

Risk Factors Comparison 2025-02-28 to 2024-02-29 Form: 10-K

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The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that Management is not aware of or focused on or that Management currently deems immaterial may also impair the Company's business operations. This Report is qualified in its entirety by these risk factors. ~~-9-~~ If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the company's securities could decline significantly, and investors could lose all or part of their investment in the Company's common stock. Market and Interest Rate Risk Changes in interest rates could reduce income and cash flow. The Company's income and cash flow depend to a great extent on the difference between the interest earned on loans and investment securities and the interest paid on deposits and other borrowings, and the Company's success in competing for loans and deposits. The Company cannot control or prevent changes in the level of interest rates which fluctuate in response to general economic conditions, the policies of various governmental and regulatory agencies, in particular, the Federal Open Market Committee of the Federal Reserve Board (the "FOMC"), and pricing practices of the Company's competitors. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits and other borrowings, and the rates received on loans and investment securities and paid on deposits and other liabilities. The discussion in this Report under "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset, Liability and Market Risk Management" and "- Liquidity and Funding" and "Item 7A, Quantitative and Qualitative Disclosures About Market Risk" is incorporated by reference in this paragraph. The Company could realize losses if it were required to sell securities in its held- to- maturity securities portfolio to meet liquidity needs. As a result of increases in interest rates over the last year, the market value of previously issued government and other debt securities has declined significantly, resulting in unrealized losses in the held- to- maturity portion of the Company's securities portfolios. While the Company does not currently expect or intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital financial condition and results of operations. Further, while the Company has taken actions to maximize its funding sources, there is no guarantee that such funding sources will be available or sufficient in the event of sudden liquidity needs. Changes in capital market conditions could reduce asset valuations. Capital market conditions, including interest rates, liquidity, investor confidence, bond issuer credit worthiness, perceived counter- party risk, the supply of and demand for financial instruments, the financial strength of market participants, and other factors can materially impact the value of the Company's assets. An impairment in the value of the Company's assets could result in asset write- downs, reducing the Company's asset values, earnings, and equity. The value of securities in the Company's investment securities portfolio may be negatively affected by disruptions in securities markets. The market for some of the investment securities held in the Company's portfolio can be extremely volatile. Volatile market conditions may detrimentally affect the value of these securities, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that the declines in market value will not result in other than temporary impairments of these assets, which would lead to loss recognition that could have a material adverse effect on the Company's net income and capital levels. -10- Negative developments affecting the banking industry, such as bank failures, may have a material adverse effect on the Company. The banking industry could experience significant volatility with multiple bank failures during 2023. Industrywide concerns could develop related to liquidity, deposit outflows and unrealized losses on investment debt securities. While the Company cannot predict with certainty whether or how these developments may affect the banking industry, the Company faces the risks of increased FDIC deposit insurance premium expenses; increased regulation or supervisory scrutiny; and decreased confidence in banks among depositors and investors, any of which could, adversely affect the trading price of the Company's common stock, its ability to manage its liquidity or its ability to effectively fund its operations. Any one or a combination of such risk factors, or other factors, could materially adversely affect the Company's business, financial condition, results of operations and prospects. ~~-10-~~ The weakness of other financial institutions could adversely affect the Company. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company routinely executes transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, and other institutional clients. Many of these transactions expose the Company to credit risk in the event of default of the Company's counterparty or client. In addition, the Company's credit risk may be increased when the collateral the Company holds cannot be realized or is liquidated at prices not sufficient to recover the full amount of the secured obligation. There is no assurance that any such losses would not materially and adversely affect the Company's results of operations or earnings. Shares of Company common stock eligible for future sale or grant of stock options and other equity awards could have a dilutive effect on the market for Company common stock and could adversely affect the market price. The Articles of Incorporation of the Company authorize the issuance of 150 million shares of common stock (and two additional classes of 1 million shares each, denominated "Class B Common Stock" and "Preferred Stock", respectively) of which approximately 26.7 million shares of common stock were outstanding at December 31, 2023 2024. Pursuant to its stock option plans, at December 31, 2023 2024, the Company had outstanding options for 973,1,048 thousand shares of common stock, of which 614,656 thousand were currently exercisable. As of December 31, 2023 2024, 705,589 thousand shares of Company common stock remained available for grants under the Company's equity incentive plans. Sales of substantial amounts of Company common stock in the public market could adversely affect the market price of its common stock. The Company could repurchase shares of its common stock at price levels considered excessive. The Company

may repurchase and retire its common stock in accordance with Board of Directors- approved share repurchase programs from time to time. The Company has been active in repurchasing and retiring shares of its common stock when alternative uses of excess capital, such as acquisitions, have been limited. The Company could repurchase shares of its common stock at price levels considered excessive, thereby spending more cash on such repurchases as deemed reasonable and effectively retiring fewer shares than would be retired if repurchases were effected at lower prices.

Risks Related to the Nature and Geographical Location of the Company's Business The Company invests in loans that contain inherent credit risks that may cause the Company to incur losses. The risk that borrowers may not pay interest or repay their loans as agreed is an inherent risk of the banking business. The Company strives to mitigate this risk by adhering to sound and proven underwriting practices, managed by experienced and knowledgeable credit professionals. Nonetheless, the Company may incur losses on loans that meet its underwriting criteria, and these losses may exceed the amounts set aside as reserves. The Company can provide no assurance that the credit quality of the loan portfolio will not deteriorate in the future and that such deterioration will not adversely affect the Company or its results of operations. The Company's operations are concentrated geographically in California, and poor economic conditions may cause the Company to incur losses. Substantially all of the Company's business is located in California. A portion of the loan portfolio of the Company is dependent on real estate. At December 31, ~~2023~~ **2024**, real estate served as the principal source of collateral with respect to approximately ~~59-65~~ % of the Company's loan portfolio. The Company's financial condition and operating results will be subject to changes in economic conditions in California. Much of the California real estate market could experience a decline in values of varying degrees. This decline could have an adverse impact on the business of some of the Company's borrowers and on the value of the collateral for many of the Company's loans. Generally, the counties surrounding and near San Francisco Bay could recover more soundly from the recession than counties in the California " Central Valley, " from Sacramento in the north to Bakersfield in the south, where many of the Bank's customers are located. Approximately ~~25-27~~ % of the Company's loans were to borrowers in the California " Central Valley " as of December 31, ~~2023~~ **2024**. Economic conditions in California's diverse geographic markets can be vastly different and are subject to various uncertainties, including the condition of the construction and real estate sectors, the effect of drought on the agricultural sector and its infrastructure, and the California state and municipal governments' budgetary and fiscal conditions. The Company can provide no assurance that conditions in any sector or geographic market of the California economy will not deteriorate in the future and that such deterioration will not adversely affect the Company.

- 11- The markets in which the Company operates are subject to the risk of earthquakes, fires, storms and other natural disasters. All of the properties of the Company are located in California. Also, most of the real and personal properties which currently secure a majority of the Company's loans are located in California. Further, the Company invests in securities issued by companies and municipalities operating throughout the United States, and in mortgage- backed securities collateralized by real property located throughout the United States. California and other regions of the United States are prone to earthquakes, brush and wildfires, flooding, drought and other natural disasters. In addition to possibly sustaining uninsured damage to its own properties, if there is a major earthquake, flood, drought, fire or other natural disaster, the Company faces the risk that many of its debtors may experience uninsured property losses, or sustained business or employment interruption and / or loss which may materially impair their ability to meet the terms of their debt obligations. A major earthquake, flood, prolonged drought, fire or other natural disaster in California or other regions of the United States could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Adverse changes in general business or economic conditions, including inflation, could have a material adverse effect on the Company's financial condition and results of operations. A sustained or continuing weakness or weakening in business and economic conditions generally or specifically in the principal markets in which the Company does business could have one or more of the following adverse impacts on the Company's business:

- a decrease in the demand for loans and other products and services offered by the Company;
- an increase or decrease in the usage of unfunded credit commitments;
- an increase or decrease in the amount of deposits;
- a decrease in non- depository funding available to the Company;
- an impairment of certain intangible assets, including goodwill;
- an increase in the number of clients and counterparties who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to the Company, which could result in a higher level of nonperforming assets, net charge- offs, provision for credit losses, reduced interest revenue and cash flows, and valuation adjustments on assets;
- an impairment in the value of investment securities;
- an impairment in the value of life insurance policies owned by the Company;
- an impairment in the value of real estate owned by the Company; and
- an increase in operating costs

The 2008- 2009 financial crisis led to the failure or merger of a number of financial institutions. Financial institution failures can result in further losses as a consequence of defaults on securities issued by them and defaults under contracts entered into with such entities as counterparties. The failure of institutions with FDIC insured deposits can cause the DIF reserve ratio to decline, resulting in increased deposit insurance assessments on surviving FDIC insured institutions. Weak economic conditions can significantly weaken the strength and liquidity of financial institutions. The Company's financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, is highly dependent upon the business environment in the markets where the Company operates, in the State of California and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, healthy labor markets, efficient capital markets, low inflation, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by: declines in economic growth, high rates of unemployment, deflation, pandemics, declines in business activity or consumer, investor or business confidence; limitations on the availability of or increases in the cost of credit and capital; increases in inflation; natural disasters; or a combination of these or other factors.

- 12- Such business conditions could adversely affect the credit quality of the Company's loans, the demand for loans, loan volumes and related revenue, securities valuations, amounts of deposits, availability of funding, results of operations and financial condition. Regulatory Risks Restrictions on dividends and other distributions could limit amounts payable to the

Company. As a holding company, a substantial portion of the Company's cash flow typically comes from dividends paid by the Bank. Various statutory provisions restrict the amount of dividends the Company's subsidiaries can pay to the Company without regulatory approval. A reduction in subsidiary dividends paid to the Company could limit the capacity of the Company to pay dividends. In addition, if any of the Company's subsidiaries were to liquidate, that subsidiary's creditors will be entitled to receive distributions from the assets of that subsidiary to satisfy their claims against it before the Company, as a holder of an equity interest in the subsidiary, will be entitled to receive any of the assets of the subsidiary. ~~-12-~~The Company's payment of dividends on common stock could be eliminated or reduced. Holders of the Company's common stock are entitled to receive dividends only when, as, and if declared by the Company's Board of Directors. The Company's ability to pay dividends is limited by banking and corporate laws, and depends, among other things, on the Company's regulatory capital levels and earnings prospects, as well as the Bank's ability to pay cash dividends to the Company. Although the Company has historically paid cash dividends on the Company's common stock, the Company is not required to do so and the Company's Board of Directors could reduce or eliminate the Company's common stock dividend in the future. Adverse effects of changes in banking or other laws and regulations or governmental fiscal or monetary policies could adversely affect the Company. The Company is subject to significant federal and state regulation and supervision, which is primarily for the benefit and protection of the Company's customers and not for the benefit of investors. In the past, the Company's business has been materially affected by these regulations. Laws, regulations or policies, including accounting standards and interpretations currently affecting the Company and the Company's subsidiaries, may change at any time. Regulatory authorities may also change their interpretation of these statutes and regulations. Therefore, the Company's business may be adversely affected by any future changes in laws, regulations, policies or interpretations or regulatory approaches to compliance and enforcement including future acts of terrorism, major U. S. corporate bankruptcies and reports of accounting irregularities at U. S. public companies. Additionally, the Company's business is affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Company is particularly affected by the policies of the FRB, which regulates the supply of money and credit in the United States of America. Among the instruments of monetary policy available to the FRB are (a) conducting open market operations in U. S. government securities, (b) changing the discount rates of borrowings by depository institutions, (c) changing interest rates paid on balances financial institutions deposit with the FRB, and (d) imposing or changing reserve requirements against certain borrowings by banks and their affiliates. These methods are used in varying degrees and combinations to directly affect the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. The policies of the FRB may have a material effect on the Company's business, results of operations and financial condition. Under long- standing policy of the FRB, a BHC is expected to act as a source of financial strength for its subsidiary banks. As a result of that policy, the Company may be required to commit financial and other resources to its subsidiary bank in circumstances where the Company might not otherwise do so. Federal and state governments could pass legislation detrimental to the Company's performance. As an example, the Company could experience higher credit losses because of federal or state legislation or regulatory action that reduces the amount the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Company could experience higher credit losses because of federal or state legislation or regulatory action that limits or delays the Bank's ability to foreclose on property or other collateral or makes foreclosure less economically feasible. Federal, state and local governments could pass tax legislation causing the Company to pay higher levels of taxes. **- 13-** The FDIC insures deposits at insured financial institutions up to certain limits. The FDIC charges insured financial institutions premiums to maintain the Deposit Insurance Fund. The FDIC may increase premium assessments to maintain adequate funding of the Deposit Insurance Fund. The behavior of depositors in regard to the level of FDIC insurance could cause the Bank's existing customers to reduce the amount of deposits held at the Bank, and could cause new customers to open deposit accounts at the Bank. The level and composition of the Bank's deposit portfolio directly impacts the Bank's funding cost and net interest margin. ~~-13-~~Systems, Accounting and Internal Control Risks The accuracy of the Company's judgments and estimates about financial and accounting matters will impact operating results and financial condition. The Company makes certain estimates and judgments in preparing its financial statements. For example, the Company maintains a reserve for potential loan defaults and non- performance. There is no precise method of predicting ~~loans-~~ **loan** losses and determining the adequacy of the reserve requires the Company's management to make a number of estimates and judgments. If the estimates or judgments prove to be incorrect, the Company could be required to increase its provisions for credit losses, which could reduce its income or could cause it to incur operating losses in the future. The Company also uses models to estimate the effects of changing interest rates, which are based on estimates and assumptions that may prove to be inaccurate, particularly in times of market stress or unforeseen circumstances. Therefore, the quality and accuracy of management's estimates and judgments will have an impact on the Company's operating results and financial condition. For additional information, please see the discussion under " Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations- Critical Accounting Policies " in this Report, which is incorporated by reference in this paragraph. The Company's information systems or those of its vendors may experience an interruption or breach in security. The Company relies heavily on communications and information systems, including those of third party vendors and other service providers, to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Company's data processing, accounting, customer relationship management and other systems. Communication and information systems failures can result from a variety of risks including, but not limited to, events that are wholly or partially out of the Company's control, such as telecommunication line integrity, weather, terrorist acts, natural disasters, accidental disasters, unauthorized breaches of security systems, energy delivery systems, cybersecurity incidents, and other events. Although the Company devotes significant resources to maintain and regularly upgrade its systems and processes that are designed to protect the security of the Company's computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to the Company and its customers, there is no assurance that any such failures, interruptions or security

breaches will not occur or, if they do occur, that they will be adequately corrected by the Company or its vendors. The occurrence of any such failures, interruptions or security breaches could result in the loss or theft of customer or employee data, damage the Company's reputation, impair or disrupt the Company's business operations, result in a loss of customer business, subject the Company to additional regulatory scrutiny, or expose the Company to litigation and possible financial liability, any of which could have a material adverse effect on the Company's financial condition and results of operations. For example, during the second quarter 2023, the Company was notified that there may have been a compromise of a specific set of files processed by a third party vendor that could have affected a limited number of customers. This incident did not occur on a Company system and the Company does not use the software that may have been compromised. The Company has implemented data security safeguards with its third party vendors designed to quickly identify and contain improper access to sensitive information. The Company notified the affected customers as required by law. As of December 31, 2023-2024, to the Company's knowledge, there is no indication that any information has been subject to misuse as a result of the incident. The Company's controls and procedures may fail or be circumvented. Management regularly reviews and updates the Company's internal control over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. The Company maintains controls and procedures to mitigate against risks such as processing system failures and errors, and customer or employee fraud, and maintains insurance coverage for certain of these risks. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Events could occur which are not prevented or detected by the Company's internal controls or are not insured against or are in excess of the Company's insurance limits or insurance underwriters' financial capacity. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition. ~~[- The remainder of this page intentionally left blank -]~~

14- Operational Risks Climate change and the transition to renewable energy and a net zero emissions economy pose operational, commercial and regulatory risks. Climate change may increase the frequency or severity of extreme weather events, and if the Company is not adequately resilient to deal with acute climate events, its operations may be impacted. Extreme weather events could also impact the activities of its customers or third- party vendors. The physical commodities and assets underlying some of its markets or investments may also be impacted by climate change. Our risk management practices incorporate the challenges brought about by climate change. The operations conducted in our centralized facilities and branch locations can be disrupted by acute physical risks such as flooding and windstorms, and by chronic physical risks such as rising sea levels, sustained higher temperatures, drought, and increased wildfires. Over the intermediate and longer- term, the Company can be subject to transition risks such as market demand, and policy and law changes. None of the Company's physical locations are located near sea level, and only a limited number of branches are located in flood zones. ~~Our principal electricity supplier reports a Power Content Label of 100 % greenhouse gas free using the California Energy Commission's methodology. Our principal information technology vendor's goal is to achieve 100 percent carbon neutrality for Scope 1 and 2 greenhouse gas emissions by 2025.~~ The Company and its critical vendors maintain property and casualty insurance, and maintain and regularly test disaster recovery plans, which include redundant operational locations and power sources. The Company's operations do not use a significant amount of water in producing our products and services. The Company monitors the climate risks of our loan customers. Borrowers with real estate loan collateral located in flood zones must carry flood insurance under the loans' terms. The Company has had \$ 18.5 million in loans to agricultural borrowers at December 31, 2024 ; Management continuously monitors these customers' access to adequate water sources as well as their ability to sustain low crop yields without encountering financial hardship. The Company makes automobile loans; changes in consumer demand, or governmental laws or policies, regarding gasoline, electric and hybrid vehicles is not considered a risk to the Company's automobile lending practices. The Company considers climate risk in its underwriting of corporate bonds, and avoids purchasing bonds of issuers, which, in Management's judgement, have elevated climate risk. In addition, the transition to renewable energy and a net zero emissions economy involves changes to consumer and institutional preferences for energy consumption, and other products and services, and the possible failure of its services to facilitate the needs of customers during the transition to renewable energy and changes in customer preferences could adversely impact its business and revenues. Changing preferences could also have an adverse impact on the operations or financial condition of its customers, which could result in reduced revenues from those customers. The Company is also subject to risks relating to new or heightened climate change- related regulations or legislation, which could impact its customers. The risks associated with climate change and the transition to renewable energy and a net zero emissions economy continue to evolve rapidly, and climate change- related risks may change or increase over time. The effects of pandemics and their impact are highly unpredictable and could be significant, and could harm the Company's business, financial condition, and operating results. The Company's business, operations and financial performance may be affected by the macroeconomic impacts resulting from pandemics, and the Company's financial results in future periods could differ significantly from the Company's historical results. The extent to which the Company's business will be affected will depend on a variety of factors, many of which are outside of the Company's control, including the persistence of the pandemic, the actions of governmental authorities, changes in customer preferences, impacts on economic activity, and the possibility of recession or financial market instability. If the Company loses the services of any of our key management personnel, its business could suffer. Our future success significantly depends on the continued service and performance of our key management personnel. Our senior management team has significant industry experience and would be difficult to replace. In particular, David L. Payne, our Chairman, President and Chief Executive Officer, has led the Company for over 30 years. Competition for these employees is intense and we may not be able to attract and retain key personnel. If we are unable to attract or retain appropriately qualified personnel, we may not be successful in originating loans and servicing our customers, which could have a materially adverse effect on our business, financial condition and results of operations.- 15- The Company competes with

many banks and other traditional, non- traditional, brick and mortar and online financial service providers. Competition among providers of financial services in markets, particularly within California, is intense. The Company competes with other financial and bank holding companies, state and national commercial banks, savings and loan associations, consumer finance companies, credit unions, securities brokerages, insurance companies, mortgage banking companies, money market mutual funds, asset-based non- bank lenders, government sponsored or subsidized lenders and other financial services providers. Many of these competitors have substantially greater financial resources, lending limits and technological resources than the Company and are able to offer a broader range of products and services. Many competitors offer lower interest rates and more liberal loan terms that appeal to borrowers but adversely affect net interest margin and assurance of repayment. The Company is increasingly faced with competition in many of its products and services by non- bank providers who may have competitive advantages of size, access to potential customers and fewer regulatory requirements, such as “ fintech ” lenders. Failure to compete effectively for deposit, loan and other banking customers in any of the lines of business could cause the Company to lose market share, slow or reverse growth rate or suffer adverse effects on financial condition, results of operations or profitability. The Company must continue to attract, retain and develop key personnel. The Company’ s success depends to a significant extent upon its ability to attract, develop and retain experienced personnel in each of its lines of business and markets including managers in operational areas, compliance and other support areas to build and maintain the infrastructure and controls required to support continuing growth. Competition for the best people in the industry can be intense, and there is no assurance that the Company will continue to attract or retain talent or develop personnel. Factors that affect its ability to attract, develop and retain key employees include compensation and benefits programs, profitability, ability to establish appropriate succession plans for key talent, reputation for rewarding and promoting qualified employees and market competition for employees with certain skills, including information systems development and security. The cost of employee compensation is a significant portion of operating expenses and can materially impact results of operations or profitability, especially during periods of wage inflation. The unanticipated loss of the services of key personnel could have an adverse effect on the business. The Company is subject to environmental liability risk associated with lending activities. A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property’ s value or limit our ability to use or ability to sell the affected property. Environmental reviews of real property before initiating foreclosure actions may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our business, financial condition and results of operations.