may have limited or no other uses to support values when loan repayment problems emerge. Our dairy & livestock and agribusiness lending staff have specific technical expertise that we depend on to mitigate our lending risks for these loans and we may have difficulty retaining or replacing such individuals. Many external factors can impact our agricultural borrowers' ability to repay their loans, including the effects of inflation, adverse weather conditions, water issues, commodity price volatility (i. e. milk prices), diseases, land values, production costs, changing government regulations and subsidy programs, changing tax treatment, technological changes, labor market shortages / increased wages, and changes in consumers' preferences, over which our borrowers may have no control. These factors, as well as recent volatility in certain commodity prices, including milk prices, could adversely impact the ability of those to whom we have made dairy & livestock and agribusiness loans to perform under the terms of their borrowing arrangements with us, which in turn could result in credit losses and adversely affect our business, financial condition and results of operations. Our loan portfolio is predominantly secured by real estate in California and thus we have a higher degree of risk from a downturn in our real estate markets **.** A renewed downturn in our real estate markets could hurt our business because most of our loans are secured by real estate. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax laws and other governmental statutes, regulations and policies, and acts of nature, such as earthquakes, prolonged drought and disasters particular to California. **A** ~~Substantially~~ -- **substantial** ~~all~~ **amount** of our real estate collateral is located in the state of California. If real estate values, including values of land held for development, should again start to decline, the value of real estate collateral securing our loans could be significantly reduced. Our ability to recover on defaulted loans by foreclosing and selling the real estate collateral would then be diminished and we would be more likely to suffer losses on defaulted loans. Commercial real estate loans typically involve large balances to single borrowers or a group of related borrowers. Since payments on these loans are often dependent on the successful operation or management of the properties, as well as the business and financial condition of the borrower (s), repayment of such loans may be subject to adverse conditions in the real estate market, adverse economic conditions or changes in applicable government regulations. Additional risks associated with our real estate construction loan portfolio include failure of developers and / or contractors to complete construction on a timely basis or at all, market deterioration during construction, cost overruns and failure to sell or lease the security underlying the construction loans so as to generate the cash flow anticipated by our borrower. A decline in the economy may cause renewed declines in real estate values and increases in unemployment, which may result in higher than expected loan delinquencies or problem assets, a decline in demand for our products and services, or a lack of growth or decrease in deposits, which may cause us to incur losses, adversely affect our capital or hurt our business. Our commercial real estate loan portfolio exposes us to risks that may be greater than the risks related to our other loans **.** Federal and state banking regulators are examining commercial real estate lending activity with heightened scrutiny and may require banks with higher levels of commercial real estate loans to implement more stringent underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Because a significant portion of our loan portfolio is comprised of commercial real estate loans, the banking regulators may require us to maintain higher levels of capital than we would otherwise be expected to maintain, which could limit our ability to leverage our capital and have a material adverse effect on our business, financial condition, results of operations and prospects. We are exposed to risk of environmental liabilities with respect to properties to which we take title **.** In the course of our business, we may foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties. While we will take steps to mitigate this risk, we may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean- up costs incurred by these parties in connection with environmental contamination, or we may be required to investigate or clean- up hazardous or toxic substances, or chemical releases at one or more properties. The costs associated with investigation or remediation activities could be substantial. In addition, while there are certain statutory protections afforded lenders who take title to property through foreclosure on a loan, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. If we become subject to significant environmental liabilities, our business, financial condition, results of operations and prospects could be adversely affected. Liquidity and Interest Rate Risks Liquidity risk could impair our ability to fund operations and jeopardize our financial condition **.** Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of investment securities, loans and other sources could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us. Our ability to acquire deposits or borrow could also be impaired by factors that are not specific to us, such as the effects of inflation, rising interest rates, a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Many if not all of these same factors could also significantly raise the cost of deposits to our Company and / or to the banking industry in general. This in turn could negatively affect our ability to attract deposits generally and the amount of interest we pay on our interest- bearing liabilities, which could have an adverse impact on our interest rate spread and profitability. **Negative developments affecting the banking industry could adversely impact our liquidity. High- profile bank failures in 2023 generated significant market volatility among publicly traded bank holding companies and, in particular, regional community banks like the Bank. These market developments negatively impacted customer confidence in the safety and soundness of smaller regional and community banks. As a result, customers may choose to maintain deposits with larger more systemically important financial institutions or invest in higher yielding and higher- rated short- term fixed income securities, all of which could materially adversely impact the Bank' s liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Bank currently has access to substantial borrowing capacity from the Federal Reserve Bank, the Federal Home Loan Bank and credit facilities established with larger banks, there can be no assurance that customer confidence in regional banks and the banking system more broadly will be fully restored or that potential liquidity concerns will recede or that such access will continue unimpaired.** The actions and commercial soundness of other financial institutions could affect our ability to engage in routine funding transactions **.** Financial service institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to different industries and counterparties, and execute transactions with various counterparties in the financial industry, including brokers and dealers, commercial banks, investment banks, mutual funds, and other institutional clients. Defaults by financial services institutions, even rumors or questions about one or more financial institutions or the financial services industry in general, could lead to market wide liquidity problems and further, could lead to losses or defaults by the Company or other institutions. Many of these transactions expose us to credit risk in the event of default of the applicable counterparty or client. In addition, our credit risk may increase when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due to us. Any such losses could materially and adversely affect our consolidated financial statements. We may not be able to maintain a strong core deposit base or other low- cost funding sources **.** We depend on checking, savings and money market deposit account balances and other forms of customer deposits as our primary source of funding for our lending activities. Future growth in our banking business will largely depend on our ability to maintain and grow a strong deposit base. There is no assurance that we will be able to grow and maintain our deposit base. Deposit balances can decrease when customers perceive alternative investments, such as the stock market, bond market or real estate, as providing a better risk / return tradeoff. If customers move money out of bank deposits and into investments (or similar deposit products at other institutions that may provide a higher rate of return), we could lose a relatively low cost source of funds, increasing our funding costs and reducing our net interest income and net income. Additionally, any such loss of funds could result in lower loan originations, which could adversely impact our growth strategy. ~~Changes in interest rates could reduce the value of our investment securities holdings. The Bank maintains an investment portfolio consisting of various high quality liquid fixed- income securities. The total book value of the securities portfolio as of December 31, 2022 was $ 5. 81 billion, of which $ 3. 26 billion is available for sale. The nature of fixed- income securities is such that changes in market interest rates impact the value of these assets.~~ Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance **.** A substantial portion of our income is derived from the differential or " spread " between the interest earned on loans, securities and other interest- earning assets, and the interest paid on deposits, borrowings and other interest- bearing liabilities. Because of the differences in the maturities and repricing characteristics of our interest- earning assets and interest- bearing liabilities, changes in interest rates do not produce equivalent changes in interest income earned on interest- earning assets and interest paid on interest- bearing liabilities. At December 31, ~~2022~~ **2023 ,** our balance sheet was positioned with an asset sensitive bias over both a one and two- year horizon assuming no balance sheet growth, and as a result, our net interest margin tends to expand in a rising interest rate environment and decrease in a declining interest rate environment. Accordingly, fluctuations in interest rates could adversely affect our interest rate spread and, in turn, our profitability. Loan origination volumes may be affected by changes in market interest rates. In addition, in rising interest rate environments, loan repayment rates may decline and in falling interest rate environments, loan repayment rates may increase. **Rising interest rates may also cause a decline in principal payments, while a decline in interest rates may accelerate principal payments for a significant portion of our investment securities.** In ~~addition, in~~ a rising interest rate environment, we may need to accelerate the pace of rate increases on our deposit accounts as compared to the pace of future increases in short- term market rates and our customers could move their deposits with us to institutions that pay higher interest rates on deposits accounts. Accordingly, changes in levels of market interest rates could materially and adversely affect our net interest spread, asset quality, levels of deposits, as well as loan origination and prepayment volume. **Elevated interest rates have decreased the market value of the Company’ s available for sale and held- to- maturity securities and loan portfolios, and the Company would realize losses if it were required to sell such securities or loans to meet liquidity needs. As a result of inflationary pressures that resulted in rapid increases in interest rates initiated by the Federal Reserve over the last year, the mark- to- market values of previously purchased fixed income securities have declined significantly. At December 31, 2023, the total carrying value of our securities portfolio was $ 5. 42 billion, of which $ 2. 96 billion was available- for- sale and $ 2. 46 billion was held- to- maturity. The aggregate pre- tax net unrealized loss in our AFS securities was $ 449. 8 million at December 31, 2023. Based on estimated fair values, the aggregate pre- tax net unrealized loss in our HTM securities was approximately $ 381. 7 million at December 31, 2023. In addition, the fair value of many of our loans, which have interest rates that are fixed until maturity or reset on a future date, has been negatively impacted by the increase in interest rates from the time these loans were originated While the Company does not currently intend to sell these securities or loans, if the Company were required to sell such securities or loans to meet liquidity needs, it could incur losses, which could impair the Company’ s capital, financial condition, and results of operations, thereby negatively impacting our profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board established the Bank Term Funding Program (available until March 11, 2024) to eligible depository institutions secured by U. S. treasuries, agency debt and mortgage- backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that this program or the Company' s other borrowing facilities will be effective in addressing the Company' s liquidity needs as they arise. Hedging against interest rate exposure may adversely affect our earnings. On occasion we have employed various financial risk methodologies that limit, or “ hedge, ” the adverse effects of rising or decreasing interest rates on our loan portfolios, investment securities and short- term liabilities.** We **also engage in hedging strategies with respect to arrangements where our customers swap floating interest rate obligations for fixed interest rate obligations, or vice versa. Our hedging activity varies based on the level and volatility of interest rates and other changing market conditions. There are no perfect hedging strategies, and interest rate hedging may fail to protect us from loss. Moreover, hedging activities could result in losses if the event against which we hedge does not occur. Additionally, interest rate hedging could fail to protect us or adversely affect us because, among other things: • Available interest rate hedging may not correspond directly with the interest rate risk for which protection is sought; • The duration of the hedge may not match the duration of the related asset or liability; • The party owing money in the hedging transaction may default on its obligation to pay; • The credit quality of the party owing money on the hedge may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; • The value of derivatives used for hedging may be adjusted from time to time in accordance with accounting rules to reflect changes in fair value; and / or • Downward adjustments, or “ mark- to- market ” losses, would reduce our stockholders’ equity. Operational Risks We face risks related to our operational, technological and organizational infrastructure. Our ability to grow and compete, including to develop and deliver new products that meet the needs of our existing customers and attract new ones, is dependent on our ability to build or acquire the necessary operational and technological infrastructure and to manage the cost of that infrastructure as we expand. Our ability to run our business in compliance with applicable laws and regulations is also dependent on that infrastructure. Operational risk can manifest itself in ~~may~~ many ways, such as errors related to failed or inadequate processes, faulty or disabled computer systems, fraud by employees or outside persons and exposure to external events, and we are dependent on our operational infrastructure to help manage these risks. In addition, we are heavily dependent on the strength and capability of our technology systems, which we use both to interface with our customers and to manage our internal financial records and other systems. Any shortcomings in our technology systems subjects us to risk of misconduct by our employees that may go undetected. We monitor our operational and technological capabilities and make modifications and improvements when we believe it will be cost effective to do so. We may build and maintain these capabilities ourselves, or we may outsource some of these functions to third parties. If we experience difficulties, fail to comply with banking regulations or keep up with increasingly sophisticated technologies, our operations could be interrupted. If an interruption were to continue for a significant period of time, our business, financial condition and results of operations could** be adversely **affected** ~~impacted by the transition from LIBOR as a reference rate In 2017~~ , **perhaps materially** ~~the United Kingdom’ s Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate (“ LIBOR ”)~~ . **Even if** ~~This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such~~

~~changes in views or alternatives may be on the markets for LIBOR- indexed financial instruments. We have a number of loans, derivative contracts, and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The Company established a LIBOR Transition Task Force in 2020, which has inventoried our instruments that reflect exposure to LIBOR, created a framework to manage the transition and established a timeline for key decisions and actions to complete the transition from LIBOR by June of 2023. The transition from LIBOR could create additional costs and risk. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. The transition could change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although~~ we are ~~currently unable~~ -- **able** to **replace** ~~assess what the~~ **them , it may** ~~ultimate impact of the transition from LIBOR will~~ be ~~, failure~~ **at a higher cost** to **us, which** ~~adequately manage the transition~~ could ~~have a material~~ **materially** ~~adverse~~ **adversely** ~~effect~~ **affect** ~~on~~ our business, financial condition and results of operations. ~~Operational Risks~~ Failure to manage our growth may adversely affect our performance **.** Our financial performance and profitability depend on our ability to manage past and possible future growth. **Past and** ~~Future~~ **future** acquisitions and our continued organic growth may present operating, integration, regulatory, management and other issues that could have a material adverse effect on our business, financial condition, results of operations and cash flows. Acquisitions are and have been a key element of our growth strategy. Certain events may arise after our acquisition of a financial institution or business, or we may learn of certain facts, events or circumstances after the completion of an acquisition, that may affect our financial condition or performance or subject us to risk of loss. These events include, but are not limited to: our success in integrating the operations, retaining key employees and customers, achieving anticipated synergies, meeting expectations and otherwise realizing the anticipated benefits of the acquisition; litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. In addition, if we determine that the value of an acquired business had decreased and that the related goodwill was impaired, an impairment of goodwill charge to earnings would be recognized. Acquisitions involve inherent uncertainty and we cannot determine all potential events, facts and circumstances that could result in loss or increased costs or give assurances that our due diligence or mitigation efforts will be sufficient to protect against any such loss or increased costs. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and / or other projected benefits from an acquisition could have a material adverse effect on our business, financial condition and results of operations. The occurrence of fraudulent activity, breaches or failures of our information security controls or cybersecurity- related incidents **to either our information systems or information systems provided by third party vendors** could have a material adverse effect on our business, financial condition and results of operations **.** As a financial institution, we are susceptible to fraudulent activity, information security breaches and **other** cybersecurity- related incidents **and attacks** that may be committed against us **,** ~~or~~ **our customers** ~~our~~ - **or key vendors and business partners** ~~clients, including by our own employees~~ , which **in turn** may result in financial losses or increased costs to us **,** ~~or~~ **our customers,** ~~our~~ - **or** ~~clients~~ **our key vendors and business partners** , disclosure or misuse of our information or our ~~client~~ **customer** information, **theft or** misappropriation of assets **(including bank or customer funds)** , privacy breaches against **us** ~~our~~ - **or** ~~clients~~ **our customers** , litigation, ~~or~~ **regulatory enforcement actions, and** damage to our reputation. **The U. S. government has warned financial institutions of** ~~Such fraudulent activity may take many forms, including check fraud, electronic fraud, wire fraud, on- line banking, takeover, phishing, social engineering and other~~ -- **the potential increase in** ~~dishonest acts. Information security breaches and cybersecurity- related incidents may include fraudulent or unauthorized access to systems used by us or our clients, denial or degradation of service attacks, and malware or other~~ -- **the frequency and severity of malicious** cyber- attacks **and other** ~~. There continues to be a rise in electronic fraudulent activity~~ **activities involving critical infrastructure** , ~~security breaches~~ **specifically including the financial sector,** and **has encouraged the banking sector to enhance cyber- defenses, and these risks have increased in connection with the current conflicts involving Ukraine and Russia in Europe and Israel and Hamas in the Middle East. While CBB has taken measures to protect its own and customer funds and confidential information against** cyber- attacks ~~within the financial services industry~~ , **as well as** ~~especially in the commercial banking sector due to cyber criminals targeting commercial bank accounts. In recent periods, several large corporations, including financial institutions, medical providers and retail companies, have suffered major data breaches, in some cases exposing not only confidential and proprietary corporate information, but also sensitive financial and~~ other ~~personal information of~~ **malicious activities,** ~~their~~ - **there can be no assurance** ~~customers and employees and subjecting them to potential fraudulent activity. Some of our clients may have been affected by these breaches, which increase their risks of identity theft, credit card fraud and other fraudulent activity~~ that ~~could involve their accounts with us~~ **such measures will be successful in thwarting such attacks and activities** . Information pertaining to us and our clients is maintained, and transactions are executed, such as our online banking or core systems on the networks and systems of ours, our clients and certain of our third party providers. The secure maintenance and transmission of confidential information, as well as execution of transactions over these systems, are essential to protect us and our clients against fraud and security breaches and to maintain our clients' confidence. In addition, increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third- party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our clients and underlying transactions, as well as the technology used by our clients to access our systems. Although we continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber- attacks and periodically test our security, our inability to anticipate, or failure to adequately mitigate, breaches of security could result in: losses to us or our clients; our loss of business and / or clients; damage to our reputation; the incurrence of additional expenses; disruption to our business; our inability to grow our online services or other businesses; additional regulatory scrutiny or penalties; or our exposure to civil litigation and possible financial liability — any of which could have a material adverse effect on our business, financial condition and results of operations. More generally, continued publicized information concerning security and cyber-related problems could inhibit the use or growth of electronic or web- based applications or solutions as a means of conducting commercial transactions for us and other financial institutions. Such publicity may also cause damage to our reputation as a financial institution. As a result, our business, financial condition and results of operations could be adversely affected. Our business is exposed to the risk of changes in technology **.** The rapid pace of technology changes and the impact of such changes on financial services generally and on our Company specifically could impact our cost structure and our competitive position with our customers. Such developments include the rapid movement by customers and some competitor financial institutions to web- based services, mobile banking and cloud computing. Our failure or inability to anticipate, plan for or implement technology change could adversely affect our competitive position, financial condition and profitability. Our controls and procedures could fail or be circumvented **.** Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and on the conduct of individuals, and can provide only reasonable, but not absolute, assurances of the effectiveness of these systems and controls, and that the objectives of these controls have been met. Any failure or circumvention of our controls and procedures, and any failure to comply with regulations related to controls and procedures could adversely affect our business, results of operations and financial condition. Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial condition and results of operations accurately and on a timely basis **.** A failure to maintain effective internal control over financial reporting or disclosure controls and procedures could adversely affect our ability to report our financial results accurately and on a timely basis, which could result in a loss of investor confidence in our financial reporting or adversely affect our access to sources of liquidity. Furthermore, because of the inherent limitations of any system of internal control over financial reporting, including the possibility of human error, the circumvention or overriding of controls and fraud, even effective internal controls may not prevent or detect all misstatements. 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 rely heavily on third- party service providers for much of our communications, information, operating and financial control systems technology, including our internet banking services and data processing systems. Any failure or interruption of these services or systems or breaches in the security of these systems could result in failures or interruptions to serve our customers, including deposit, servicing and / or loan origination systems. The occurrence of any failures or interruptions may require us to identify alternative sources of such services, which may result in increased costs or other consequences that in turn could have an adverse effect on our business, including damage to the Bank' s reputation. We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects **.** Competition for qualified employees and personnel in the banking industry is intense and there are a limited number of qualified persons with knowledge of, and experience in, the California community banking industry. The process of recruiting personnel with the combination of skills and attributes required to carry out our strategies is often lengthy. In addition, legislation and regulations which impose restrictions on executive compensation may make it more difficult for us to retain and recruit key personnel. Our success depends to a significant degree upon our ability to attract and retain qualified management, loan origination, finance, administrative, risk management, marketing and technical personnel and upon the continued contributions of our management and personnel. In particular, our success has been and continues to be highly dependent upon the abilities of key executives, including our President and Chief Executive Officer, and certain other key employees. If our enterprise risk management framework is not effective at mitigating risk and loss to us, we could suffer unexpected losses and our results of operations could be materially adversely affected. Our enterprise risk management framework seeks to achieve an appropriate balance between risk and return, which is critical to optimizing shareholder value. We have established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which we are subject, including credit, liquidity, operational, regulatory, compliance and reputational risks. However, as with any risk management framework, there are inherent limitations to our risk management strategies as there may exist, or develop in the future, risks that we have not appropriately managed, anticipated or identified. If our risk management framework proves ineffective, we could suffer unexpected losses and our business and results of operations could be materially adversely affected. Changes in stock market prices could reduce fee income from our brokerage, asset management and investment advisory businesses **.** We earn wealth management fee income for managing assets for our clients and also providing brokerage and investment advisory services. Because investment management and advisory fees are often based on the value of assets under management, a fall in the market prices of those assets could reduce our fee income. Changes in stock market prices could affect the trading activity of investors, reducing commissions and other fees we earn from our brokerage business. **Our accounting** ~~We may experience goodwill impairment If our~~ estimates ~~of~~ **and risk management processes rely on analytical and forecasting models. The processes we use to estimate our expected credit losses and to measure the** fair value ~~change due~~ **of financial instruments, as well as the processes used** to **estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset- liability management are inadequate, we may incur increased or unexpected losses upon** changes in **market interest rates** ~~our~~ ~~market stress or other unforeseen circumstances.Even if these assumptions are adequate,the models may prove to be inadequate or inaccurate because of other~~

~~flaws in their design or their implementation.If the models we use for interest rate risk and asset- liability management are inadequate,we may incur increased or unexpected losses upon changes in market interest rates~~ or other market measures.If the models we use for determining our expected credit losses are inadequate,the allowance for credit losses may not be sufficient to support future charge- offs.If the models we use to measure the fair value of financial instruments are inadequate,the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments.Any such failure in our analytical or forecasting models could have a material adverse effect on our business,financial condition and results of operations.Our decisions regarding the fair value of assets acquired could be different than initially estimated,which could materially and adversely affect our business,financial condition,results of operations,and future prospects **.** In business combinations,we acquire significant portfolios of loans that are marked to their estimated fair value.The fluctuations in national,regional and local economic conditions,including those related to local residential,commercial real estate and construction markets,may increase the level of charge- offs or the allowance for credit losses in the loan portfolio that we acquire and correspondingly reduce our net income.These fluctuations are not predictable,cannot be controlled and may have a material adverse impact on our operations and financial condition,even if **other favorable events occur.If the goodwill that we recorded in connection with business acquisitions becomes impaired,it could require charges to earnings,which would have a negative impact on our financial condition and results of operations.Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of the** businesses ~~or other factors,~~ we ~~may determine~~ **acquired. Goodwill has an indefinite useful life and is not amortized, however, it is tested for impairment at least annually, or more frequently, if events and circumstances exist** that **indicate that the carrying value of the asset might be** ~~impairment~~ **impaired , including** ~~charges on goodwill recorded~~ as a result of ~~acquisitions are necessary~~ **a decline in our stock price and market capitalization below our stated book value. We determine impairment by comparing the implied fair value of the reporting unit' s goodwill with the carrying amount of that goodwill** . Estimates of fair value are determined based on a complex model using **, among other things, discounted** cash flows, the fair value of our Company as determined by our stock price, and peer company comparisons. ~~If management~~ **Adverse events in the banking sector have caused market volatility and declines in the stock market prices for many community and regional banks, including the Company** ' s ~~estimates of future cash flows are inaccurate~~ , **resulting in a recent decline in the Company' s market capitalization. If the carrying amount of the reporting unit' s goodwill exceeds the implied** fair value ~~determined could~~ **of that goodwill, an impairment loss is recognized in an amount equal to that excess. Any such adjustments are reflected in our results of operations in the periods in which they become known. There can** be ~~inaccurate and~~ **no assurance that our future evaluations of goodwill will not result in findings of** impairment **and related write- downs** ~~may not be recognized in a timely manner. If the fair value of the Company declines~~ , ~~we may need to recognize goodwill impairment in the future~~ which ~~would~~ **may** have a material adverse effect on our ~~results of operations and capital levels. Our accounting estimates and risk management processes rely on analytical and forecasting models The processes we use to estimate our expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our~~ financial condition and results of operations , depends upon the use of analytical......, even if other favorable events occur . Strategic and External Risks Changes in economic, market and political conditions can adversely affect our liquidity, results of operations and financial condition. Our success depends, to a certain extent, upon local, national and global economic and political conditions, as well as governmental monetary policies. Conditions such as an economic recession, rising unemployment, changes in interest rates, money supply, inflationary prices and other factors beyond our control may adversely affect our asset quality, deposit levels loan demand, ability to manage costs associated with employees and vendors and, therefore, our earnings. ~~Because we have~~ **We are presently subject to macroeconomic and interest rate risk due to domestic and global economic instability that has resulted in higher inflation than the United States has experienced in more than 40 years and resulted in increases to prevailing interest rates. The Federal Reserve' s Open Market Committee (" FOMC ") raised the target range for the federal funds rate to 5. 25 % to 5. 50 % in 2023, resulting in** a ~~significant amount~~ **cumulative increase** of ~~real estate loans,~~ **5. 25 % from March of 2022. These recent** ~~decreases~~ **increases** in **prevailing interest rates** ~~real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which could have an~~ **and** ~~adverse~~ **the expectation that interest rates may stay elevated are likely to** impact ~~on~~ **both** our ~~earnings~~ **customers and many aspects of our business** . In addition, we may face the following risks in connection with any downward turn in the economy **or sustained period of higher or lower interest rates or higher inflation rates** : **• Higher interest rates will not only impact the interest we receive on loans and investment securities and the amount of interest we pay our depositors, but also could also impact our ability to grow loans and deposits; • Rising interest rates, higher commodity prices, and an overall slowdown in economic growth could also impact the fair value of our assets and adversely impact our asset quality;** • The process we use to estimate losses inherent in our credit exposure requires difficult, subjective and complex judgments, including forecasts of economic conditions and how these economic conditions might impair the ability of our borrowers to repay their loans. The level of uncertainty concerning economic conditions may adversely affect the accuracy of our estimates which may, in turn, impact the reliability of the process; • The Company' s commercial, residential and consumer borrowers may be unable to make timely repayments of their loans, or the decrease in value of real estate collateral securing the payment of such loans could result in significant credit losses, increasing delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on the Company' s operating results ~~; • A sustained environment of low interest rates would continue to cause lending margins to stay compressed, which in turn may limit our revenues and profitability~~ ; • A sustained environment in which the U. S. Treasury yield curve is inverted could cause net interest margins to compress, as the majority of our funding sources are impacted by short- term rates, while much of our earning assets are impacted by longer term interest rates • The value of the portfolio of investment securities that we hold may be adversely affected by increasing interest rates and defaults by debtors; • Further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in changes in applicable rates of interest, difficulty in accessing capital or an inability to borrow on favorable terms or at all from other financial institutions; and **Although** ~~• Increased competition among financial services companies due to expected further consolidation in the industry may adversely affect~~ the Company ~~' s ability to market its products and services. Although the Company~~ and the Bank **currently** exceed the minimum capital ratio requirements to be deemed " well- capitalized " for regulatory purposes and have not suffered any significant liquidity issues as a result of these types of events, the cost and availability of funds may be adversely affected by illiquid credit markets and the demand for our products and services may decline if we experience slower than expected economic growth or higher rates of unemployment. In view of the concentration of our operations and the collateral securing our loan portfolio in Central and Southern California, we may be particularly susceptible to adverse economic conditions in the state of California, where our business is concentrated. In addition, adverse economic conditions may exacerbate our exposure to credit risk and adversely affect the ability of borrowers to perform, and thereby, adversely affect our liquidity, financial condition, results or operations and profitability. Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies. The policies of the Federal Reserve impact us significantly. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest- bearing deposits and can also affect the value of financial instruments we hold. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. As an example, monetary tightening and increases in the federal funds rate by the Federal Reserve could adversely affect our borrowers' earnings and ability to repay their loans, which could have a material adverse effect on our financial condition and results of operations. In addition, the Federal Reserve' s recent actions to reduce its own balance sheet of government and mortgage- backed securities could impact the credit markets and thus prevailing interest rates. Future legislation, regulatory reform or policy changes could have a material effect on our business and results of operations. New legislation, regulatory reform or policy changes, including financial services regulatory reform, enforcement priorities, antitrust and merger review policies, and increased infrastructure spending, could adversely impact our business. At this time, we cannot predict the scope or nature of these changes or assess what the overall effect of such potential changes could be on our results of operations or cash flows. We face strong competition from financial services companies and other companies that offer banking services **.** We conduct most of our operations in the state of California. The banking and financial services businesses in the state of California are highly competitive and increased competition in our primary market areas may adversely impact the level of our loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. These competitors include other banks many of which are larger than us and have greater resources. We also face competition from other types of financial institutions, including savings and loan associations, finance companies, brokerage firms, insurance companies, credit unions, mortgage companies and other financial intermediaries. In addition, we face competition from certain non- traditional entities, including " FinTech " companies which specialize in the provision of technology- based financial services, such as payment processing and lending marketplaces, and which may offer or be perceived to offer more responsive or currently desirable financial products and services. Consumers may decide not to use banks to complete their financial transactions. Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general- purpose reloadable prepaid cards. Consumers can also complete transactions, such as paying bills and / or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as " disintermediation, " could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations. **Potential downgrades of U. S. government securities by one or more of the credit ratings agencies could have a material adverse effect on our operations, earnings, and financial condition. A possible future downgrade of the sovereign credit ratings of the U. S. government and a decline in the perceived creditworthiness of U. S. government- related obligations could impact our ability to obtain funding that is collateralized by affected instruments, as well as affect the pricing of that funding when it is available. A downgrade may also adversely affect the market value of such instruments. We cannot predict if, when or how any changes to the credit ratings or perceived creditworthiness of these organizations will affect economic conditions. Among other things, a downgrade in the U. S. government' s credit rating could adversely impact the value of our securities portfolio and may trigger requirements that we post additional collateral for trades relative to these securities. A downgrade of the sovereign credit ratings of the U. S. government or the credit ratings of related institutions, agencies or instruments would significantly exacerbate the other risks to which we are subject and any related adverse effects on our business, financial condition and results of operations. Climate change and climate change regulation could have a material adverse effect on us and our customers. Our business, as well as the operations and activities of certain of our banking customers, could be negatively impacted by climate change. Climate change presents multi- faceted risks, including operational risk from the physical effects of climate events on our bank and our customers' facilities and other assets, credit risk from borrowers with significant exposure to climate risk, particularly our customers in the dairy and agricultural sectors, transition risks associated with the transition to a less carbon- dependent economy, and possible reputational risk from stakeholder concerns about our practices and business relationships with clients who operate in carbon- intensive industries. Additionally, 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 clients, which may result in financial institutions coming under increased scrutiny regarding the**

disclosure and management of their climate risks and related lending and investment activities, 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, particularly in our home state of California. There are residual and ongoing risks stemming from the COVID- 19 pandemic. Although many of the initial adverse effects the COVID- 19 pandemic on economic conditions, employment, financial markets and supply chains had abated by the end of 2023, there are lingering and residual negative impacts of the pandemic, including, among other things, reduced values for certain types of commercial real estate properties, due to the continuing prevalence of remote work by employees and changes in consumer shopping preferences, supply chain- induced inflation that has declined but to levels higher than recent historical norms, and higher than anticipated levels of government indebtedness due to emergency support programs enacted during the height of the pandemic. The extent to which the aftereffects of the COVID- 19 pandemic impact our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are uncertain and cannot be predicted, including whether post- pandemic inflation rates continue to decline, the effectiveness, distribution and uptake rates of vaccines, boosters and medical treatments designed to ameliorate more infectious variants of the original COVID- 19 virus, and actions taken by governmental authorities and other third parties in response to continuing aftereffects of the pandemic. Legal, Regulatory, Compliance and Reputational Risks We are subject to extensive government regulation that could limit or restrict our activities, which, in turn, may hamper our ability to increase our assets and earnings **.** Our operations are subject to extensive regulation by federal, state and local governmental authorities, including the FDIC, FRB, DFPI and CFPB, and we are subject to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. Similarly, the lending, credit and deposit products we offer are subject to broad oversight and regulation. Because our business is highly regulated, the laws, rules, regulations and supervisory guidance and policies applicable to us are subject to regular modification and change. Perennially, various laws, rules and regulations are proposed, which, if adopted, could impact our operations by making compliance much more difficult or expensive, restricting our ability to originate or sell loans or further restricting the amount of interest or other charges or fees earned on loans or other products. Current and future federal and state legal and regulatory requirements, restrictions and regulations, including those imposed under Dodd- Frank **, those relating to climate- related disclosure, corporate governance,** and those adopted to facilitate data privacy or consumer protection, may adversely impact our profitability and may have a material and adverse effect on our business, financial condition, and results of operations, may require us to invest significant management attention and resources to evaluate and make any changes required by the legislation and accompanying rules, and may make it more difficult for us to attract and retain qualified executive officers and employees. The implementation of certain final Dodd- Frank rules is delayed or phased in over several years; therefore, as yet we cannot definitively assess what may be the short or longer term specific or aggregate effect of the full implementation of Dodd- Frank on us. **Any enhanced regulatory examination scrutiny or new regulatory requirements arising from recent events in the banking industry could increase the Company' s expenses and affect the Company' s operations and acquisition opportunities. Recent adverse events in the banking industry, including the significant bank failures that occurred in 2023, could result in increased regulatory scrutiny in the course of routine examinations and otherwise, and new regulations directed towards regional banks, designed to address the recent negative developments in the banking industry. These potential regulatory reactions could increase the Company' s costs of doing business, lead to an increased risk of regulatory oversight actions or restrictions, result in decreased regulatory support for merger and acquisition activity, and reduce our profitability. Among other things, there may be an increased focus by both regulators and investors on deposit composition, levels of uninsured deposits, embedded interest rate risk on bank balance sheets, and bank risk management programs generally. As a primarily commercial bank, the Bank has a relatively higher percentage of uninsured deposits compared to larger national banks or smaller community banks with a stronger focus on retail deposits. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community.** We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti- money laundering statutes and regulations **.** The Bank Secrecy Act, the USA PATRIOT Act of 2001, and other laws and regulations require financial institutions, among other duties, to institute and maintain an effective anti- money laundering program and file suspicious activity and currency transaction reports as appropriate. The federal Financial Crimes Enforcement Network is authorized to impose significant civil money penalties for violations of those requirements and has recently engaged in coordinated enforcement efforts with the individual federal banking regulators, as well as the U. S. Department of Justice, Drug Enforcement Administration, and Internal Revenue Service. We are also subject to scrutiny of compliance with the rules enforced by the Office of Foreign Assets Control and compliance with the Foreign Corrupt Practices Act. If our policies, procedures and systems are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the necessity to obtain regulatory approvals to proceed with certain aspects of our business plan. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could also have serious reputational consequences for us. Any of these results could materially and adversely affect our business, financial condition and results of operations. ~~Mortgage regulations may adversely impact our business Revisions made pursuant to Dodd- Frank to Regulation Z, which implements the Truth in Lending Act (TILA), effective in January 2014, apply to all consumer mortgages (except home equity lines of credit, timeshare plans, reverse mortgages, or temporary loans), and mandate specific underwriting criteria and " ability to repay " requirements for home loans. This may impact our offering and underwriting of single family residential loans in our residential mortgage lending operation and could have a resulting unknown effect on potential delinquencies. In addition, the relatively uniform requirements may make it difficult for regional and community banks to compete against the larger national banks for single family residential loan originations.~~ The impact of current capital rules ~~imposed enhanced capital adequacy requirements on us and~~ may materially affect our operations **.** We are subject to ~~more~~ stringent capital requirements. ~~Pursuant to Dodd- Frank and to implement for U. S. banking institutions the principles of the international " Basel III " standards, the federal banking agencies have adopted a set of rules on minimum leverage and risk- based capital that will apply to both insured banks and their holding companies. The~~ **These** current capital rules ~~, which have now been fully implemented,~~ may adversely affect our ability to pay dividends, or require us to reduce business levels or raise capital, including in ways that may adversely affect our business, liquidity, financial condition and results of operations **. Any future regulatory capital requirements may similarly adversely affect us** . Under the current capital standards, if our Common Equity Tier 1 Capital does not include the required " capital conservation buffer, " we will be prohibited from ~~making distributions~~ **paying dividends** to our ~~stockholders~~ **shareholders** . The capital conservation buffer requirement, which is measured in addition to the minimum Common Equity Tier 1 capital of 4. 5 %, is now 2. 5 %. Additionally, under the capital standards, if our Common Equity Tier 1 Capital does not include the " capital conservation buffer, " we will also be prohibited from paying discretionary bonuses to our executive employees. This may affect our ability to attract or retain employees, or alter the nature of the compensation arrangements that we may enter into with them. **Increasing scrutiny and evolving expectations from regulators, customers, investors, and other stakeholders with respect to our environmental, social and governance practices may impose additional costs on us or expose us to new or additional risks. Many companies are facing increasing scrutiny from regulators, customers, investors, and other stakeholders related to their environmental, social and governance (" ESG") practices and disclosures. Investor advocacy groups, investment funds and influential investors are also increasingly focused on these practices, especially as they relate to the environment, health and safety, diversity, labor conditions and human rights. Increased ESG- related compliance costs for us as well as among our suppliers, vendors and various other parties within our supply chain could result in increases to our overall operational costs. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact our reputation, ability to do business with certain partners, access to capital, and our stock price. Both recently adopted and pending government regulations, including recently adopted regulations in California, will result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure.** Managing reputational risk is important to attracting and maintaining customers, investors and employees **.** Threats to our reputation can come from many sources, including adverse sentiment about financial institutions generally, unethical practices, employee mistakes, misconduct or fraud, failure to deliver minimum standards of service ~~or quality~~ , failure of any product or service offered by us to meet our customers' expectations, compliance deficiencies, privacy or information security breaches, government investigations, litigation, and questionable or fraudulent activities of our employees or customers. We have policies and procedures in place to protect our reputation and promote ethical conduct, but these policies and procedures may not be fully effective. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental scrutiny and regulation. We depend on the accuracy and completeness of information provided by customers and counterparties. In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by, or on behalf of, customers and counterparties, including financial statements and other financial information. We also may rely on representations of customers and counterparties as to the accuracy and completeness of that information. In deciding whether to extend credit, we may rely upon our customers' representations that their financial statements are accurate. We also may rely on customer representations and certifications, or other audit or accountants' reports, with respect to the business and financial condition of our commercial clients. Our financial condition, results of operations, financial reporting and reputation could be materially adversely affected if we rely on materially misleading, false, inaccurate or fraudulent information. We are subject to legal and litigation risk which could adversely affect us **.** Because our Company is extensively regulated by a variety of federal and state agencies, and because we are subject to a wide range of business, consumer and employment laws and regulations at the federal, state and local levels, we are at risk of governmental investigations and lawsuits as well as claims and litigation from private parties. We are from time to time involved in disputes with and claims from investors, customers, bankruptcy trustees, government agencies, vendors, employees and other business parties, and such disputes and claims may result in investigations, litigation or settlements, any one of which or in the aggregate could have an adverse impact on the Company' s operating flexibility, employee relations, financial condition or results of operations, as a result of the costs of any judgment, the terms of any settlement and / or the expenses incurred in defending the applicable claim. We are unable, at this time, to estimate our potential liability in these matters, but we may be required to pay judgments, settlements or other penalties and incur other costs and expenses in connection with any one or more of these investigations or lawsuits, which in turn could have a material adverse effect on our business, results of operations and financial condition. In addition, responding to requests for information in connection with discovery demanded by a government agency or private plaintiffs in any of these lawsuits may be costly and divert internal resources away from managing our business. See Item 3 — Legal Proceedings below. We may be subject to customer claims and government or legal actions pertaining to our ability to safeguard our customers' information and the performance of our fiduciary responsibilities. Whether or not such customer claims and legal actions are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to us, they may result in significant financial liability and / or adversely affect the market perception of us and our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on our business, which, in turn, could have a material adverse effect on our financial condition and results of operations. We could reduce or discontinue the payment...... — Liquidity and Cash Flow. " Risks Associated with our Common Stock The price of our common stock may be volatile or may decline **.** The trading price of our common stock may fluctuate widely as a result of a number of factors, many of which are outside our control. In addition, the stock market is subject to fluctuations in its share prices and trading volumes that affect the market prices of the shares of many companies. These specific and broad market fluctuations could adversely affect the market price of our common stock. Among the factors that could affect our stock price are: • actual or anticipated fluctuations in our operating results and financial condition; • changes in **liquidity,** revenue or earnings estimates or publication of research reports and recommendations by financial analysts; • credit events or losses; • failure to meet analysts' revenue or earnings estimates; • speculation in the press or investment community; • strategic actions by us or our competitors, such as acquisitions or restructurings; • actions or trades by institutional shareholders or other large shareholders; • our capital position; • fluctuations in the stock price and operating results of our competitors; • actions by hedge funds, short term investors, activist shareholders or shareholder representative organizations; • general market conditions and, in particular, developments relating to the financial services industry and interest rates; • proposed or adopted regulatory changes or developments; • anticipated or pending investigations, proceedings or litigation that involve or affect the Company and / or the Bank; • fraud losses or data or privacy breaches; or • domestic and international economic factors, whether related or unrelated to the Company' s performance. The market price of our common stock and the trading volume in our common stock may fluctuate and cause significant price variations to occur. The trading price of the shares of our common stock and the value of our other securities will depend on many factors, which may change from time to time, including, without limitation, our financial condition, performance, creditworthiness and prospects, future sales of our equity or equity related securities, and other factors identified above in " Cautionary Note Regarding Forward-Looking Statements ". A significant decline in our stock price could result in substantial losses for individual shareholders and could lead to costly and disruptive securities litigation. Extensive sales by large shareholders could also exert sustained downward pressure on our stock price. An investment in our common stock is not an insured deposit **.** Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this " Risk Factors " section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you could lose some or all of your investment. Our common stock is subordinate to our existing and future indebtedness and preferred stock. Shares of our common stock are equity interests and do not constitute indebtedness. As such, our common stock ranks junior to all our customer deposits and indebtedness, whether now existing or hereafter incurred, and other non- equity claims on us, with respect to assets available to satisfy claims. Additionally, holders of common stock are subject to the prior liquidation rights of the holders of any **outstanding** debt we **have now or** may issue in the future and may be subject to the prior dividend and liquidation rights of any series of preferred stock we may issue in the future. Anti- takeover provisions and federal law may limit the ability of another party to acquire us, which could cause our stock price to decline **.** Various provisions of our articles of incorporation and by- laws and certain other actions we have taken could delay or prevent a third- party from acquiring us, even if doing so might be beneficial to our shareholders. The Bank Holding Company Act of 1956, as amended, and the Change in Bank Control Act of 1978, as amended, together with federal regulations, require that, depending on the particular circumstances, regulatory approval and / or appropriate regulatory filings may be required from either or all the Federal Reserve, the FDIC, the DFPI prior to any person or entity acquiring " control " (as defined in the applicable regulations) of a state non- member bank, such as the Bank. These provisions may prevent a merger or acquisition that would be attractive to shareholders and could limit the price investors would be willing to pay in the future for our common stock. We **We** could reduce or discontinue the payment of ~~dividends~~ **dividend** on our common stock ~~.~~The ability of the Bank to pay dividends to the Company and of the Company to pay dividends to ~~our~~ **its** shareholders is limited by applicable federal and California law and regulations.If the Bank is unable to meet regulatory requirements to pay dividends or make other distributions to CVB,CVB will be unable to pay dividends to its shareholders.In addition,our Board of Directors could decide in the future to reduce or discontinue the payment of cash dividends on our common stock in its sole discretion.See " Business — Regulation and Supervision " and " Management' s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Cash Flow." may face other risks **.** From time to time, we detail other risks with respect to our business and / or financial results in our filings with the SEC. For further discussion on additional areas of risk, see " Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operations. " ~~29~~