Risk Factors Comparison 2024-04-01 to 2023-03-29 Form: 10-K

Legend: New Text ~~Removed Text~~ Unchanged Text Moved Text Section

An investment in our securities is subject to certain risks. These risk factors and the risks discussed in Management' s Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk should be considered by prospective and current investors in our securities when evaluating the disclosures in this Annual Report on Form 10- K. The risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, results of operations and financial condition could suffer. In that event, the value of our securities could decline, and you may lose all or part of your investment. Risks Associated with Our Business Our business strategy includes sustainable growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. We intend to pursue an organic growth strategy for our business. If appropriate opportunities present themselves, we may also engage in selected acquisitions of financial institutions, branch acquisitions and other business growth initiatives or undertakings. There can be no assurance that we will successfully execute our organic growth strategy, that we will be able to negotiate or finance such activities or that such activities, if undertaken, will be successful. There are risks associated with our growth strategy. To the extent that we grow through acquisitions, we cannot ensure that we will be able to adequately or profitably manage this growth. Acquiring other banks, branches or other assets, as well as other expansion activities, involves various risks including the risks of incorrectly assessing the credit quality of acquired assets, encountering greater than expected costs of integrating acquired banks or branches, the risk of loss of customers and / or employees of the acquired institution or branch, executing cost savings measures, not achieving revenue enhancements and otherwise not realizing the transaction' s anticipated benefits. Our ability to address these matters successfully cannot be assured. There is also the risk that the requisite regulatory approvals might not be received and other conditions to consummation of a transaction might not be satisfied during the anticipated timeframes, or at all. In addition, our strategic efforts 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. Our growth initiatives may also require us to recruit experienced personnel to assist in such initiatives. Accordingly, the failure to identify and retain such personnel would place significant limitations on our ability to successfully execute our growth strategy. In addition, to the extent we expand our lending beyond our current market areas, we could incur additional risks related to those new market areas. We may not be able to expand our market presence in our existing market areas or successfully enter new markets. If we do not successfully execute our growth plan, it could adversely affect our business, financial condition, results of operations, reputation and growth prospects. In addition, if we were to conclude that the value of an acquired business had decreased and that the related goodwill had been impaired, that conclusion would result in an impairment of goodwill charge to us, which would adversely affect our results of operations. While we believe we will have the executive management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or that we will successfully manage our growth. Our financial condition and results of operations are dependent on the economy, particularly in the Bank' s market areas. Our primary market area is concentrated in the Central Valley and the Eastern Sierras. Adverse economic conditions in any of these areas can reduce our rate of growth, affect our customers' 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 in the market areas we serve could result in the following consequences, 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 further decline in value; and • The amount of our low cost or noninterest- bearing deposits may decrease. We cannot accurately predict the possibility of weakness in the national or local economy effecting our future operating results. 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. Any deterioration in national or local economic conditions would have an adverse effect, which could be material, on our business, financial condition, results of operations and prospects, and any economic weakness could present substantial risks for the banking industry and for us. Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non- performance by financial institutions or transactional counterparties, could adversely affect our current and projected business operations and our financial condition and results of operations. Actual events involving limited liquidity, defaults, non- performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market- wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank (" SVB ") was closed by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each swept into receivership. Although a statement by the Department of the Treasury, the Federal Reserve and the FDIC indicated that all depositors of SVB would have access to all of their money after only one business day of closure, including funds held in uninsured deposit accounts, it is not certain that the Federal Reserve or FDIC will treat future bank failures similarly. Hence, borrowers under credit agreements,

letters of credit and certain other financial instruments with any financial institution that is placed into receivership by the FDIC may be unable to access undrawn amounts thereunder. In addition, if any of our customers, suppliers or other parties with whom we conduct business are unable to access funds pursuant to such instruments or lending arrangements with such a financial institution, such parties' ability to pay their obligations to us or to enter into new commercial arrangements requiring additional payments to us could be adversely affected. Inflation and rapid increases in interest rates have led to a decline in the trading value of previously issued government securities with interest rates below current market interest rates. ~~Although the U. S. Department of Treasury, FDIC and Federal Reserve Board have announced a program to provide up to $ 25 billion of loans to financial institutions secured by certain of such government securities held by financial institutions to mitigate the risk of potential losses on the sale of such instruments, widespread demands for customer withdrawals or other liquidity needs of financial institutions for immediate liquidity may exceed the capacity of such program.~~ Additionally, there is no guarantee that the U. S. Department of Treasury, FDIC and Federal Reserve Board will provide access to uninsured funds in the future in the event of the closure of other banks or financial institutions, or that they would do so in a timely fashion. There can be no assurance that there will not be additional bank failures or issues such as liquidity concerns in the broader financial services industry or in the U. S. financial system as a whole. Adverse financial market and economic conditions can exert downward pressure on stock prices, security prices, and credit availability for certain issuers without regard to their underlying financial strength. ~~The volatility resulting and economic disruption from the failures of SVB and Signature Bank has particularly impacted the price of securities issued by financial institutions.~~ Any of these impacts, or any other impacts resulting from the factors described above or other related or similar factors, could have material adverse effect on our liquidity and our current and / or projected business operations and financial condition and results of operations. **Recent bank failures have created significant market volatility, regulatory uncertainty, and decreased confidence in the U. S. banking system. The failures of Silicon Valley Bank and Signature Bank in March 2023, followed by the failure of First Republic Bank in May 2023, have caused significant market volatility, regulatory uncertainty, and decreased confidence in the U. S. banking system. These bank failures occurred during a period of rapidly rising interest rates which, among other things, has resulted in unrealized losses in longer duration securities and more competition for bank deposits, and may increase the risk of a potential economic recession in the United States. 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 U. S. financial system entirely. Given such an environment, we may experience more deposit volatility as customers react to adverse events or market speculation involving financial institutions. Inability to access short- term funding or the loss of client deposits could increase our cost of funding, limit access to capital markets or negatively impact our overall liquidity or capitalization. Ratings agencies have also reacted to recent events by issuing updated ratings and assessments. On April 21, 2023, Moody' s lowered the macro profile of the U. S. banking system reflecting general concern around the banking industry as a whole. Our ratings are subject to further adjustments based on a number of factors, including our financial strength and ability to generate earnings as well as factors not entirely within our control, such as conditions affecting the financial services industry generally. In response to the bank failures, the United States government may adopt a variety of measures and new regulations designed to strengthen capital levels, liquidity standards, and risk management practices and otherwise restore confidence in financial institutions. Any reforms, if adopted, could have a significant impact on banks and bank holding companies. The premiums of the FDIC' s deposit insurance program are expected to increase, and banking regulators have signaled further review of regulatory requirements and the potential for changes to laws or regulations governing banks and bank holding companies. Changes resulting from these events could include increased regulatory oversight, higher capital requirements or changes in the way regulatory capital is calculated, and the impositions of additional restrictions through regulatory changes or supervisory or enforcement activities, each of which could have a material impact on our business. The failure to address the federal debt ceiling in a timely manner, downgrades of the U. S. credit rating and uncertain credit and financial market conditions may affect the stability of securities issued or guaranteed by the federal government, which may affect the valuation or liquidity of our investment securities portfolio and increase future borrowing costs. Recent federal budget deficit concerns and political conflict over legislation to raise the U. S. government' s debt limit have increased the possibility of a default by the U. S. government on its debt obligations, related credit- rating downgrades, or an economic recession in the United States. As a result of uncertain political, credit and financial market conditions, including the potential consequences of the federal government defaulting on its obligations for a period of time due to federal debt ceiling limitations or other unresolved political issues, investments in financial instruments issued or guaranteed by the federal government pose credit default and liquidity risks. Given that future deterioration in the U. S. credit and financial markets is a possibility, losses or significant deterioration in the fair value of our U. S. government issued or guaranteed investments may occur. Downgrades to the U. S. credit rating could affect the stability of securities issued or guaranteed by the federal government and the valuation or liquidity of our portfolio of such investment securities, and could result in our counterparties requiring additional collateral for our borrowings. Further, unless and until U. S. political, credit and financial market conditions have been sufficiently resolved or stabilized, it may increase our future borrowing costs.**
There are risks associated with our lending activities and our allowance for ~~loan~~ **credit** losses may prove to be insufficient to absorb actual incurred 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 economic and industry conditions; and • the duration of the loan. We maintain an allowance

for ~~loan~~ **credit** losses which we believe is appropriate to provide for ~~probable incurred~~ **current expected credit** 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 non- performing loans; • historical default and loss experience; • historical recovery experience; • existing economic conditions; • **reasonable and supportable forecasts that affect the collectability of reported amounts; •** risk characteristics of the various classifications of loans; and • the amount and quality of collateral, including guarantees, securing the loans. If actual losses on our loans exceed our estimates used to establish our allowance for ~~loan~~ **credit** losses, our business, financial condition and profitability may suffer. The determination of the appropriate level of the allowance for ~~loan~~ **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 ~~loan~~ **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 ~~loan~~ **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~~ **credit** losses. Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for ~~loan~~ **credit** losses. In addition, bank regulatory agencies periodically review our allowance for ~~loan~~ **credit** losses and may require an increase in the provision for ~~loan~~ **credit** losses or the recognition of further charge- offs (which will in turn also require an increase in the provision for ~~loan~~ **credit** losses if the charge- offs exceed the allowance for ~~loan~~ **credit** losses), based on judgments different than that of management. Any increases in the provision for ~~loan~~ **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. Our underwriting practices may not protect us against losses in our loan portfolio. 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. Although we believe that our underwriting criteria are, and historically have been, appropriate for the various kinds of loans we make, we have incurred losses on loans that have met these criteria, and may continue to experience higher than expected losses depending on economic factors and consumer behavior. In addition, our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage, and underwrite our customers become less predictive of future behaviors. 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. Deterioration in real estate values and underlying economic conditions in the Central Valley and the Eastern Sierras could result in significantly higher credit losses to our portfolio. Because our loan portfolio has a large concentration of real estate loans, and commercial real estate loans in particular, negative changes in the economy affecting real estate values and liquidity, or regional and national market conditions, could impair the value of collateral securing our real estate loans and result in loan and other losses. As of December 31, ~~2022~~ **2023**, consumer and commercial real estate loans constituted ~~89~~ **90** % of our loan portfolio, of which ~~96~~ **97** % were commercial real estate loans. Our real estate portfolio is subject to certain risks, including (i) downturns in the California economy, (ii) significant interest rate fluctuations, (iii) reduction in real estate values in the California Central Valley, (iv) increased competition in pricing and loan structure, and (v) environmental risks, including natural disasters. As a result of the high concentration of real estate loans in our loan portfolio, potential difficulties in the real estate markets could cause significant increases in nonperforming loans, which would reduce our profits. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. A decline in real estate values could cause some of our mortgage loans to become inadequately collateralized, which would expose us to a greater risk of loss. Real estate values and real estate markets are generally affected by changes in national, regional or local economic conditions, the rate of unemployment, 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 and other natural disasters. Additionally, a decline in real estate values could adversely affect our portfolio of commercial real estate loans and could result in a decline in the origination of such loans. Our commercial real estate 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 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 loans also expose us to greater credit risk than loans secured by residential real estate because the collateral securing these loans typically cannot be sold as easily as residential real estate. In addition, many of our commercial real estate 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. If we foreclose on a commercial real estate 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 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 loans, any resulting charge- offs may be larger on a per loan basis than those incurred with our residential or consumer loan portfolios.

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 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. 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 customers. We are exposed to risk of environmental liabilities with respect to real properties which we may acquire. 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. Our business is subject to interest rate risk and variations in interest rates may hurt our profits. 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, increases more quickly than interest received on interest- earning assets, such as loans, other mortgage- related investments 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. If interest rates decline, our net interest income could be reduced if interest rates on interest- earning assets such as loans, investment securities and cash balances, decrease more quickly than interest paid on interest- bearing liabilities, such as deposits. New lines of business, new products and services, or strategic project initiatives may subject us to additional risks. 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. 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. Strong competition within our market areas may limit our growth and profitability. 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, 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. 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. Risks Related to Our Operations We face significant operational risks. 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. Our enterprise risk management framework may not be effective in mitigating risk and reducing the potential for losses. 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. If our enterprise risk management framework proves ineffective or if our enterprise- wide management information is incomplete or inaccurate, we could suffer unexpected losses, which could materially adversely affect our results of operations or financial condition. 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. An important aspect of our enterprise risk management framework is creating a risk culture in which all employees fully understand that there is risk in every aspect of our business and the importance of managing risk as it relates to their job functions. We continue to enhance our enterprise risk management program to support our risk culture, ensuring that it is sustainable and appropriate to our role as a major financial institution. Nonetheless, if we fail to create the appropriate environment that sensitizes all of our employees to managing risk, our business could be adversely impacted. 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 misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, regulatory investigations, cybersecurity breaches, marketplace rumors and questionable or fraudulent activities of our customers. 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 customers, with or without merit, may result in the loss of customers, investors and employees, costly litigation, a decline in revenues and increased governmental oversight. 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 loans and other sources could 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 could 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 could also 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. We currently hold a significant amount of bank owned life insurance. At December 31, ~~2022~~ **2023** , we held bank owned life insurance (" BOLI ") on certain key and former employees and executives and our directors, with a cash surrender value of $ ~~30~~ **31** , ~~218~~ **506** , 000. The eventual repayment of the cash surrender value is subject to the ability of the various insurance companies to pay death benefits or to return the cash surrender value to us if needed for liquidity purposes. We continually monitor the financial strength of the various companies with whom we carry these policies. However, any one of these companies could experience a decline in financial strength, which could impair its ability to pay benefits or return our cash surrender value. If we need to liquidate these policies for liquidity purposes, we would be subject to taxation on the increase in cash surrender value and penalties for early termination, both of which would adversely impact earnings. We rely on numerous external vendors. 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. Our holding company relies on dividends from the Bank for substantially all of its income and the net proceeds of capital raising transactions are currently the primary source of funds for cash dividends to our preferred and common stockholders. Our primary source of revenue at the holding company level is dividends from the Bank and 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 common stockholders. To the extent we are limited in our ability to raise capital in the future, our ability to pay cash dividends to our stockholders could likewise be limited, especially if we are unable to increase the amount of dividends the Bank pays to us. If the Bank is unable to pay dividends to us, then we may not be able to service our debt, including our senior 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 the value of your investment in our securities. We may elect or be compelled to seek additional capital in the future, but that capital may not be available when it is needed. We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. At some point, we may need to raise additional capital to support continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions, our financial performance and a number of other factors, many of which are outside our control. Accordingly, we cannot assure you of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. **Climate change manifesting as physical or transition risks could adversely affect our operations, businesses and customers. There is an increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change include discrete events, such as flooding and wildfires, and longer term shifts in climate patterns, such as extreme heat, sea level rise, and more**

frequent and prolonged drought. Such events could disrupt the Company' s operations or those of its clients or third parties on which it relies, including through direct damage to assets and indirect impacts from supply chain disruption and market volatility. Additionally, transitioning to a low carbon economy may entail extensive policy, legal, technology, and market initiatives. Transition risks, including changes in consumer preferences and additional regulatory requirements or taxes, could increase expenses and undermine business strategies. In addition, Company' s reputation and client relationships may be damaged as a result of practices related to climate change, including its involvement, or its clients' involvement, in certain industries or projects associated with causing or exacerbating climate change, as well as any decisions the Company makes to continue to conduct or change its activities in response to considerations relating to climate change, including the setting of climate- related goals, commitments and targets. As climate risk is interconnected with all key risk types, the Company is advancing its processes to embed climate risk considerations into risk management strategies such as market, credit and operational risks; however, because the timing and severity of climate change may not be predictable, risk management strategies may not be effective in mitigating climate risk exposure. Technology Risks Our security measures may not be sufficient to mitigate the risk of a 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 customer relationships, our general ledger and virtually all other aspects of our business. Our operations rely on the secure collection, processing, storage, and transmission of confidential, personal, and other information using our computer systems and networks and as part of our internet banking activities, as well as the computer systems and networks of third party service providers that support our operations, but which we do not control. Although we take protective measures and endeavor to enhance them as circumstances warrant, the security of our computer systems, software, and networks, as well as those of our computer systems and networks of third party service providers that support our operations, may be vulnerable to security breaches, unauthorized access, misuse, computer viruses, or other malicious code and cyber- attacks whose objectives include obtaining unauthorized access confidential and personal information, manipulation or destruction of data, disruption or our services, or theft of money **. The rapid evolution and increased adoption of artificial intelligence technologies have also given rise to additional vulnerabilities and potential entry points for cyber threats** . If one or more of these events occur, this could jeopardize our or our customers' confidential, personal, and other information collected and processed by, stored in, and transmitted through our computer systems and networks and our third party service providers, or otherwise cause interruptions or malfunctions in our operations or adversely impact our customers or counterparties. These adverse consequences could include causing certain customers to cease doing business with us, impair our ability to attract new customers or expand relationships with existing customers and third parties, making it difficult to service customers and comply with regulatory obligations (including privacy and banking laws), or impair our brand and reputation. We may be required to expend significant additional resources to enhance our protective measures, to investigate any such event, notify individuals, third parties, or regulators, 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 any insurance maintained by us. We could also suffer significant reputational damage. Our security measures may not protect us from systems failures or interruptions. While we have established policies and procedures to prevent or limit the impact of systems failures and interruptions, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, we outsource certain aspects of our data processing and other operational functions to certain third- party providers. If our third- party 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. Threats to information security also exist in the processing of customer information through various other vendors and their personnel. We may be required to expend significant additional resources to continue to modify or enhance our information security infrastructure or to investigate and remediate any information security vulnerabilities in response to continuing information systems security threats. The occurrence of any systems failure or interruption could damage our reputation and result in a loss of customers 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 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 online banking services and data processing systems. We also rely on third party vendors, who may experience unauthorized access to and disclosure of client or customer information or the destruction or theft of such information. Any failure or interruption, or breaches in security, of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, servicing and / or loan origination systems and, therefore, could harm our business, operating results and financial condition. Additionally, interruptions in service and security breaches could lead existing customers to terminate their banking relationships with us and could make it more difficult for us to attract new banking customers. We are subject to a variety of federal and state privacy and data security laws, which govern the collection, safeguarding, sharing and use of customer information We are subject to a variety of federal and state privacy and data security laws, which govern the collection, safeguarding, sharing and use of customer information, and require that financial institutions have in place policies regarding information privacy and security. For example, the Gramm- Leach- Bliley Act of 1999 (" GLBA ") requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution' s privacy policy and practices for sharing nonpublic information with third parties, provide advance notice of any changes to the policies and provide such customers the opportunity to " opt out " of the sharing of certain personal financial information with unaffiliated third parties. It also requires banks to safeguard personal information of consumer customers. Some state laws also protect the privacy of information of state residents and require adequate security for such data, and certain state laws may, in some circumstances, require us to notify affected individuals of security breaches of computer databases that contain their personal information. These laws may also require us to notify law enforcement, regulators or consumer reporting agencies in the event of a data breach, as well as businesses and governmental agencies that own data. Data privacy and data security are areas of increasing state legislative focus. The California Consumer Privacy Act (" CCPA "), which became effective and enforceable in 2020 requires, among other things, covered companies to provide new disclosures to California consumers regarding the use of personal information, gives California residents expanded rights to access their personal information and allows such consumers new abilities to opt- out of certain sales of personal information. Further, the new California Privacy Rights Act (" CPRA ") which was passed in November 2020, significantly modifies the CCPA. These modifications may result in additional uncertainty and require us to incur additional costs and expenses in our effort to comply. Because we meet the thresholds set forth in the CCPA and the CPRA, we will be required to comply with these laws. We will continue to monitor developments related to the CCPA and the CPRA. The full impact of the CCPA and the CPRA on our business is yet to be determined. Like other lenders, we use credit bureau data in their underwriting activities. Use of such data is regulated under the Fair Credit Reporting Act (" FCRA "), and the FCRA also regulates reporting information to credit bureaus, prescreening individuals for credit offers, sharing of information between affiliates and using affiliate data for marketing purposes. Similar state laws may impose additional requirements on us. Regulatory Risks We operate in a highly regulated environment and our operations and income may be affected adversely by changes in laws, rules and regulations governing our operations. We are subject to extensive regulation and supervision by the DFPI, FRB and the FDIC. 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. 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. The Company and the Bank are heavily regulated. This regulation is to protect depositors, federal deposit insurance funds and the banking system as a whole, and not stockholders. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, 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 ~~loan~~ **credit** losses and to set the level of deposit insurance premiums assessed. Congress, state legislatures and federal and state agencies continually review banking, lending and other laws, regulations and policies for possible changes. 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. Any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or growth prospects. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and / or increase the ability of non- banks to offer competing financial services and products, among other things. The Dodd- Frank Act and supporting regulations could have a material adverse effect on us. The Dodd- Frank Act provides for various capital requirements and new restrictions on financial institutions and their holding companies. These changes may result in additional restrictions on investments and other activities. Regulations under the Dodd- Frank Act significantly impact our operations, and we expect to continue to face increased regulation. These regulations may affect the manner in which we do business and the products and services that we provide, affect or restrict our ability to compete in our current businesses or our ability to enter into or acquire new businesses, reduce or limit our revenue or impose additional fees, assessments or taxes on us, intensify the regulatory supervision of us and the financial services industry, and adversely affect our business operations. The Dodd- Frank Act, among other things, established the CFPB with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation. Many of the provisions of the Dodd- Frank Act have extended implementation periods and require extensive rulemaking, guidance and interpretation by various regulatory agencies. While some rules have been finalized or issued in proposed form, some have yet to be proposed. It is impossible to predict when all such additional rules will be issued or finalized, and what the content of such rules will be. We must apply resources to ensure that we are in compliance with all applicable provisions of the Dodd- Frank Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings. We expect that the Dodd- Frank Act, including current and future rules implementing its provisions and the interpretations of those rules, will reduce our revenues, increase our expenses, require us to change certain of our business practices, increase the regulatory supervision of us, increase our capital requirements and impose additional assessments and costs on us, and otherwise adversely affect our business. The short- term and long- term impact of the changing regulatory capital requirements and new capital rules is uncertain. Under the U. S. regulatory capital rules to implementing the Basel III regulatory capital framework, banking organizations, including the Company are subject to a common equity Tier 1 minimum capital requirement of 4. 5 percent of risk- weighted assets and a minimum Tier 1 risk- based capital requirement of 6. 0 percent of risk- weighted assets and assigns higher risk- weightings than in the past (150 percent) to exposures that are more than 90 days past due or are on non- accrual status and certain commercial real estate facilities that finance the acquisition, development or construction of real property. The final rule also limits a banking organization' s capital distributions and certain discretionary bonus payments if the banking organization does not hold a " capital conservation buffer " in excess of 2. 5 percent of common equity tier 1 capital in addition to the minimum risk- based capital ratios. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. While our current capital levels exceed the capital requirements, our capital levels could decrease in the future as a result of factors such as acquisitions, faster than anticipated growth, reduced earnings levels, operating losses and other factors. The application of more stringent capital requirements for us could, among other things, result in lower returns on equity, require the raising of additional capital, and result in our inability to pay dividends or repurchase shares if we were to be unable to comply with such requirements. We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties. Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act, 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. Non- compliance with the USA Patriot Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions or operating restrictions. The USA Patriot Act and Bank Secrecy Act require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U. S. Treasury' s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. In addition, legal requirements relating to the collection, storage, handling, use, disclosure, transfer, and security of personal data continue to increase, along with enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations. Failure to comply with these regulations could result in fines, sanctions or restrictions that could have a material adverse effect on our strategic initiatives. 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 and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. Increases in deposit insurance premiums and special FDIC assessments will negatively impact our earnings. FDIC- insured banks are required to pay deposit insurance assessments to the FDIC. The amount of the deposit insurance assessment for institutions with less than $ 10. 0 billion in assets, such as the Bank, is based on its risk category, with certain adjustments for any unsecured debt or brokered deposits held by the insured bank. We may pay higher FDIC premiums in the future and increases in deposit insurance premiums and special FDIC assessments will negatively impact our earnings. Tax and Financial Risks The Company has a deferred tax asset that may or may not be fully realized. The Company has a deferred tax asset 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 generally accepted accounting principles (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. At December 31, ~~2022~~ **2023** , the Company had a net deferred tax asset of $ ~~17~~ **13** . ~~1~~ **2** million. For additional information, see Note 10 to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10- K. We may experience future goodwill impairment. If our estimates of the fair value of our reporting units change as a result of changes in our business or other factors, we may determine that a goodwill impairment charge is necessary. Estimates of fair value are based on a complex model using, among other things, estimated cash flows and industry pricing multiples. The Company tests its goodwill for impairment annually as of December 31 (the Measurement Date), and quarterly if a triggering event causes concern of a possible goodwill impairment charge. At each Measurement Date, the Company, in accordance with ASC 350- 20- 35- 3, evaluates, based on the weight of evidence, the significance of all qualitative factors to determine whether it is more likely than not that the fair value of each of the reporting units is less than its carrying amount. The assessment of qualitative factors at the most recent Measurement Date (December 31, ~~2022~~ **2023**), indicated that it was not more likely than not that impairment existed; as a result, no further testing was performed. No assurance can be given that the Company will not record an impairment loss on goodwill in the future and any such impairment loss could have a material adverse effect on our results of operations and financial condition. In preparing our financial statements we make certain assumptions, judgments and estimates that affect amounts reported in our consolidated financial statements, which, if not accurate, may significantly impact our financial results. We make assumptions, judgments and estimates for a number of items, including the fair value of financial instruments, goodwill and other intangible assets, the realizability of deferred tax assets, the fair value of stock awards, the allowances for loan losses, income tax provisions and determination, recognition and measurement of impaired loans. These assumptions, judgments and estimates are drawn from historical experience and various other factors that we believe are reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results. General Risks We depend on our key employees. Our future prospects are and will remain highly dependent on our directors and executive officers. Our success will, to some extent, depend on the continued service of our directors and continued employment of the executive officers. 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 members of our senior management team, no assurance can be given that these individuals 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. Severe weather, natural disasters, acts of war or terrorism and other external events could significantly impact our business. Severe weather, natural disasters such as earthquakes and wildfires, acts of war or terrorism, global pandemics and other adverse external events 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 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 earnings or our financial condition. Anti- takeover provisions could negatively impact our stockholders. Provisions in our charter and bylaws, the corporate law of the State of California and federal regulations could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our stockholders, or otherwise adversely affect the market price of any class of our equity securities. These provisions include: the election of directors to staggered terms of three years; advance notice requirements for nominations for election to our Board of Directors and for proposing matters that stockholders may act on at stockholder meetings, a requirement that only directors may fill a vacancy in our Board of Directors, and the other provisions of our charter and bylaws. Our charter also authorizes our Board of Directors to issue preferred stock, and preferred stock could be issued as a defensive measure in response to a takeover proposal. In addition, pursuant to federal banking regulations, as a general matter, no person or company, acting individually or in concert with others, may acquire more than 10 percent of our common stock without prior approval from our federal banking regulator. These provisions may discourage potential takeover attempts, discourage bids for our common stock at a premium over market price or adversely affect the market price of, and the voting and other rights of the holders of, our common stock. These provisions could also discourage proxy contests and make it more difficult for holders of our common stock to elect directors other than the candidates nominated by our Board of Directors. Our business could be negatively affected as a result of actions by activist stockholders. Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short- term stockholder value through various corporate actions. In the future 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. If we fail to maintain proper and effective internal controls, our ability to produce accurate and timely financial statements could be impaired and investors' views of us could be harmed. As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal controls. We have evaluated and tested our internal controls in order to allow management to report on our internal controls, as required by Section 404 of the Sarbanes- Oxley Act of 2002. If we are not able to meet the requirements of Section 404 in a timely manner or with adequate compliance, we would be required to disclose material weaknesses if they develop or are uncovered and we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission. Any such action could negatively impact the perception of us in the financial market and our business. In addition, our internal controls may not prevent or detect all errors and fraud. A control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable assurance that the objectives of the control system will be met. If securities or industry analysts do not publish research or reports about our business, or if they publish negative reports about our business, our stock price and trading volume could decline. The trading market for our common stock may be influenced by the research and reports that securities or industry analysts publish about us or our business. We do not have control over these analysts. If one or more of the analysts who cover us downgrade our stock or change their opinion of our shares or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline. The price of our common stock may fluctuate significantly, and this may make it difficult for you to sell shares of common stock owned by you at times or at prices you find attractive. 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 the share prices and trading volumes that affect the market prices of the shares of many companies. These 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 quarterly fluctuations in our operating results and financial condition and prospects; ● changes in revenue or earnings estimates or publication of research reports and recommendations by financial analysts; ● 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; ● acquisitions of other banks or financial institutions; ● actions by institutional stockholders; ● fluctuations in the stock price and operating results of our competitors; ● general market conditions and, in particular, developments related to market conditions for the financial services industry; ● proposed or adopted regulatory changes or developments; ● anticipated or pending investigations, proceedings, or litigation that involve or affect us; ● successful management of reputational risk; ● health epidemics, such as the recent outbreak of coronavirus; and ● domestic and international economic factors, such as interest or foreign exchange rates, stock, commodity, credit, or asset valuations or volatility, unrelated to our performance. The stock market and, in particular, the market for financial institution stocks, has experienced significant volatility. As a result, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate more than usual 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 " Forward- Looking Statements, " and in this Item 1A — " Risk Factors. " The capital and credit markets can experience volatility and disruption. Such volatility and disruption can reach unprecedented levels, resulting in downward pressure on stock prices and credit availability for certain issuers without regard to their underlying financial strength. A significant decline in our stock price could result in substantial losses for individual stockholders and could lead to costly and disruptive securities litigation.