

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

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

For the quarterly period ended September 30, 2022

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-35522

---

**BANC OF CALIFORNIA, INC.**

(Exact name of registrant as specified in its charter)

---

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**04-3639825**

(IRS Employer Identification No.)

**3 MacArthur Place, Santa Ana, California**

(Address of principal executive offices)

**92707**

(Zip Code)

**(855) 361-2262**

(Registrant's telephone number, including area code)

---

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

---

[Table of Contents](#)

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

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.01 per share	BANC	New York Stock Exchange

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

As of November 4, 2022, the registrant had outstanding 59,681,760 shares of voting common stock and 477,321 shares of Class B non-voting common stock.

---

**BANC OF CALIFORNIA, INC.**  
FORM 10-Q QUARTERLY REPORT  
September 30, 2022  
Table of Contents

	<u>Page</u>
<a href="#">Part I – Financial Information</a>	<a href="#">4</a>
Item 1 – <a href="#">Financial Statements</a>	<a href="#">4</a>
<a href="#">Consolidated Statements of Financial Condition</a>	<a href="#">4</a>
<a href="#">Consolidated Statements of Operations</a>	<a href="#">5</a>
<a href="#">Consolidated Statements of Comprehensive Income</a>	<a href="#">6</a>
<a href="#">Consolidated Statements of Stockholders' Equity</a>	<a href="#">7</a>
<a href="#">Consolidated Statements of Cash Flows</a>	<a href="#">9</a>
<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">10</a>
Item 2 – <a href="#">Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">48</a>
Item 3 – <a href="#">Quantitative and Qualitative Disclosures About Market Risk</a>	<a href="#">79</a>
Item 4 – <a href="#">Controls and Procedures</a>	<a href="#">82</a>
<a href="#">Part II – Other Information</a>	<a href="#">83</a>
Item 1 – <a href="#">Legal Proceedings</a>	<a href="#">83</a>
Item 1A – <a href="#">Risk Factors</a>	<a href="#">83</a>
Item 2 – <a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">83</a>
Item 3 – <a href="#">Defaults Upon Senior Securities</a>	<a href="#">83</a>
Item 4 – <a href="#">Mine Safety Disclosures</a>	<a href="#">83</a>
Item 5 – <a href="#">Other Information</a>	<a href="#">83</a>
Item 6 – <a href="#">Exhibits</a>	<a href="#">84</a>
<a href="#">Signatures</a>	<a href="#">85</a>

## Forward-Looking Statements -

When used in this report and in documents filed with or furnished to the Securities and Exchange Commission (the “SEC”), in press releases or other public stockholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phrases “believe,” “will,” “should,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” or similar expressions are intended to identify “forward-looking statements” within the meaning of the “Safe-Harbor” provisions of the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on any forward-looking statements. These statements may relate to future financial performance, strategic plans or objectives, revenue, expense or earnings projections, or other financial items of Banc of California, Inc. and its affiliates (“BANC,” the “Company,” “we,” “us” or “our”). By their nature, these statements are subject to numerous uncertainties that could cause actual results to differ materially from those anticipated in the statements.

Factors that could cause actual results to differ materially from the results anticipated or projected include, but are not limited to, the following:

- i. the continuing effects of the COVID-19 pandemic and steps taken by governmental and other authorities to contain, mitigate and combat the pandemic on our business, operations, financial performance and prospects;
- ii. the costs and effects of litigation, including legal fees and other expenses, settlements and judgments;
- iii. the risk that we will not be successful in the implementation of our capital utilization strategy, new lines of business, new products and services, or other strategic initiatives;
- iv. risks that the Company’s merger and acquisition transactions may disrupt current plans and operations and lead to difficulties in customer and employee retention, risks that the costs, fees, expenses and charges related to these transactions could be significantly higher than anticipated and risks that the expected revenues, cost savings, synergies, and other benefits of these transactions might not be realized to the extent anticipated, within the anticipated timetables, or at all and, in the case of our recent acquisition of Deepstack Technologies, LLC (“Deepstack”), reputational risk, regulatory risk and potential adverse reactions of the Company’s or Deepstack’s customers, supplier, vendors, employees or other business partners;
- v. the credit risks of lending activities, which may be affected by deterioration in real estate markets and the financial condition of borrowers, and the operational risk of lending activities, including but not limited to, the effectiveness of our underwriting practices and the risk of fraud, any of which may lead to increased loan delinquencies, losses, and nonperforming assets in our loan portfolio, and may result in our allowance for credit losses not being adequate and require us to materially increase our credit loss reserves;
- vi. the quality and composition of our securities portfolio;
- vii. changes in general economic conditions, either nationally or in our market areas, including any impact of supply chain disruptions, or changes in financial markets, and the risk of recession;
- viii. changes in the interest rate environment and levels of general interest rates, including the recent and anticipated increases by the FRB in its benchmark rate, the impacts of inflation, the relative differences between short- and long-term interest rates, deposit interest rates, and their impact on our net interest margin, tangible book value, and the cost of funding sources;
- ix. fluctuations in the demand for loans, and fluctuations in commercial and residential real estate values in our market area;
- x. our ability to develop and maintain a strong core deposit base or other low cost funding sources necessary to fund our activities;
- xi. results of examinations by regulatory authorities of the Company and the possibility that any such regulatory authority may, among other things, limit our business activities, require us to change our business mix, restrict our ability to invest in certain assets, increase our allowance for credit losses, result in write-downs of asset values, increase our capital levels, affect our ability to borrow funds or maintain or increase deposits, or impose fines, penalties or sanctions, any of which could adversely affect our liquidity and earnings;
- xii. legislative or regulatory changes that adversely affect our business, including, without limitation, changes in tax laws and policies, changes in privacy laws, and changes in regulatory capital or other rules, and the availability of resources to address or respond to such changes;
- xiii. our ability to control operating costs and expenses;
- xiv. staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges;
- xv. the risk that our enterprise risk management framework may not be effective in mitigating risk and reducing the potential for losses;
- xvi. errors in estimates of the fair values of certain of our assets and liabilities, which may result in significant changes in valuation;
- xvii. uncertainty regarding the expected discontinuation of the London Interbank Offered Rate (“LIBOR”) and the use of alternative reference rates;
- xviii. failures or security breaches with respect to the network, applications, vendors and computer systems on which we depend, including but not limited to, due to cybersecurity threats;
- xix. our ability to attract and retain key members of our senior management team;
- xx. increased competitive pressures among financial services companies;
- xxi. changes in consumer spending, borrowing and saving habits;
- xxii. the effects of climate change, severe weather events, natural disasters, pandemics, epidemics and other public health crises, acts of war or terrorism, and other external events on our business;
- xxiii. the ability of key third-party providers to perform their obligations to us;
- xxiv. changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the Financial Accounting Standards Board or their application to our business, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting standards;
- xxv. continuing impact of the Financial Accounting Standards Board’s credit loss accounting standard, referred to as Current Expected Credit Loss, which requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and provide for the expected credit losses as allowances for loan losses;
- xxvi. share price volatility and reputational risks, related to, among other things, speculative trading and certain traders shorting our common stock and attempting to generate negative publicity about us;
- xxvii. our ability to obtain regulatory approvals or non-objection to take various capital actions, including the payment of dividends by us or our bank subsidiary, or repurchases of our common stock; and
- xxviii. other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this report and from time to time in other documents that we file with or furnish to the SEC, including, without limitation, the risks described under “Part I. Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021.



**PART I – FINANCIAL INFORMATION**
**ITEM 1 – FINANCIAL STATEMENTS**
**BANC OF CALIFORNIA, INC.**
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**
**(Amounts in thousands, except share and per share data)**
**(Unaudited)**

	September 30, 2022	December 31, 2021
<b>ASSETS</b>		
Cash and due from banks	\$ 69,358	\$ 41,729
Interest-earning deposits in financial institutions	186,700	186,394
Total cash and cash equivalents	256,058	228,123
Securities held-to-maturity, at amortized cost (fair value of \$263,352 at September 30, 2022)	328,757	—
Securities available-for-sale, at fair value	847,565	1,315,703
Loans receivable	7,289,320	7,251,480
Allowance for loan losses	(92,444)	(92,584)
Loans receivable, net	7,196,876	7,158,896
Federal Home Loan Bank and other bank stock, at cost	54,428	44,632
Premises and equipment, net	107,728	112,868
Bank owned life insurance	126,199	123,720
Operating lease right-of-use assets	30,321	35,442
Investments in alternative energy partnerships, net	22,401	25,888
Deferred income taxes, net	56,376	50,774
Income tax receivable	3,430	7,952
Goodwill	114,312	94,301
Other intangibles	8,081	6,411
Other assets	216,046	189,033
<b>Total assets</b>	<b>\$ 9,368,578</b>	<b>\$ 9,393,743</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Noninterest-bearing deposits	\$ 2,943,585	\$ 2,788,196
Interest-bearing deposits	4,336,800	4,651,239
Total deposits	7,280,385	7,439,435
Federal Home Loan Bank advances, net	727,021	476,059
Other borrowings	10,000	25,000
Long-term debt, net	274,746	274,386
Reserve for loss on repurchased loans	3,006	4,348
Operating lease liabilities	34,937	40,675
Accrued expenses and other liabilities	86,493	68,550
Total liabilities	8,416,588	8,328,453
Commitments and contingent liabilities		
Preferred stock	—	94,956
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 65,159,580 shares issued and 59,679,558 shares outstanding at September 30, 2022; 64,599,170 shares issued and 62,188,206 shares outstanding at December 31, 2021	652	646
Class B non-voting non-convertible common stock, \$0.01 par value per share, 3,136,156 shares authorized; 477,321 shares issued and outstanding at September 30, 2022 and December 31, 2021	5	5
Additional paid-in capital	864,806	854,873
Retained earnings	231,084	147,894
Treasury stock, at cost (5,480,022 and 2,410,964 shares at September 30, 2022 and December 31, 2021)	(96,978)	(40,827)
Accumulated other comprehensive (loss) income, net	(47,579)	7,743
Total stockholders' equity	951,990	1,065,290
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,368,578</b>	<b>\$ 9,393,743</b>

*See accompanying notes to consolidated financial statements (unaudited)*

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in thousands, except per share data)  
(Unaudited)

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
Interest and dividend income					
Loans, including fees	\$ 83,699	\$ 78,895	\$ 63,837	\$ 238,828	\$ 187,082
Securities	10,189	8,124	7,167	25,622	20,654
Other interest-earning assets	2,085	1,399	787	4,210	2,350
Total interest and dividend income	95,973	88,418	71,791	268,660	210,086
Interest expense					
Deposits	8,987	3,180	2,412	13,555	10,241
Federal Home Loan Bank advances	3,558	3,114	2,990	9,625	9,046
Long-term debt and other interest-bearing liabilities	4,020	3,825	3,413	11,332	10,060
Total interest expense	16,565	10,119	8,815	34,512	29,347
Net interest income	79,408	78,299	62,976	234,148	180,739
(Reversal of) provision for credit losses	—	—	(1,147)	(31,542)	(4,408)
Net interest income after (reversal of) provision for credit losses	79,408	78,299	64,123	265,690	185,147
Noninterest income					
Customer service fees	2,462	2,578	1,900	7,474	5,648
Loan servicing income	636	109	170	957	476
Income from bank owned life insurance	873	810	715	2,479	2,077
Net gain on sale of securities available-for-sale	—	—	—	16	—
Other income	1,710	3,689	2,734	7,851	5,570
Total noninterest income	5,681	7,186	5,519	18,777	13,771
Noninterest expense					
Salaries and employee benefits	27,997	28,264	24,786	85,248	75,547
Occupancy and equipment	8,649	7,876	7,124	24,380	21,597
Professional fees	4,507	4,107	892	11,521	6,663
Data processing	1,699	1,782	1,646	5,309	4,922
Regulatory assessments	925	1,021	812	2,721	2,355
Loss (gain) on investments in alternative energy partnerships	504	1,043	(1,785)	1,705	1,016
(Reversal of) provision for loss on repurchased loans	(26)	(490)	(42)	(987)	(273)
Amortization of other intangibles	396	313	282	1,150	846
Acquisition, integration and transaction costs	2,080	—	1,000	2,080	2,400
Other expense	4,231	4,696	3,096	13,043	9,733
Total noninterest expense	50,962	48,612	37,811	146,170	124,806
Income from operations before income taxes	34,127	36,873	31,831	138,297	74,112
Income tax expense	9,931	10,161	8,661	38,877	17,517
<b>Net income</b>	<b>24,196</b>	<b>26,712</b>	<b>23,170</b>	<b>99,420</b>	<b>56,595</b>
Preferred stock dividends	—	—	1,727	1,420	6,595
Income allocated to participating securities	—	—	—	—	160
Impact of preferred stock redemption	—	—	—	3,747	3,347
<b>Net income available to common stockholders</b>	<b>\$ 24,196</b>	<b>\$ 26,712</b>	<b>\$ 21,443</b>	<b>\$ 94,253</b>	<b>\$ 46,493</b>
<b>Earnings per common share:</b>					
Basic	\$ 0.40	\$ 0.44	\$ 0.42	\$ 1.54	\$ 0.92
Diluted	\$ 0.40	\$ 0.43	\$ 0.42	\$ 1.53	\$ 0.91
<b>Earnings per class B common share:</b>					
Basic	\$ 0.40	\$ 0.44	\$ 0.42	\$ 1.54	\$ 0.92
Diluted	\$ 0.40	\$ 0.44	\$ 0.42	\$ 1.54	\$ 0.92

See accompanying notes to consolidated financial statements (unaudited)

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(Amounts in thousands)**  
**(Unaudited)**

	Three Months Ended			Nine Months Ended	
	September 30, 2022	June 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income	\$ 24,196	\$ 26,712	\$ 23,170	\$ 99,420	\$ 56,595
Other comprehensive (loss) income, net of tax:					
Unrealized (loss) gain on available-for-sale securities:					
Unrealized (loss) gain arising during the period	(13,715)	(15,113)	(3,792)	(55,741)	3,202
Reclassification adjustment for gain included in net income	—	—	—	(11)	—
Total change in unrealized (loss) gain on available-for-sale securities	(13,715)	(15,113)	(3,792)	(55,752)	3,202
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	195	226	—	430	—
Total other comprehensive (loss) income	(13,520)	(14,887)	(3,792)	(55,322)	3,202
<b>Comprehensive income</b>	<b>\$ 10,676</b>	<b>\$ 11,825</b>	<b>\$ 19,378</b>	<b>\$ 44,098</b>	<b>\$ 59,797</b>

*See accompanying notes to consolidated financial statements (unaudited)*

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**(Amounts in thousands, except share and per share data)**  
**(Unaudited)**

	Preferred Stock	Common Stock			Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
		Voting	Class B Non-Voting						
<b>Three Months Ended September 30, 2022</b>									
<b>Balance at June 30, 2022</b>	\$ —	\$ 647	\$ 5	\$ 856,079	\$ 210,471	\$ (84,013)	\$ (34,059)	\$ 949,130	
Comprehensive income:									
Net income	—	—	—	—	24,196	—	—	24,196	
Other comprehensive loss, net	—	—	—	—	—	—	(13,520)	(13,520)	
Issuance of common stock	—	5	—	7,195	—	—	—	7,200	
Purchase of 740,332 shares of treasury stock	—	—	—	—	—	(12,965)	—	(12,965)	
Share-based compensation expense	—	—	—	1,715	—	—	—	1,715	
Restricted stock surrendered due to employee tax liability	—	—	—	(183)	—	—	—	(183)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(20)	—	—	(20)	
Dividends declared (\$0.06 per common share)	—	—	—	—	(3,563)	—	—	(3,563)	
Preferred stock dividends	—	—	—	—	—	—	—	—	
<b>Balance at September 30, 2022</b>	<b>\$ —</b>	<b>\$ 652</b>	<b>\$ 5</b>	<b>\$ 864,806</b>	<b>\$ 231,084</b>	<b>\$ (96,978)</b>	<b>\$ (47,579)</b>	<b>\$ 951,990</b>	
<b>Three Months Ended September 30, 2021</b>									
<b>Balance at June 30, 2021</b>	\$ 94,956	\$ 527	\$ 5	\$ 630,654	\$ 129,307	\$ (40,827)	\$ 14,740	\$ 829,362	
Comprehensive income:									
Net income	—	—	—	—	23,170	—	—	23,170	
Other comprehensive loss, net	—	—	—	—	—	—	(3,792)	(3,792)	
Issuance of common stock	—	—	—	—	—	—	—	—	
Share-based compensation expense	—	—	—	1,106	—	—	—	1,106	
Restricted stock surrendered due to employee tax liability	—	—	—	(278)	—	—	—	(278)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	30	(30)	—	—	—	
Dividends declared (\$0.06 per common share)	—	—	—	—	(3,038)	—	—	(3,038)	
Preferred stock dividends	—	—	—	—	(1,727)	—	—	(1,727)	
<b>Balance at September 30, 2021</b>	<b>\$ 94,956</b>	<b>\$ 527</b>	<b>\$ 5</b>	<b>\$ 631,512</b>	<b>\$ 147,682</b>	<b>\$ (40,827)</b>	<b>\$ 10,948</b>	<b>\$ 844,803</b>	

See accompanying notes to consolidated financial statements (unaudited)

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY, continued**  
**(Amounts in thousands)**  
**(Unaudited)**

	Preferred Stock	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
		Voting	Class B Non-Voting					
<i>Nine Months Ended September 30, 2022</i>								
<b>Balance at December 31, 2021</b>	\$ 94,956	\$ 646	\$ 5	\$ 854,873	\$ 147,894	\$ (40,827)	\$ 7,743	\$ 1,065,290
Comprehensive income:								
Net income	—	—	—	—	99,420	—	—	99,420
Other comprehensive loss, net	—	—	—	—	—	—	(55,322)	(55,322)
Issuance of common stock	—	6	—	7,194	—	—	—	7,200
Redemption of preferred stock	(94,956)	—	—	—	(3,747)	—	—	(98,703)
Purchase of 3,069,058 shares of treasury stock	—	—	—	—	—	(56,151)	—	(56,151)
Share-based compensation expense	—	—	—	4,482	—	—	—	4,482
Restricted stock surrendered due to employee tax liability	—	—	—	(1,743)	—	—	—	(1,743)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(80)	—	—	(80)
Dividends declared (\$0.18 per common share)	—	—	—	—	(10,983)	—	—	(10,983)
Preferred stock dividends	—	—	—	—	(1,420)	—	—	(1,420)
<b>Balance at September 30, 2022</b>	\$ —	\$ 652	\$ 5	\$ 864,806	\$ 231,084	\$ (96,978)	\$ (47,579)	\$ 951,990
<i>Nine Months Ended September 30, 2021</i>								
<b>Balance at December 31, 2020</b>	\$ 184,878	\$ 522	\$ 5	\$ 634,704	\$ 110,179	\$ (40,827)	\$ 7,746	\$ 897,207
Comprehensive loss:								
Net loss	—	—	—	—	56,595	—	—	56,595
Other comprehensive income, net	—	—	—	—	—	—	3,202	3,202
Issuance of common stock	—	2	—	(2)	—	—	—	—
Redemption of preferred stock	(89,922)	—	—	—	(3,347)	—	—	(93,269)
Exercise of stock options	—	—	—	300	—	—	—	300
Exercise of stock appreciation rights	—	3	—	(5,375)	—	—	—	(5,372)
Share-based compensation expense	—	—	—	3,988	—	—	—	3,988
Restricted stock surrendered due to employee tax liability	—	—	—	(2,133)	—	—	—	(2,133)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	30	(89)	—	—	(59)
Dividends declared (\$0.18 per common share)	—	—	—	—	(9,061)	—	—	(9,061)
Preferred stock dividends	—	—	—	—	(6,595)	—	—	(6,595)
<b>Balance at September 30, 2021</b>	\$ 94,956	\$ 527	\$ 5	\$ 631,512	\$ 147,682	\$ (40,827)	\$ 10,948	\$ 844,803

*See accompanying notes to consolidated financial statements (unaudited)*

**BANC OF CALIFORNIA, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Amounts in thousands)**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 99,420	\$ 56,595
Adjustments to reconcile net income to net cash provided by operating activities		
Reversal of provision for credit losses	(31,542)	(4,408)
Reversal of provision for loan repurchases	(987)	(273)
Depreciation on premises and equipment	11,883	11,414
Amortization of other intangibles	1,150	846
Amortization of debt issuance costs	1,322	1,283
Net amortization of premium on securities	834	1,184
Net amortization (accretion) of deferred loan costs (fees) and purchased premiums (discounts)	520	(1,063)
Deferred income tax expense (benefit)	(1,547)	(3,476)
Bank owned life insurance income	(2,479)	(2,077)
Share-based compensation expense	4,482	3,988
Income from interest rate swaps	(224)	(240)
Loss on investments in alternative energy partnerships and affordable housing investments	5,432	4,130
Net gain on sale of securities available-for-sale	(16)	—
Gain on sale-leaseback of branch	(771)	(841)
Repurchase of mortgage loans	(1,592)	(1,852)
Change in accrued interest receivable and other assets	29,662	4,910
Change in accrued interest payable and other liabilities	(5,040)	5,579
Net cash provided by operating activities	110,507	75,699
Cash flows from investing activities:		
Proceeds from sales of securities available-for-sale	17,645	—
Proceeds from maturities and calls of securities available-for-sale	38,500	120,230
Purchases of securities available-for-sale	(27,500)	(226,813)
Proceeds from principal repayments of securities held-to-maturity and available-for-sale	32,119	22,499
Net cash used in acquisitions	(10,332)	—
Loan originations and principal collections, net	808,144	281,951
Purchases of loans	(814,302)	(615,359)
Redemption of Federal Home Loan Bank stock	—	436
Purchases of Federal Home Loan Bank and other bank stock	(9,796)	(534)
Proceeds from sale of other real estate owned	—	3,618
Purchase of mortgage servicing rights	(20,441)	—
Purchases of premises and equipment	(2,556)	(2,256)
Proceeds from sale-leaseback of branch	2,400	3,913
Payments of capital lease obligations	—	(103)
Funding of equity investments	(4,878)	(6,320)
Decrease in investments in alternative energy partnerships	1,782	1,765
Net cash provided by (used in) investing activities	10,785	(416,973)
Cash flows from financing activities:		
Net (decrease) increase in deposits	(159,050)	457,425
Net increase (decrease) in short-term Federal Home Loan Bank advances	50,000	(135,000)
Proceeds from Federal Home Loan Bank long-term advances	200,000	—
Net (decrease) increase in other borrowings	(15,000)	100,000
Redemption of preferred stock	(98,703)	(93,269)
Purchase of treasury stock	(56,151)	—
Proceeds from exercise of stock options	—	300
Purchase of stock surrendered to pay tax liability	(1,743)	(7,505)
Dividends paid on preferred stock	(1,727)	(6,595)
Dividends paid on common stock	(10,983)	(9,061)
Net cash (used in) provided by financing activities	(93,357)	306,295
Net change in cash and cash equivalents	27,935	(34,979)
Cash and cash equivalents at beginning of period	228,123	220,819
<b>Cash and cash equivalents at end of period</b>	<b>\$ 256,058</b>	<b>\$ 185,840</b>
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	28,904	25,133
Income taxes paid	14,792	11,975
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	—	3,253
Reclassification of securities available-for-sale to held-to-maturity	329,416	—
Equipment acquired under capital leases	—	256
Operating lease right-of-use assets recognized	1,253	14,172
Operating lease liabilities recognized	1,253	14,172
Commitments to fund low income housing tax credit investments	12,000	—
Goodwill adjustments for purchase accounting	1,821	—
Receivable on unsettled securities sales	—	40,500
Due on unsettled securities purchases	—	25,000

*See accompanying notes to consolidated financial statements (unaudited)*

**BANC OF CALIFORNIA, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**September 30, 2022**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations:** Banc of California, Inc. (collectively, with its consolidated subsidiaries, the Company, we, us, and our) is a financial holding company under the Bank Holding Company Act of 1956, as amended, headquartered in Santa Ana, California and incorporated under the laws of Maryland. Banc of California, Inc. is subject to regulation by the Board of Governors of the Federal Reserve System (“FRB”) and its wholly-owned subsidiary, Banc of California, National Association (the “Bank”), operates under a national bank charter issued by the Office of the Comptroller of the Currency (“OCC”), the Bank’s primary regulator. The Bank is a member of the Federal Home Loan Bank (“FHLB”) system, and maintains insurance on deposit accounts with the Federal Deposit Insurance Corporation (“FDIC”).

The Bank offers a variety of financial services to meet the banking and financial needs of the communities it serves, with operations conducted through 29 full-service branches located throughout Southern California as of September 30, 2022.

**Basis of Presentation:** The accompanying unaudited interim consolidated financial statements have been prepared pursuant to Article 10 of SEC Regulation S-X and other SEC rules and regulations for reporting on the Quarterly Report on Form 10-Q. Accordingly, certain disclosures required by U.S. generally accepted accounting principles (“GAAP”) are not included herein. These interim statements should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2021 filed by us with the SEC. Certain prior period amounts have been reclassified to conform to current period presentation. In the consolidated statement of financial condition, we reclassified loans held for sale to other assets and in the consolidated statements of operations, we reclassified: (i) the fair value adjustment for loans held-for-sale to other income, (ii) the income or loss from equity investments to other income, and (iii) advertising and promotion to other expense.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results that may be expected for the year ending December 31, 2022.

**Principles of Consolidation:** The accompanying unaudited consolidated financial statements include the accounts of the Company and its consolidated subsidiaries as of September 30, 2022 and December 31, 2021 and for the three and nine months ended September 30, 2022 and 2021. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its then wholly-owned subsidiaries.

**Significant Accounting Policies:** The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the banking industry. We have not made any changes in our significant accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC, except for the accounting for securities held-to-maturity and mortgage servicing rights, as described below.

**Securities Held-to-Maturity:** Securities held-to-maturity consist of debt securities that the Company has the positive intent and ability to hold to maturity. These securities are recorded at cost, adjusted for the amortization of premiums or accretion of discounts. Premiums and discounts are amortized or accreted over the life of the security as an adjustment to its yield using the interest method. Transfers of debt securities into the held-to-maturity portfolio are accounted for at fair value. The unrealized gain or loss at the date of transfer is recognized as part of the amortized cost of the transferred security. This amount, along with the unrealized gain or loss included in accumulated other comprehensive income, is amortized or accreted over the life of the security as an adjustment to its yield using the interest method.

Securities held-to-maturity are analyzed for credit losses under ASC 326, *Financial Instruments - Credit Losses*, which requires the Company to determine whether any impairment exists as of the reporting date and, as applicable, whether that impairment is due to credit deterioration. An allowance for credit losses would be established for losses on held-to-maturity debt securities due to credit deterioration and would be recorded as a component of the provision for credit losses. Accrued interest is excluded from our expected credit loss estimates. Held-to-maturity debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity debt securities are placed on nonaccrual status, unpaid interest recognized as interest income is reversed.

**Mortgage Servicing Rights:** Mortgage servicing rights (“MSRs”) give the Company the contractual rights to receive service fees in exchange for performing loan servicing functions on behalf of investors who have an ownership interest in the mortgage loan

balances. Purchased mortgage servicing rights are recorded at the purchase price at the time of acquisition, which approximates the fair value of such assets. Subsequent to acquisition, MSR's are accounted for under the amortization method and are then amortized over the period of estimated net servicing income (level yield method) generated from servicing the loans. MSR's are evaluated quarterly for impairment by estimating the fair value of the MSR's and comparing that value to their amortized cost. Impairment, if any, is recognized in a valuation allowance to the extent the fair value is less than the carrying amount of the MSR's. Subsequent increases in the fair value of impaired MSR's are recognized only up to the amount of the previously recognized valuation allowance. The estimated fair value of the MSR's is obtained through independent third party valuations based on an analysis of future cash flows, incorporating key assumptions including discount rates, prepayment speeds and interest rates that we believe are consistent with the assumptions used by other similar market participants in valuing MSR's.

**Use of Estimates in the Preparation of Financial Statements:** The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and disclosures provided, and actual results could differ. The allowance for credit losses ("ACL") (which includes the allowance for loan losses ("ALL") and the reserve for unfunded loan commitments), provision for credit losses, loan repurchase reserve, realization of deferred tax assets, valuation of goodwill and other intangibles, valuation of investments in alternative energy partnerships, and the fair value measurement of financial instruments are particularly complex and require judgment which may have a material effect on the consolidated financial statements.

**Recent Accounting Guidance:** In March 2022, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02"), which addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the current expected credit losses ("CECL") model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted if an entity has adopted ASU 2016-13. ASU 2022-02 is not expected to have a material effect on our consolidated financial statements.

**Business Combinations:**

**Deepstack Acquisition.** On September 15, 2022, we completed the acquisition of the assets of Global Payroll Gateway, Inc. and its wholly owned subsidiary, Deepstack Technologies, LLC (collectively, "Deepstack") for \$24 million in total consideration. The purchase is accounted for as a business combination under U.S. GAAP and assets purchased and liabilities assumed were recorded at their respective acquisition date estimated fair values. During the measurement period (not to exceed one year from the acquisition date), the fair value of assets acquired and liabilities assumed are subject to adjustment if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability. As the Company is still in the process of reviewing the fair value methodology and assumptions used in the valuation of identifiable intangible assets, the fair values of these intangibles are considered provisional.

Deepstack's results of operations have been included in the Company's results beginning September 15, 2022. Transaction costs related to the acquisition were \$2.1 million for the period ended September 30, 2022.

The fair value amounts of identified assets acquired and liabilities assumed as part of the Deepstack acquisition are as follows:

(\$ in thousands)	Book Value	Fair Value Adjustments	Fair Value
<b>Assets acquired:</b>			
Cash and cash equivalents	\$ 4,068	\$ —	\$ 4,068
Other intangibles	—	3,800	3,800
Other assets	1,385	—	1,385
Total assets acquired	<u>\$ 5,453</u>	<u>\$ 3,800</u>	<u>\$ 9,253</u>
<b>Liabilities assumed:</b>			
Accounts payable	\$ 3,443	\$ —	\$ 3,443
Total liabilities assumed	<u>3,443</u>	<u>—</u>	<u>3,443</u>
Excess of assets acquired over liabilities assumed	<u>\$ 2,010</u>	<u>\$ 3,800</u>	<u>\$ 5,810</u>
Total consideration			<u>24,000</u>
Goodwill			<u>\$ 18,190</u>

Total consideration of \$24 million includes cash consideration paid of \$14.4 million, common stock issued of \$7.2 million and additional cash consideration of \$2.4 million expected to be paid 18 months after the acquisition date.

The acquisition of Deepstack resulted in the recognition of \$2.8 million in developed technology and \$1.0 million in other intangibles, including trademarks, client relationships and non-compete agreements. Goodwill in the amount of \$18.2 million was also recognized and represents the strategic, operational and financial benefits expected from integrating the payment processing solutions and technology of Deepstack into our operations.

Pacific Mercantile Bancorp Acquisition. On October 18, 2021, we completed our merger with Pacific Mercantile Bancorp (“PMB”), pursuant to which PMB merged with and into the Company, with the Company as the surviving corporation. PMB was the bank holding company of the wholly-owned subsidiary Pacific Mercantile Bank, a California state chartered commercial bank headquartered in Costa Mesa, California which operated seven banking offices, including three full service branches, located throughout Southern California.

Under the terms and conditions of the merger, each outstanding share of PMB common stock, aggregating 23,713,417 shares, was converted into the right to receive 0.5 (the "Exchange Ratio") of a share of the Company's common stock. In addition, at the effective time of the merger, the Company paid \$3.2 million in cash for all outstanding PMB share-based awards, including outstanding shares subject to unvested restricted stock awards. In the merger, the Company issued 11,856,713 shares of common stock with an estimated fair value of \$222.2 million based upon the \$18.74 closing price of the Company's common stock on October 18, 2021. Together with the cash consideration, this resulted in an aggregate purchase price of \$225.4 million. The operating results of PMB have been included since the date of acquisition and consequently, may impact the comparison of the financial results for the periods presented.

Goodwill in the amount of \$59.0 million was recognized and represents the synergies and economies of scale expected from combining the operations of PMB with ours. Refer to Note 2 - *Business Combinations* in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC and Note 5 - *Goodwill and Other Intangibles* for further information.

## NOTE 2 – FAIR VALUES OF FINANCIAL INSTRUMENTS

### Fair Value Hierarchy

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The topic describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

**Assets and Liabilities Measured on a Recurring Basis**

**Securities Available-for-Sale:** The fair values of securities available-for-sale are generally determined by quoted market prices in active markets, if available (Level 1). If quoted market prices are not available, we primarily employ independent pricing services that utilize pricing models to calculate fair value. Such fair value measurements consider observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments (Level 2). We adhere to established processes to monitor the pricing services' assumptions and challenge the valuations that appear unusual or unexpected. Multiple quotes or prices may be obtained in this process and we determine which fair value is most appropriate based on market information and analysis. Quotes obtained through this process are generally non-binding. We follow established procedures to ensure that assets and liabilities are properly classified in the fair value hierarchy. Level 2 securities include SBA loan pool securities, U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities, non-agency residential mortgage-backed securities, non-agency commercial mortgage-backed securities, collateralized loan obligations, and corporate debt securities. When a market is illiquid or there is a lack of transparency around the inputs to valuation, including at least one unobservable input, the securities are classified as Level 3 and reliance is placed upon internally developed models and management's judgment and evaluation for valuation.

**Derivative Assets and Liabilities:**

**Interest Rate Swaps.** We offer interest rate swap products to certain loan clients to allow them to hedge the risk of rising interest rates on their variable rate loans. We originate a variable rate loan and enter into a variable-to-fixed interest rate swap with the client. We also enter into an offsetting swap with a correspondent bank. These back-to-back agreements are intended to offset each other and allow us to originate a variable rate loan while providing a contract for fixed interest payments for the client. The net cash flow for us is equal to the interest income received from a variable rate loan originated with the client plus a fee. The fair value of these derivatives is based on a discounted cash flow approach. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaps is classified as Level 2.

**Foreign Exchange Contracts.**

We offer short-term foreign exchange contracts to customers to purchase and/or sell foreign currencies at set rates in the future. These products allow customers to hedge the foreign exchange rate risk of their deposits and loans denominated in foreign currencies. In conjunction with these products, we also enter into offsetting back-to-back contracts with institutional counterparties to hedge our foreign exchange rate risk. These back-to-back contracts are intended to offset each other and allow us to offer our customers foreign exchange products. The fair value of both of these offsetting asset and liability instruments is based on the change in the underlying foreign exchange rate. We are subject to counterparty risk in the event our customers or institutional counterparties default under these contracts. Given the short-term nature of the contracts, the counterparties' credit risks are considered nominal and typically result in no adjustments to the valuation of the short-term foreign exchange contracts. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of these contracts is classified as Level 2.

The following table presents our financial assets and liabilities measured at fair value on a recurring basis as of the dates indicated:

(\$ in thousands)	Carrying Value	Fair Value Measurement Level		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2022</b>				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 12,106	\$ —	\$ 12,106	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	10,696	—	10,696	—
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	141,157	—	141,157	—
Non-agency residential mortgage-backed securities	41,514	—	41,514	—
Collateralized loan obligations	472,676	—	472,676	—
Corporate debt securities	169,416	—	169,416	—
Derivative assets:				
Interest rate swaps <sup>(1)</sup>	2,295	—	2,295	—
Foreign exchange contracts <sup>(1)</sup>	382	—	382	—
Liabilities				
Derivative liabilities:				
Interest rate swaps <sup>(2)</sup>	2,251	—	2,251	—
Foreign exchange contracts <sup>(2)</sup>	377	—	377	—
<b>December 31, 2021</b>				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 14,591	\$ —	\$ 14,591	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	191,969	—	191,969	—
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	241,541	—	241,541	—
Municipal securities	119,015	—	119,015	—
Non-agency residential mortgage-backed securities	56,025	—	56,025	—
Collateralized loan obligations	518,964	—	518,964	—
Corporate debt securities	173,598	—	173,598	—
Derivative assets:				
Interest rate swaps <sup>(1)</sup>	3,390	—	3,390	—
Foreign exchange contracts <sup>(1)</sup>	175	—	175	—
Liabilities				
Derivative liabilities:				
Interest rate swaps <sup>(2)</sup>	3,594	—	3,594	—
Foreign exchange contracts <sup>(2)</sup>	146	—	146	—

(1) Included in other assets in the consolidated statements of financial condition.

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

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2022 and 2021.

***Assets and Liabilities Measured on a Non-Recurring Basis***

***Individually Evaluated Loans:*** The fair value of individually evaluated loans with specific allocations of the ACL based on collateral values is generally based on recent real estate appraisals and automated valuation models (“AVMs”). These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers for differences between the comparable sales and income data available. Such adjustments are typically deemed significant unobservable inputs used for determining fair value and result in a Level 3 classification.

The following table presents our financial assets and liabilities measured at fair value on a non-recurring basis as of the dates indicated:

(\$ in thousands)	Fair Value	Fair Value Measurement Level		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>September 30, 2022</b>				
Assets				
Collateral dependent loans:				
Single family residential mortgage	\$ 3,735	\$ —	\$ —	\$ 3,735
Commercial and industrial	8,646	—	—	8,646
SBA	3,922	—	—	3,922
<b>December 31, 2021</b>				
Assets				
Collateral dependent loans:				
Commercial and industrial	\$ 12,272	\$ —	\$ —	\$ 12,272
SBA	3,886	—	—	3,886

The following table presents the gains (losses) recognized on assets measured at fair value on a non-recurring basis for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Collateral dependent loans:				
Single family residential mortgage	\$ 135	\$ —	\$ (205)	\$ (211)
Commercial and industrial	(441)	—	(1,639)	38
SBA	(35)	(1,377)	(207)	(1,886)
Other consumer	—	—	(243)	—
Commercial real estate	—	2	—	(138)

**Estimated Fair Values of Financial Instruments**

The following table presents the carrying amounts and estimated fair values of financial assets and liabilities as of the dates indicated:

(\$ in thousands)	Carrying Amount	Fair Value Measurement Level			Total
		Level 1	Level 2	Level 3	
<b>September 30, 2022</b>					
Financial assets					
Cash and cash equivalents	\$ 256,058	\$ 256,058	\$ —	\$ —	\$ 256,058
Securities held-to-maturity	328,757	—	263,352	—	263,352
Securities available-for-sale	847,565	—	847,565	—	847,565
Federal Home Loan Bank and other bank stock	54,428	—	54,428	—	54,428
Loans receivable, net of allowance for credit losses	7,196,876	—	—	6,701,627	6,701,627
Accrued interest receivable	35,635	35,635	—	—	35,635
Derivative assets	2,677	—	2,677	—	2,677
Financial liabilities					
Deposits	7,280,385	6,343,446	924,503	—	7,267,949
Advances from Federal Home Loan Bank	727,021	—	702,890	—	702,890
Other borrowings	10,000	—	10,025	—	10,025
Long-term debt	274,746	—	272,371	—	272,371
Derivative liabilities	2,628	—	2,628	—	2,628
Accrued interest payable	7,832	7,832	—	—	7,832
<b>December 31, 2021</b>					
Financial assets					
Cash and cash equivalents	\$ 228,123	\$ 228,123	\$ —	\$ —	\$ 228,123
Securities available-for-sale	1,315,703	—	1,315,703	—	1,315,703
Federal Home Loan Bank and other bank stock	44,632	—	44,632	—	44,632
Loans receivable, net of allowance for credit losses	7,158,896	—	—	7,150,703	7,150,703
Accrued interest receivable	30,991	30,991	—	—	30,991
Derivative assets	3,565	—	3,565	—	3,565
Financial liabilities					
Deposits	7,439,435	6,932,717	506,711	—	7,439,428
Advances from Federal Home Loan Bank	476,059	—	500,323	—	500,323
Other borrowings	25,000	—	25,000	—	25,000
Long-term debt	274,386	—	294,404	—	294,404
Derivative liabilities	3,740	—	3,740	—	3,740
Accrued interest payable	3,546	3,546	—	—	3,546

**NOTE 3 – INVESTMENT SECURITIES**

The following table presents the amortized cost and fair value of the investment securities portfolio as of the dates indicated:

(\$ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>September 30, 2022</b>				
Securities held-to-maturity:				
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 153,127	\$ —	\$ (29,178)	\$ 123,949
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,426	—	(11,950)	49,476
Municipal securities	114,204	—	(24,277)	89,927
<b>Total securities held-to-maturity</b>	<b>\$ 328,757</b>	<b>\$ —</b>	<b>\$ (65,405)</b>	<b>\$ 263,352</b>
Securities available-for-sale:				
SBA loan pool securities	\$ 12,156	\$ 4	\$ (54)	\$ 12,106
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	12,012	—	(1,316)	10,696
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	151,582	—	(10,425)	141,157
Non-agency residential mortgage-backed securities	52,076	—	(10,562)	41,514
Collateralized loan obligations	492,775	—	(20,099)	472,676
Corporate debt securities	177,774	12	(8,370)	169,416
<b>Total securities available-for-sale</b>	<b>\$ 898,375</b>	<b>\$ 16</b>	<b>\$ (50,826)</b>	<b>\$ 847,565</b>
<b>December 31, 2021</b>				
Securities available-for-sale:				
SBA loan pool securities	\$ 14,679	\$ —	\$ (88)	\$ 14,591
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	190,382	2,898	(1,311)	191,969
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	242,458	1,171	(2,088)	241,541
Municipal securities	117,913	2,641	(1,539)	119,015
Non-agency residential mortgage-backed securities	56,014	11	—	56,025
Collateralized loan obligations	521,275	—	(2,311)	518,964
Corporate debt securities	162,002	11,603	(7)	173,598
<b>Total securities available-for-sale</b>	<b>\$ 1,304,723</b>	<b>\$ 18,324</b>	<b>\$ (7,344)</b>	<b>\$ 1,315,703</b>

During the first quarter of 2022, certain longer-duration fixed-rate mortgage-backed securities and municipal securities with an amortized cost basis of \$346.0 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. At the time of the transfer, the securities had an unrealized gross loss of \$16.6 million, which is subsequently amortized into interest income as a yield adjustment over the remaining life of the securities. The unrealized losses remaining in accumulated other comprehensive income are also accreted into interest income in a consistent manner. As a result, there is no impact on the consolidated statements of operations.

At September 30, 2022, our investment securities portfolio consisted of agency securities, municipal securities, mortgage-backed securities, collateralized loan obligations, and corporate debt securities. The expected maturities of these types of securities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There was no allowance for credit losses for debt securities held-to-maturity and available-for sale as of September 30, 2022 and December 31, 2021. We do not consider unrealized losses on these securities to be attributable to credit-related factors, as the unrealized losses have occurred as a result of changes in non-credit related factors such as interest rates, market spreads, and market conditions subsequent to purchase.

Accrued interest receivable on debt securities held-to-maturity and available-for-sale totaled \$8.2 million and \$4.7 million at September 30, 2022 and December 31, 2021, and is included within other assets in the accompanying consolidated statements of financial condition.

At September 30, 2022 and December 31, 2021, there were no holdings of any one issuer, other than U.S. government agency and sponsored enterprises, in an amount greater than 10 percent of our stockholders' equity.

#### ***Pledged Securities***

Investment securities with carrying values of \$123.1 million and \$8.9 million as of September 30, 2022 and December 31, 2021 were pledged to the Federal Reserve Discount Window ("FRB Discount Window"). Investments securities with carrying values of \$214.6 million and zero as of September 30, 2022 and December 31, 2021 were pledged to secure FHLB advances.

#### ***Securities Available-for-Sale***

The following table presents proceeds from sales and calls of securities available-for-sale and the associated gross gains and losses realized through earnings upon the sales and calls of securities available-for-sale for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Gross realized gains	\$ —	\$ —	\$ 209	\$ —
Gross realized losses	—	—	(193)	—
<b>Net realized gains on sales and calls</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 16</b>	<b>\$ —</b>
<b>Proceeds from sales and calls</b>	<b>\$ —</b>	<b>\$ 20,000</b>	<b>\$ 56,145</b>	<b>\$ 120,230</b>

[Table of Contents](#)

The following table summarizes the investment securities available-for-sale with unrealized losses by security type and length of time in a continuous, unrealized loss position as of the dates indicated:

(\$ in thousands)	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>September 30, 2022</b>						
Securities available-for-sale:						
SBA loan pool securities	\$ —	\$ —	\$ 9,474	\$ (54)	\$ 9,474	\$ (54)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	10,696	(1,316)	—	—	10,696	(1,316)
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	110,864	(4,705)	30,293	(5,720)	141,157	(10,425)
Non-agency residential mortgage-backed securities	41,514	(10,562)	—	—	41,514	(10,562)
Collateralized loan obligations	233,975	(10,025)	238,702	(10,074)	472,677	(20,099)
Corporate debt securities	166,497	(8,370)	—	—	166,497	(8,370)
<b>Total securities available-for-sale</b>	<b>\$ 563,546</b>	<b>\$ (34,978)</b>	<b>\$ 278,469</b>	<b>\$ (15,848)</b>	<b>\$ 842,015</b>	<b>\$ (50,826)</b>
<b>December 31, 2021</b>						
Securities available-for-sale:						
SBA loan pool securities	\$ —	\$ —	\$ 14,591	\$ (88)	\$ 14,591	\$ (88)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	67,588	(1,311)	—	—	67,588	(1,311)
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	85,290	(1,184)	17,754	(904)	103,044	(2,088)
Municipal securities	44,748	(919)	10,762	(620)	55,510	(1,539)
Collateralized loan obligations	81,962	(38)	253,002	(2,273)	334,964	(2,311)
Corporate debt securities	4,993	(7)	—	—	4,993	(7)
<b>Total securities available-for-sale</b>	<b>\$ 284,581</b>	<b>\$ (3,459)</b>	<b>\$ 296,109</b>	<b>\$ (3,885)</b>	<b>\$ 580,690</b>	<b>\$ (7,344)</b>

At September 30, 2022, our securities available-for-sale portfolio consisted of 82 securities, of which 80 securities were in an unrealized loss position. At December 31, 2021, our securities available-for-sale portfolio consisted of 119 securities, of which 46 securities were in an unrealized loss position.

During the three and nine months ended September 30, 2022 and 2021, there was no provision for credit losses related to securities available-for-sale. We monitor our securities portfolio to ensure it has adequate credit support. We consider the lowest credit rating for identification of credit impairment for collateralized loan obligations and other securities. The decline in fair value of our securities since acquisition was attributable to a combination of changes in interest rates and general volatility in the credit market conditions in response to the economic uncertainty caused by many factors, including but not limited to, the global pandemic, rising inflation and conflict between Russia and Ukraine. We do not currently intend to sell any of the securities in an unrealized loss position and further believe, it is more likely than not, that we will not be required to sell these securities before their anticipated recovery. As of September 30, 2022, all of our collateralized loan obligations investment securities in an unrealized loss position received an investment grade credit rating.

The following table presents the amortized cost and fair value of the investment securities portfolio, based on the earlier of contractual maturity dates or next repricing date, as of September 30, 2022:

(\$ in thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Earlier of maturity or next repricing date:</b>				
Within one year	\$ —	\$ —	\$ 585,237	\$ 564,436
One to five years	—	—	173,721	164,704
Five to ten years	28,705	24,157	64,851	56,549
Greater than ten years	300,052	239,195	74,566	61,876
<b>Total</b>	<b>\$ 328,757</b>	<b>\$ 263,352</b>	<b>\$ 898,375</b>	<b>\$ 847,565</b>

Contractual maturities may not reflect the actual maturities of the investments. The average lives for mortgage-backed securities and collateralized mortgage obligations likely will be shorter than their contractual maturities due to prepayments and amortization.

***Securities Held-to-Maturity***

The following table presents the fair value and weighted average yields or tax-equivalent yields using amortized cost of the securities held-to-maturity portfolio as of September 30, 2022, based on the earlier of contractual maturity dates or next repricing dates:

(\$ in thousands)	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield
Securities held-to-maturity:										
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 7,960	2.52 %	\$ 115,989	2.70 %	\$ 123,949	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	49,476	2.64 %	49,476	2.64 %
Municipal securities <sup>(1)</sup>	—	— %	—	— %	16,197	2.19 %	73,730	2.71 %	89,927	2.62 %
<b>Total securities held-to-maturity</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 24,157</b>	<b>2.29 %</b>	<b>\$ 239,195</b>	<b>2.69 %</b>	<b>\$ 263,352</b>	<b>2.65 %</b>

(1) Computed on a tax-equivalent basis.

The following table presents the fair value and weighted average yields using amortized cost of the securities available-for-sale portfolio as of September 30, 2022, based on the earlier of contractual maturity dates or next repricing dates:

(\$ in thousands)	One year or less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield	Fair Value	Weighted-Average Yield
Securities available-for-sale:										
SBA loan pool securities	\$ 12,106	1.82 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 12,106	1.82 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	10,696	2.23 %	—	— %	10,696	2.23 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	79,654	3.16 %	8,138	2.72 %	33,003	1.92 %	20,362	1.83 %	141,157	2.61 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	41,514	2.50 %	41,514	2.50 %
Collateralized loan obligations	472,676	4.23 %	—	— %	—	— %	—	— %	472,676	4.23 %
Corporate debt securities	—	— %	156,566	4.82 %	12,850	5.73 %	—	— %	169,416	4.89 %
<b>Total securities available-for-sale</b>	<b>\$ 564,436</b>	<b>4.03 %</b>	<b>\$ 164,704</b>	<b>4.71 %</b>	<b>\$ 56,549</b>	<b>2.76 %</b>	<b>\$ 61,876</b>	<b>2.30 %</b>	<b>\$ 847,565</b>	<b>3.93 %</b>

**NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES**

The following table presents the balances in our loan portfolio as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
<b>Commercial:</b>		
Commercial and industrial <sup>(1)</sup>	\$ 1,993,416	\$ 2,668,984
Commercial real estate	1,240,927	1,311,105
Multifamily	1,698,455	1,361,054
SBA <sup>(2)</sup>	85,674	205,548
Construction	236,495	181,841
<b>Consumer:</b>		
Single family residential mortgage	1,947,652	1,420,023
Other consumer	86,701	102,925
<b>Total loans</b>	<b>\$ 7,289,320</b>	<b>\$ 7,251,480</b>
Allowance for loan losses	(92,444)	(92,584)
<b>Loans receivable, net</b>	<b>\$ 7,196,876</b>	<b>\$ 7,158,896</b>

(1) Includes warehouse lending balances of \$766.4 million and \$1.60 billion at September 30, 2022 and December 31, 2021.

(2) Includes 39 PPP loans totaling \$20.0 million at September 30, 2022 and 397 PPP loans totaling \$123.1 million at December 31, 2021.

The following table presents the balances of total loans as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
Unpaid principal balance	\$ 7,282,235	\$ 7,245,952
Unamortized net premiums	18,592	18,005
Unamortized net deferred (fees) costs	(1,558)	819
Unamortized SBA PPP fees	—	(831)
Fair value adjustment <sup>(1)</sup>	(9,949)	(12,465)
<b>Total loans</b>	<b>\$ 7,289,320</b>	<b>\$ 7,251,480</b>

(1) At September 30, 2022, includes \$8.5 million related to the PMB Acquisition, of which \$4.4 million related to PCD loans. At December 31, 2021, includes \$10.6 million related to the PMB Acquisition, of which \$3.9 million related to PCD loans.

**Credit Quality Indicators**

We categorize loans into risk categories based on relevant information about the ability of borrowers to repay their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We perform a historical loss analysis that is combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. We analyze loans individually and grade each loan for credit risk. This analysis includes all loans delinquent over 60 days and non-homogeneous loans such as commercial and commercial real estate loans. We use the following definitions for credit risk ratings:

**Pass:** Loans classified as pass are in compliance in all respects with the Bank’s credit policy and regulatory requirements, and do not exhibit any potential or defined weakness as defined under “Special Mention”, “Substandard” or “Doubtful.”

**Special Mention:** Loans risk rated as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or of our credit position at some future date.

**Substandard:** Loans risk rated as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or a weakness that jeopardizes the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected.

*Doubtful*: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

The following table presents the risk categories for total loans by class of loans and origination year as of September 30, 2022:

(\$ in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
	2022	2021	2020	2019	2018	Prior			
<b>September 30, 2022</b>									
Commercial:									
Commercial and industrial									
Pass	\$ 213,799	\$ 216,306	\$ 66,038	\$ 56,701	\$ 79,436	\$ 177,540	\$ 1,083,367	\$ 7,499	\$ 1,900,686
Special mention	—	4,551	28	513	1,104	13,533	13,457	527	33,713
Substandard	3,195	951	4,190	11,364	7,565	3,131	27,486	1,135	59,017
Doubtful	—	—	—	—	—	—	—	—	—
<b>Commercial and industrial</b>	<b>216,994</b>	<b>221,808</b>	<b>70,256</b>	<b>68,578</b>	<b>88,105</b>	<b>194,204</b>	<b>1,124,310</b>	<b>9,161</b>	<b>1,993,416</b>
Commercial real estate									
Pass	286,672	372,760	60,834	113,342	156,635	233,793	1,162	63	1,225,261
Special mention	—	—	—	—	—	1,757	—	—	1,757
Substandard	—	—	—	—	4,131	8,868	910	—	13,909
Doubtful	—	—	—	—	—	—	—	—	—
<b>Commercial real estate</b>	<b>286,672</b>	<b>372,760</b>	<b>60,834</b>	<b>113,342</b>	<b>160,766</b>	<b>244,418</b>	<b>2,072</b>	<b>63</b>	<b>1,240,927</b>
Multifamily									
Pass	601,460	396,785	155,134	253,799	110,372	139,996	3	9,352	1,666,901
Special mention	—	—	3,000	—	11,118	—	—	—	14,118
Substandard	—	—	—	—	—	17,436	—	—	17,436
Doubtful	—	—	—	—	—	—	—	—	—
<b>Multifamily</b>	<b>601,460</b>	<b>396,785</b>	<b>158,134</b>	<b>253,799</b>	<b>121,490</b>	<b>157,432</b>	<b>3</b>	<b>9,352</b>	<b>1,698,455</b>
SBA									
Pass	10,479	25,948	7,870	2,419	1,240	20,750	604	137	69,447
Special mention	—	1	—	3,878	210	558	—	1	4,648
Substandard	—	(1)	329	198	385	9,210	665	793	11,579
Doubtful	—	—	—	—	—	—	—	—	—
<b>SBA</b>	<b>10,479</b>	<b>25,948</b>	<b>8,199</b>	<b>6,495</b>	<b>1,835</b>	<b>30,518</b>	<b>1,269</b>	<b>931</b>	<b>85,674</b>

[Table of Contents](#)

<b>Construction</b>									
Pass	71,529	89,985	28,997	6,937	13,609	25,438	—	—	236,495
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
<b>Construction</b>	<b>71,529</b>	<b>89,985</b>	<b>28,997</b>	<b>6,937</b>	<b>13,609</b>	<b>25,438</b>	<b>—</b>	<b>—</b>	<b>236,495</b>
<b>Consumer:</b>									
Single family residential mortgage									
Pass	637,863	800,100	74,354	48,736	100,450	264,151	5,895	—	1,931,549
Special mention	626	221	2,175	1,541	897	1,728	—	223	7,411
Substandard	—	—	—	—	5,554	3,138	—	—	8,692
Doubtful	—	—	—	—	—	—	—	—	—
<b>Single family residential mortgage</b>	<b>638,489</b>	<b>800,321</b>	<b>76,529</b>	<b>50,277</b>	<b>106,901</b>	<b>269,017</b>	<b>5,895</b>	<b>223</b>	<b>1,947,652</b>
Other consumer									
Pass	17,692	17,777	9,578	5,969	3,646	17,770	10,958	2,925	86,315
Special mention	—	—	—	3	—	21	62	56	142
Substandard	—	—	59	—	70	34	81	—	244
Doubtful	—	—	—	—	—	—	—	—	—
<b>Other consumer</b>	<b>17,692</b>	<b>17,777</b>	<b>9,637</b>	<b>5,972</b>	<b>3,716</b>	<b>17,825</b>	<b>11,101</b>	<b>2,981</b>	<b>86,701</b>
<b>Total loans</b>	<b>\$ 1,843,315</b>	<b>\$ 1,925,384</b>	<b>\$ 412,586</b>	<b>\$ 505,400</b>	<b>\$ 496,422</b>	<b>\$ 938,852</b>	<b>\$ 1,144,650</b>	<b>\$ 22,711</b>	<b>\$ 7,289,320</b>
<b>Total loans</b>									
Pass	\$ 1,839,494	\$ 1,919,661	\$ 402,805	\$ 487,903	\$ 465,388	\$ 879,438	\$ 1,101,989	\$ 19,976	\$ 7,116,654
Special mention	626	4,773	5,203	5,935	13,329	17,597	13,519	807	61,789
Substandard	3,195	950	4,578	11,562	17,705	41,817	29,142	1,928	110,877
Doubtful	—	—	—	—	—	—	—	—	—
<b>Total loans</b>	<b>\$ 1,843,315</b>	<b>\$ 1,925,384</b>	<b>\$ 412,586</b>	<b>\$ 505,400</b>	<b>\$ 496,422</b>	<b>\$ 938,852</b>	<b>\$ 1,144,650</b>	<b>\$ 22,711</b>	<b>\$ 7,289,320</b>

The following table presents the risk categories for total loans by class of loans and origination year as of December 31, 2021:

<b>Term Loans Amortized Cost Basis by Origination Year</b>									
(\$ in thousands)	2021	2020	2019	2018	2017	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
<b>December 31, 2021</b>									
Commercial:									
Commercial and industrial									
Pass	\$ 254,218	\$ 81,177	\$ 71,950	\$ 78,461	\$ 56,439	\$ 110,490	\$ 1,888,126	\$ 9,679	\$ 2,550,540
Special mention	1,206	5,971	13,721	835	7,272	9,846	20,460	6,348	65,659
Substandard	2	241	17,853	11,378	3,374	117	17,429	2,391	52,785
Doubtful	—	—	—	—	—	—	—	—	—
<b>Commercial and industrial</b>	<b>255,426</b>	<b>87,389</b>	<b>103,524</b>	<b>90,674</b>	<b>67,085</b>	<b>120,453</b>	<b>1,926,015</b>	<b>18,418</b>	<b>2,668,984</b>
Commercial real estate									
Pass	465,524	82,759	140,108	192,263	85,755	317,941	8,416	71	1,292,837
Special mention	—	—	—	1,925	—	2,920	—	—	4,845
Substandard	—	—	506	—	—	9,084	3,833	—	13,423
Doubtful	—	—	—	—	—	—	—	—	—
<b>Commercial real estate</b>	<b>465,524</b>	<b>82,759</b>	<b>140,614</b>	<b>194,188</b>	<b>85,755</b>	<b>329,945</b>	<b>12,249</b>	<b>71</b>	<b>1,311,105</b>
Multifamily									
Pass	410,958	208,396	315,119	157,640	61,457	158,464	4	—	1,312,038
Special mention	—	1,988	—	11,261	—	33,065	—	—	46,314
Substandard	—	—	—	—	—	2,702	—	—	2,702
Doubtful	—	—	—	—	—	—	—	—	—
<b>Multifamily</b>	<b>410,958</b>	<b>210,384</b>	<b>315,119</b>	<b>168,901</b>	<b>61,457</b>	<b>194,231</b>	<b>4</b>	<b>—</b>	<b>1,361,054</b>
SBA									
Pass	106,749	23,972	8,049	1,957	10,836	28,495	928	143	181,129
Special mention	—	1,586	3,618	236	—	596	—	4	6,040
Substandard	—	5,888	—	390	3,358	7,245	599	899	18,379
Doubtful	—	—	—	—	—	—	—	—	—
<b>SBA</b>	<b>106,749</b>	<b>31,446</b>	<b>11,667</b>	<b>2,583</b>	<b>14,194</b>	<b>36,336</b>	<b>1,527</b>	<b>1,046</b>	<b>205,548</b>

[Table of Contents](#)

<b>Construction</b>									
Pass	67,074	32,995	29,038	17,139	25,485	—	—	—	171,731
Special mention	—	—	—	1,607	—	8,503	—	—	10,110
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
<b>Construction</b>	<b>67,074</b>	<b>32,995</b>	<b>29,038</b>	<b>18,746</b>	<b>25,485</b>	<b>8,503</b>	<b>—</b>	<b>—</b>	<b>181,841</b>
<b>Consumer:</b>									
Single family residential mortgage									
Pass	713,844	96,339	67,075	140,329	88,123	277,247	12,828	—	1,395,785
Special mention	—	1,644	339	910	692	6,838	—	—	10,423
Substandard	—	—	—	11,005	975	1,601	—	234	13,815
Doubtful	—	—	—	—	—	—	—	—	—
<b>Single family residential mortgage</b>	<b>713,844</b>	<b>97,983</b>	<b>67,414</b>	<b>152,244</b>	<b>89,790</b>	<b>285,686</b>	<b>12,828</b>	<b>234</b>	<b>1,420,023</b>
Other consumer									
Pass	26,179	13,556	8,891	5,265	9,038	15,951	21,327	2,331	102,538
Special mention	—	—	4	—	—	25	63	—	92
Substandard	—	61	14	148	46	26	—	—	295
Doubtful	—	—	—	—	—	—	—	—	—
<b>Other consumer</b>	<b>26,179</b>	<b>13,617</b>	<b>8,909</b>	<b>5,413</b>	<b>9,084</b>	<b>16,002</b>	<b>21,390</b>	<b>2,331</b>	<b>102,925</b>
<b>Total loans</b>	<b>\$ 2,045,754</b>	<b>\$ 556,573</b>	<b>\$ 676,285</b>	<b>\$ 632,749</b>	<b>\$ 352,850</b>	<b>\$ 991,156</b>	<b>\$ 1,974,013</b>	<b>\$ 22,100</b>	<b>\$ 7,251,480</b>
<b>Total loans</b>									
Pass	\$ 2,044,546	\$ 539,194	\$ 640,230	\$ 593,054	\$ 337,133	\$ 908,588	\$ 1,931,629	\$ 12,224	\$ 7,006,598
Special mention	1,206	11,189	17,682	16,774	7,964	61,793	20,523	6,352	143,483
Substandard	2	6,190	18,373	22,921	7,753	20,775	21,861	3,524	101,399
Doubtful	—	—	—	—	—	—	—	—	—
<b>Total loans</b>	<b>\$ 2,045,754</b>	<b>\$ 556,573</b>	<b>\$ 676,285</b>	<b>\$ 632,749</b>	<b>\$ 352,850</b>	<b>\$ 991,156</b>	<b>\$ 1,974,013</b>	<b>\$ 22,100</b>	<b>\$ 7,251,480</b>

***Past Due Loans***

The following table presents the aging of the recorded investment in past due loans, excluding accrued interest receivable (which is not considered to be material), by class of loans as of the dates indicated:

(\$ in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past due	Total Past Due	Current	Total
<b>September 30, 2022</b>						
Commercial:						
Commercial and industrial	2,269	5,670	577	8,516	1,984,900	1,993,416
Commercial real estate	—	—	910	910	1,240,017	1,240,927
Multifamily	63	—	—	63	1,698,392	1,698,455
SBA	1,205	128	10,168	11,501	74,173	85,674
Construction	—	—	—	—	236,495	236,495
Consumer:						
Single family residential mortgage	26,593	2,707	7,107	36,407	1,911,245	1,947,652
Other consumer	59	—	81	140	86,561	86,701
<b>Total</b>	<b>\$ 30,189</b>	<b>\$ 8,505</b>	<b>\$ 18,843</b>	<b>\$ 57,537</b>	<b>\$ 7,231,783</b>	<b>\$ 7,289,320</b>
<b>December 31, 2021</b>						
Commercial:						
Commercial and industrial	9,342	1,351	9,503	20,196	2,648,788	2,668,984
Commercial real estate	—	—	—	—	1,311,105	1,311,105
Multifamily	786	—	—	786	1,360,268	1,361,054
SBA	987	2,360	15,941	19,288	186,260	205,548
Construction	—	—	—	—	181,841	181,841
Consumer:						
Single family residential mortgage	24,867	—	7,076	31,943	1,388,080	1,420,023
Other consumer	449	—	89	538	102,387	102,925
<b>Total</b>	<b>\$ 36,431</b>	<b>\$ 3,711</b>	<b>\$ 32,609</b>	<b>\$ 72,751</b>	<b>\$ 7,178,729</b>	<b>\$ 7,251,480</b>

***Nonaccrual Loans***

The following table presents nonaccrual loans as of the dates indicated:

(\$ in thousands)	September 30, 2022		December 31, 2021	
	Total Nonaccrual Loans	Nonaccrual Loans with no ACL	Total Nonaccrual Loans	Nonaccrual Loans with no ACL
Nonaccrual loans				
Commercial:				
Commercial and industrial	\$ 23,155	\$ 6,945	\$ 28,594	\$ 9,137
Commercial real estate	910	910	—	—
SBA	10,414	5,158	16,653	11,443
Consumer:				
Single family residential mortgage	8,010	4,081	7,076	7,076
Other consumer	185	185	235	235
<b>Total nonaccrual loans</b>	<b>\$ 42,674</b>	<b>\$ 17,279</b>	<b>\$ 52,558</b>	<b>\$ 27,891</b>

At September 30, 2022 and December 31, 2021, there were no loans that were past due 90 days or more and still accruing.

***Other Real Estate Owned, Net and Loans in Process of Foreclosure***

At September 30, 2022 and December 31, 2021, there was no other real estate owned. At September 30, 2022, there were four consumer mortgage loans totaling \$4.9 million secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction. There were no consumer mortgage loans secured by residential real estate properties in foreclosure at December 31, 2021.

***Allowance for Credit Losses***

The ACL methodology uses a nationally recognized, third-party model that includes many assumptions based on historical and peer loss data, current loan portfolio risk profile including risk ratings, and economic forecasts including macroeconomic variables released by the model provider during September 2022. The published forecasts consider the FRB's monetary policy, labor market constraints, rising inflation, higher oil prices and the military conflict between Russia and Ukraine, among other factors.

The ACL also incorporates qualitative factors to account for certain loan portfolio characteristics that are not taken into consideration by the third-party model including underlying strengths and weaknesses in various segments of the loan portfolio. As is the case with all estimates, the ACL is expected to be impacted in future periods by economic volatility, changing economic forecasts, underlying model assumptions, and asset quality metrics, all of which may be better than or worse than current estimates.

The ACL process involves subjective and complex judgments as well as adjustments for numerous factors including those described in the federal banking agencies' joint interagency policy statement on ALL, which include underwriting experience and collateral value changes, among others.

The reserve for unfunded loan commitments is established to cover the current expected credit losses for the estimated level of funding of these loan commitments, except for unconditionally cancellable commitments for which no reserve is required under ASC 326. At September 30, 2022 and December 31, 2021, the reserve for unfunded loan commitments was \$6.4 million and \$5.6 million, respectively, and was included in accrued expenses and other liabilities on the consolidated statements of financial condition.

The following table presents a summary of activity in the ACL for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,					
	2022			2021		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses
Balance at beginning of period	\$ 93,793	\$ 5,905	\$ 99,698	\$ 75,885	\$ 3,814	\$ 79,699
Charge-offs	(912)	—	(912)	(327)	—	(327)
Recoveries	63	—	63	532	—	532
Net (charge-offs) recoveries	(849)	—	(849)	205	—	205
(Reversal of) provision for credit losses	(500)	500	—	(2,566)	1,419	(1,147)
<b>Balance at end of period</b>	<b>\$ 92,444</b>	<b>\$ 6,405</b>	<b>\$ 98,849</b>	<b>\$ 73,524</b>	<b>\$ 5,233</b>	<b>\$ 78,757</b>

(\$ in thousands)	Nine Months Ended September 30,					
	2022			2021		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses
Balance at beginning of period	\$ 92,584	\$ 5,605	\$ 98,189	\$ 81,030	\$ 3,183	\$ 84,213
Charge-offs	(1,637)	—	(1,637)	(1,778)	—	(1,778)
Recoveries	33,839	—	33,839	730	—	730
Net charge-offs	32,202	—	32,202	(1,048)	—	(1,048)
(Reversal of) provision for credit losses	(32,342)	800	(31,542)	(6,458)	2,050	(4,408)
<b>Balance at end of period</b>	<b>\$ 92,444</b>	<b>\$ 6,405</b>	<b>\$ 98,849</b>	<b>\$ 73,524</b>	<b>\$ 5,233</b>	<b>\$ 78,757</b>

During the nine months ended September 30, 2022, total recoveries included \$31.3 million related to a recovery from the settlement of a loan previously charged-off in 2019. This recovery resulted in a reversal of provision for credit losses during the same period.

Accrued interest receivable on loans receivable, net totaled \$26.7 million and \$25.8 million at September 30, 2022 and December 31, 2021, and is included within other assets in the accompanying consolidated statements of financial condition. Accrued interest receivable is excluded from the allowance of credit losses.

The following table presents the activity and balance in the ALL as of or for the three and nine months ended September 30, 2022:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Single Family Residential Mortgage	Other Consumer	Total
<b>ALL:</b>								
<i>Three Months Ended September 30, 2022:</i>								
Balance at June 30, 2022	\$ 41,413	\$ 15,742	\$ 15,678	\$ 3,033	\$ 4,255	\$ 12,805	\$ 867	\$ 93,793
Charge-offs	(867)	—	—	(45)	—	—	—	(912)
Recoveries	48	3	—	1	—	1	10	63
Net (charge-offs) recoveries	(819)	3	—	(44)	—	1	10	(849)
(Reversal of) provision for credit losses - loans	(1,769)	1,091	275	(29)	1,168	(959)	(277)	(500)
<b>Balance at September 30, 2022</b>	<b>\$ 38,825</b>	<b>\$ 16,836</b>	<b>\$ 15,953</b>	<b>\$ 2,960</b>	<b>\$ 5,423</b>	<b>\$ 11,847</b>	<b>\$ 600</b>	<b>\$ 92,444</b>
<i>Nine Months Ended September 30, 2022:</i>								
Balance at December 31, 2021	\$ 33,557	\$ 21,727	\$ 17,893	\$ 3,017	\$ 5,622	\$ 9,608	\$ 1,160	\$ 92,584
Charge-offs	(1,187)	—	—	(197)	—	(10)	(243)	(1,637)
Recoveries	32,865	3	—	762	—	193	16	33,839
Net recoveries (charge-offs)	31,678	3	—	565	—	183	(227)	32,202
(Reversal of) provision for credit losses - loans	(26,410)	(4,894)	(1,940)	(622)	(199)	2,056	(333)	(32,342)
<b>Balance at September 30, 2022</b>	<b>\$ 38,825</b>	<b>\$ 16,836</b>	<b>\$ 15,953</b>	<b>\$ 2,960</b>	<b>\$ 5,423</b>	<b>\$ 11,847</b>	<b>\$ 600</b>	<b>\$ 92,444</b>

The following table presents the activity and balance in the ALL as of or for the three and nine months ended September 30, 2021:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Single Family Residential Mortgage	Other Consumer	Total
<b>ALL:</b>								
<i>Three Months Ended September 30, 2021:</i>								
Balance at June 30, 2021	\$ 20,156	\$ 16,424	\$ 21,403	\$ 3,696	\$ 4,734	\$ 9,108	\$ 364	\$ 75,885
Charge-offs	(115)	(138)	—	(74)	—	—	—	(327)
Recoveries	484	—	—	1	—	46	1	532
Net recoveries (charge-offs)	369	(138)	—	(73)	—	46	1	205
(Reversal of) provision for credit losses - loans	(270)	(269)	(2,678)	1,112	(616)	150	5	(2,566)
<b>Balance at September 30, 2021</b>	<b>\$ 20,255</b>	<b>\$ 16,017</b>	<b>\$ 18,725</b>	<b>\$ 4,735</b>	<b>\$ 4,118</b>	<b>\$ 9,304</b>	<b>\$ 370</b>	<b>\$ 73,524</b>
<i>Nine Months Ended September 30, 2021:</i>								
Balance at December 31, 2020	\$ 20,608	\$ 19,074	\$ 22,512	\$ 3,145	\$ 5,849	\$ 9,191	\$ 651	\$ 81,030
Charge-offs	(1,180)	(138)	—	(460)	—	—	—	(1,778)
Recoveries	552	—	—	130	—	46	2	730
Net (charge-offs) recoveries	(628)	(138)	—	(330)	—	46	2	(1,048)
Provision for (reversal of) credit losses - loans	275	(2,919)	(3,787)	1,920	(1,731)	67	(283)	(6,458)
<b>Balance at September 30, 2021</b>	<b>\$ 20,255</b>	<b>\$ 16,017</b>	<b>\$ 18,725</b>	<b>\$ 4,735</b>	<b>\$ 4,118</b>	<b>\$ 9,304</b>	<b>\$ 370</b>	<b>\$ 73,524</b>

### Collateral Dependent Loans

A loan is considered collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is expected to be provided substantially through the operation or sale of the collateral. Collateral dependent loans are evaluated individually and the ALL is determined based on the amount by which amortized costs exceed the estimated fair value of the collateral, adjusted for estimated selling costs.

Collateral dependent loans consisted of the following as of the dates indicated:

(\$ in thousands)	September 30, 2022				
	Real Estate		Business Assets	Automobile	Total
	Commercial	Residential			
Commercial:					
Commercial and industrial	\$ —	\$ —	\$ 20,367	\$ —	\$ 20,367
Commercial real estate	910	—	—	—	910
SBA	93	4,605	5,717	—	10,415
Consumer:					
Single family residential mortgage	—	9,331	—	—	9,331
Other consumer	—	81	—	104	185
<b>Total loans</b>	<b>\$ 1,003</b>	<b>\$ 14,017</b>	<b>\$ 26,084</b>	<b>\$ 104</b>	<b>\$ 41,208</b>

  

(\$ in thousands)	December 31, 2021				
	Real Estate		Business Assets	Automobile	Total
	Commercial	Residential			
Commercial:					
Commercial and industrial	\$ 13,518	\$ 37	\$ 4,776	\$ —	\$ 18,331
SBA	689	4,458	11,511	—	16,658
Consumer:					
Single family residential mortgage	—	14,012	—	—	14,012
Other consumer	—	—	—	235	235
<b>Total loans</b>	<b>\$ 14,207</b>	<b>\$ 18,507</b>	<b>\$ 16,287</b>	<b>\$ 235</b>	<b>\$ 49,236</b>

### Troubled Debt Restructurings

TDR loans consisted of the following as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
Commercial:		
Commercial and industrial	\$ 24,810	\$ 5,241
Commercial real estate	4,130	4,243
SBA	529	265
Consumer:		
Single family residential mortgage	1,321	6,935
<b>Total loans</b>	<b>\$ 30,790</b>	<b>\$ 16,684</b>

We had commitments to lend to customers with outstanding loans that were classified as TDRs of \$270 thousand and \$63 thousand at September 30, 2022 and December 31, 2021. Accruing TDRs were \$11.3 million and nonaccrual TDRs were \$19.5 million at September 30, 2022, compared to accruing TDRs of \$12.5 million and nonaccrual TDRs of \$4.1 million at December 31, 2021. The increase in TDRs during the nine months ended September 30, 2022 was due mostly to the modification of two commercial and industrial loan relationships.

The following table summarizes the pre-modification and post-modification balances of the new TDRs for the periods indicated:

(\$ in thousands)	Three Months Ended			Nine Months Ended		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
<b>September 30, 2022</b>						
Commercial:						
Commercial and industrial <sup>(1)</sup>	3	\$ 7,500	\$ 7,500	4	\$ 20,340	\$ 20,340
SBA	—	—	—	2	833	833
<b>Total</b>	<b>3</b>	<b>\$ 7,500</b>	<b>\$ 7,500</b>	<b>6</b>	<b>\$ 21,173</b>	<b>\$ 21,173</b>
<b>September 30, 2021</b>						
Consumer:						
Single family residential mortgage <sup>(1)</sup>	—	\$ —	\$ —	1	\$ 1,800	\$ 1,800
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>	<b>1</b>	<b>\$ 1,800</b>	<b>\$ 1,800</b>

(1) Modifications during the three and nine months ended September 30, 2022 and 2021 consisted of extensions of maturity and/or changes to payment schedules.

We consider a TDR to be in payment default once it becomes 30 days or more past due following a modification. During the three and nine months ended September 30, 2022 and 2021, there were no loans that were modified as a TDR during the past 12 months that had subsequent payment defaults.

### **Purchases, Sales, and Transfers**

From time to time, we purchase and sell loans in the secondary market. During the three and nine months ended September 30, 2022, we purchased loans aggregating \$172.7 million and \$814.3 million. During the three and nine months ended September 30, 2021, we purchased loans aggregating \$249.4 million and \$615.4 million.

There were no loans transferred from held for investment to loans held-for-sale and there were no sales of loans for the three and nine months ended September 30, 2022 and 2021.

### **Non-Traditional Mortgage Loans (“NTM”)**

NTM loans are included in our SFR mortgage portfolio and are comprised of interest only loans and Green Loans. As of September 30, 2022 and December 31, 2021, the NTM loans totaled \$870.0 million, or 11.9% of total loans, and \$635.3 million, or 8.8% of total loans, respectively.

We no longer originate SFR loans, however we have and may continue to purchase pools of loans that include NTM loans such as interest only loans with maturities of up to 40 years and flexible initial repricing dates, ranging from 1 to 10 years, and periodic repricing dates through the life of the loan. Interest only loans are primarily SFR first mortgage loans that generally have a 30 to 40-year term at the time of origination and include payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. At September 30, 2022 and December 31, 2021, interest only loans totaled \$863.2 million and \$613.3 million. Green Loans are SFR first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. Green Loans are generally interest only for a 15-year term with a balloon payment due at maturity. At September 30, 2022 and December 31, 2021, Green Loans totaled \$6.8 million and \$21.9 million.

At September 30, 2022 and December 31, 2021, nonperforming NTM loans totaled zero and \$4.0 million.

### **Non-Traditional Mortgage Performance Indicators**

Our risk management policy and credit monitoring include reviewing delinquency, FICO scores, and LTV ratios on the NTM loan portfolio. We also continuously monitor market conditions for our geographic lending areas. We have determined that the most significant performance indicators for NTM first lien loans are LTV ratios and for Green Loans are FICO scores. At September 30, 2022, our NTM first lien portfolio had a weighted average LTV of approximately 59%.

**NOTE 5 – GOODWILL AND OTHER INTANGIBLES**
***Goodwill***

Goodwill represents the excess consideration paid for net assets acquired in a business combination over their fair values. At September 30, 2022 and December 31, 2021, we had goodwill of \$114.3 million and \$94.3 million.

The following table presents changes in the carrying amount of goodwill for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Goodwill, beginning of period	\$ 95,127	\$ 37,144	\$ 94,301	\$ 37,144
Goodwill from business combination	18,190	—	18,190	—
Goodwill adjustments for purchase accounting	995	—	1,821	—
<b>Goodwill, end of period</b>	<b>\$ 114,312</b>	<b>\$ 37,144</b>	<b>\$ 114,312</b>	<b>\$ 37,144</b>
Accumulated impairment losses at end of period	\$ 2,100	\$ 2,100	\$ 2,100	\$ 2,100

The acquisition of Deepstack resulted in the recognition of \$18.2 million in goodwill. We also adjusted goodwill as a result of updates to the initial fair value of core deposit intangibles and finalization of income tax returns related to the PMB acquisition during the three and nine months ended September 30, 2022. During the measurement period (not to exceed one year from the acquisition date), the fair value of assets acquired and liabilities assumed are subject to adjustment if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability.

We evaluate goodwill for impairment as of October 1 each year, and more frequently if events or circumstances indicate that there may be impairment. We completed our most recent annual goodwill impairment test as of October 1, 2021 and determined that no goodwill impairment existed. During the three and nine months ended September 30, 2022, there were no events or circumstances that indicated an interim impairment test of goodwill was necessary.

***Other Intangibles***

Other intangibles are comprised of the following at September 30, 2022 and December 31, 2021:

(\$ in thousands)	September 30, 2022	December 31, 2021
Core deposit intangibles	\$ 4,281	\$ 6,411
Developed technology	2,800	—
Other intangibles	1,000	—
<b>Total other intangibles</b>	<b>\$ 8,081</b>	<b>\$ 6,411</b>

Other intangibles are amortized over their estimated useful lives and reviewed for impairment at least quarterly. As of September 30, 2022, the weighted average remaining amortization period for core deposit intangibles was approximately 6.8 years. Amortization periods for developed technology and other intangibles acquired in the Deepstack acquisition have useful lives ranging from 3 to 10 years.

The following table presents changes in the carrying amount of other intangibles for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Other intangibles:</b>				
Balance, beginning of period	\$ 34,978	\$ 30,904	\$ 35,958	\$ 30,904
Other intangibles from business combination	3,800	—	3,800	—
Purchase accounting adjustments	—	—	(980)	—
<b>Balance, end of period</b>	<b>38,778</b>	<b>30,904</b>	<b>38,778</b>	<b>30,904</b>
<b>Accumulated amortization:</b>				
Balance, beginning of period	30,301	28,835	29,547	28,271
Amortization of other intangibles	396	282	1,150	846
<b>Balance, end of period</b>	<b>30,697</b>	<b>29,117</b>	<b>30,697</b>	<b>29,117</b>
<b>Other intangibles</b>	<b>\$ 8,081</b>	<b>\$ 1,787</b>	<b>\$ 8,081</b>	<b>\$ 1,787</b>

The following table presents estimated future amortization expense of other intangibles as of September 30, 2022:

(\$ in thousands)	Remainder of 2022	2023	2024	2025	2026	2027 and After	Total
Estimated future amortization expense	\$ 526	\$ 1,799	\$ 1,425	\$ 1,110	\$ 1,013	\$ 2,208	\$ 8,081

**NOTE 6 – FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS**

***FHLB Advances***

The following table presents advances from the FHLB as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
<b>Fixed rate:</b>		
Outstanding balance <sup>(1)</sup>	\$ 611,000	\$ 411,000
Interest rates ranging from	0.64 %	0.64 %
Interest rates ranging to	3.70 %	3.32 %
Weighted average interest rate	2.91 %	2.53 %
<b>Variable rate:</b>		
Outstanding balance	\$ 120,000	\$ 70,000
Weighted average interest rate	3.18 %	0.20 %

*(1) Excludes \$4.0 million and \$4.9 million of unamortized debt issuance costs at September 30, 2022 and December 31, 2021.*

Each advance is payable at its maturity date. Advances paid early are subject to a prepayment penalty. As of September 30, 2022, FHLB advances included \$120.0 million in overnight borrowings with a weighted average interest rate of 3.18% and \$611.0 million in term advances with a weighted average life of 3.7 years and a weighted average interest rate of 2.91%.

FHLB advances are collateralized by a blanket lien on all real estate loans. As of September 30, 2022, our secured borrowing capacity with the FHLB totaled \$2.23 billion, of which the Bank was eligible to borrow an additional \$1.21 billion based on qualifying loans with an aggregate unpaid principal balance of \$3.20 billion as of that date. As of September 30, 2022, the Bank also has additional borrowing capacity with the FHLB of \$164.0 million, of which the Bank was eligible to borrow an additional \$44.0 million based on investment securities pledged with a carrying value of \$214.6 million.

The Bank's investment in capital stock of the FHLB of San Francisco totaled \$20.2 million and \$17.3 million at September 30, 2022 and December 31, 2021.

***FRB Borrowings***

At September 30, 2022, the Bank had borrowing capacity with the Federal Reserve Bank of San Francisco (the “Federal Reserve”) of \$733.5 million, including the secured borrowing capacity through the FRB Discount Window and Borrower-in-Custody (“BIC”) program. Borrowings under the BIC program are overnight advances with interest chargeable at the discount window (“primary credit”) borrowing rate.

At September 30, 2022, the Bank has pledged certain qualifying loans with an unpaid principal balance of \$975.5 million and securities with a carrying value of \$123.1 million as collateral for these lines of credit.

There were no secured borrowings from the FRB Discount Window and no borrowings under the BIC program for the three and nine months ended September 30, 2022. There were no borrowings from the Federal Reserve at September 30, 2022 and December 31, 2021.

The Bank’s investment in capital stock of the Federal Reserve totaled \$34.2 million and \$27.3 million at September 30, 2022 and December 31, 2021.

***Other Borrowings***

The Bank maintained available unsecured federal funds lines with five correspondent banks totaling \$210.0 million, with no outstanding borrowings at September 30, 2022. The Bank also has the ability to access unsecured overnight borrowings from various financial institutions through the American Financial Exchange platform (“AFX”). The availability of such unsecured borrowings fluctuates regularly and are subject to the counterparties discretion and totaled \$445.0 million and \$441.0 million at September 30, 2022 and December 31, 2021. Borrowings under the AFX totaled zero and \$25.0 million at September 30, 2022 and December 31, 2021.

In December 2021, the holding company entered into a \$50.0 million revolving line of credit, which matures on December 19, 2022. There were \$10.0 million and zero in borrowings under this line of credit at September 30, 2022 and December 31, 2021. At September 30, 2022, we were in compliance with all covenants under our revolving line of credit.

The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at September 30, 2022 and December 31, 2021. Availabilities and terms on repurchase agreements are subject to the counterparties’ discretion and the pledging of additional investment securities.

**NOTE 7 – LONG-TERM DEBT**

The following table presents our long-term debt as of the dates indicated:

(\$ in thousands)	Interest Rate	Maturity Date	September 30, 2022		December 31, 2021	
			Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Senior notes	5.25%	4/15/2025	\$ 175,000	\$ (816)	\$ 175,000	\$ (1,014)
Subordinated notes	4.375%	10/30/2030	85,000	(1,965)	85,000	(2,127)
PMB Statutory Trust III, junior subordinated debentures	Libor + 3.40%	9/26/2032	7,217	—	7,217	—
PMB Capital Trust III, junior subordinated debentures	Libor + 2.00%	10/8/2034	10,310	—	10,310	—
<b>Total</b>			<b>\$ 277,527</b>	<b>\$ (2,781)</b>	<b>\$ 277,527</b>	<b>\$ (3,141)</b>

At September 30, 2022, we were in compliance with all covenants under our long-term debt agreements.

**NOTE 8 – INCOME TAXES**

For the three and nine months ended September 30, 2022, income tax expense was \$9.9 million and \$38.9 million, resulting in an effective tax rate of 29.1% and 28.1%. For the three and nine months ended September 30, 2021, income tax expense was \$8.7 million and \$17.5 million, resulting in an effective tax rate of 27.2% and 23.6%. The effective tax rate for the three and nine months ended September 30, 2022 and for the three months ended September 30, 2021, differs from the combined federal

and state statutory rate for the consolidated company of 28.9% due primarily to various permanent tax differences, tax credits and other discrete tax items that impact our effective tax rate. For the nine months ended September 30, 2021, the effective tax rate differs from the 28.9% combined federal and state statutory rate due primarily to the net tax benefit of \$2.5 million from share-based awards, including the exercise of all previously issued outstanding stock appreciation rights in the first quarter of 2021 in addition to the various permanent tax differences, tax credits and other discrete tax items that impact our effective tax rate.

We account for income taxes by recognizing deferred tax assets and liabilities based upon temporary differences between the amounts for financial reporting purposes and the tax basis of our assets and liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including considering the four possible sources of future taxable income, such as future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback year(s), and future tax planning strategies. Based on this analysis, management determined, it was more likely than not, that all of the deferred tax assets would be realized; therefore, no valuation allowance was provided against the net deferred tax assets of \$56.4 million and \$50.8 million at September 30, 2022 and December 31, 2021.

ASC 740-10-25 relates to the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10-25 prescribes a threshold and a measurement process for recognizing in the financial statements a tax position taken or expected to be taken in a tax return and also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We had unrecognized tax benefits of \$925 thousand at both September 30, 2022 and December 31, 2021. We do not believe that the unrecognized tax benefits will change materially in the next twelve months. As of September 30, 2022, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was \$699 thousand.

At September 30, 2022 and December 31, 2021, we had no accrued interest or penalties. In the event we are assessed interest and/or penalties by federal or state tax authorities, such amounts will be classified in the consolidated financial statements as income tax expense.

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. We are no longer subject to examination by U.S. federal taxing authorities for years before 2018. The statute of limitations for the assessment of California franchise taxes has expired for tax years before 2017 (other state income and franchise tax statutes of limitations vary by state).

#### NOTE 9 – DERIVATIVE INSTRUMENTS

We use derivative instruments and other risk management techniques to reduce our exposure to adverse fluctuations in interest rates and foreign currency exchange rates in accordance with our risk management policies and to certain loan clients to allow them to hedge the risk of rising interest rates on their variable rate loans.

During the three and nine months ended September 30, 2022, changes in fair value of interest rate swaps on loans and foreign exchange contracts were gains of \$38 thousand and \$224 thousand and were included in other income on the consolidated statements of operations. During the three and nine months ended September 30, 2021, changes in fair value of interest rate swaps on loans and foreign exchange contracts were losses of \$41 thousand and gains of \$240 thousand.

The following table presents the notional amount and fair value of our derivative instruments as of the dates indicated.

(\$ in thousands)	September 30, 2022		December 31, 2021	
	Notional Amount	Fair Value <sup>(1)</sup>	Notional Amount	Fair Value <sup>(1)</sup>
<b>Derivative assets:</b>				
Interest rate swaps on loans	\$ 34,199	\$ 2,295	\$ 58,834	\$ 3,390
Foreign exchange contracts	4,629	382	4,725	175
<b>Total</b>	<b>\$ 38,828</b>	<b>\$ 2,677</b>	<b>\$ 63,559</b>	<b>\$ 3,565</b>
<b>Derivative liabilities:</b>				
Interest rate swaps on loans	\$ 34,199	\$ 2,251	\$ 58,834	\$ 3,594
Foreign exchange contracts	4,629	377	4,725	146
<b>Total</b>	<b>\$ 38,828</b>	<b>\$ 2,628</b>	<b>\$ 63,559</b>	<b>\$ 3,740</b>

(1) The fair value of interest rate swaps on loans and foreign exchange contracts are included in other assets and accrued expenses and other liabilities, respectively, in the accompanying consolidated statements of financial condition.

We have entered into agreements with counterparty financial institutions, which include master netting agreements that provide for the net settlement of all contracts with a single counterparty in the event of default. We elect, however, to account for all derivatives with counterparty institutions on a gross basis.

**NOTE 10 – EMPLOYEE STOCK COMPENSATION**

On May 31, 2018, our stockholders approved the Company's 2018 Omnibus Stock Incentive Plan (“2018 Omnibus Plan”). The 2018 Omnibus Plan provides that the maximum number of shares available for awards is 4,417,882. As of September 30, 2022, 2,149,934 shares were available for future awards.

**Stock-based Compensation Expense**

The following table presents total stock-based compensation expense and the related tax benefits for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Restricted stock awards and units	\$ 1,715	\$ 1,106	\$ 4,482	\$ 3,988
Related tax benefits	\$ 495	\$ 326	\$ 1,295	\$ 1,175

Total stock-based compensation expense represents the cost of time-based and performance-based stock units and awards. At September 30, 2022, unrecognized compensation expense related to restricted stock awards and restricted stock units totaled \$13.0 million and will be recognized over a weighted average remaining period of 2.8 years.

**Restricted Stock Awards and Restricted Stock Units**

We have granted restricted stock awards and restricted stock units to certain employees, officers, and directors. The restricted stock awards and units are measured based on grant-date fair value. The restricted stock awards and units fully vest after a specified period (generally ranging from one to five years) of continued service from the date of grant plus, in some cases, the satisfaction of performance conditions. These performance targets include conditions relating to our profitability, stock price and regulatory standing. The actual amounts of stock released upon vesting will be determined by the Compensation Committee of our Board of Directors upon the Committee's certification of the satisfaction of the target level of performance. We recognize an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally upon vesting or, in the case of restricted stock units, when settled.

The following table presents unvested restricted stock awards and restricted stock units activity for the three and nine months ended September 30, 2022:

	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	1,403,060	\$ 14.77	649,010	\$ 17.17
Granted <sup>(1)</sup>	29,935	\$ 13.88	1,051,117	\$ 13.66
Vested <sup>(2)</sup>	(29,983)	\$ 15.20	(269,302)	\$ 16.21
Forfeited <sup>(3)</sup>	(10,919)	\$ 18.83	(38,732)	\$ 17.72
<b>Outstanding at end of period</b>	<b>1,392,093</b>	<b>\$ 14.71</b>	<b>1,392,093</b>	<b>\$ 14.71</b>

(1) There were 17,759 and 782,451 performance-based shares/units included in shares granted for the three and nine months ended September 30, 2022.

(2) There were 17,657 and 42,440 performance-based shares/units included in vested shares for the three and nine months ended September 30, 2022.

(3) The number of forfeited shares included aggregate performance-based shares/units of zero and 9,428 for the three and nine months ended September 30, 2022.

**Stock Options**

There were no stock options granted during the three and nine months ended September 30, 2022. There were no unvested stock options as of September 30, 2022 and December 31, 2021. The following tables represents stock option activity for the three and nine months ended September 30, 2022:

(\$ in thousands, except per share data)	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022		Weighted- Average Remaining Contract Term	Aggregate Intrinsic Value
	Number of Shares	Weighted- Average Exercise Price Per Share	Number of Shares	Weighted- Average Exercise Price Per Share		
Outstanding at beginning of period	14,904	\$ 13.05	14,904	\$ 13.05		
Exercised	—	\$ —	—	\$ —		
<b>Outstanding at end of period</b>	<b>14,904</b>	<b>\$ 13.05</b>	<b>14,904</b>	<b>\$ 13.05</b>	<b>2.5 years</b>	<b>\$ 44</b>
<b>Exercisable at end of period</b>	<b>14,904</b>	<b>\$ 13.05</b>	<b>14,904</b>	<b>\$ 13.05</b>	<b>2.5 years</b>	<b>\$ 44</b>

**Stock Appreciation Rights**

In the first quarter of 2021, all of our then outstanding stock appreciation rights (“SARs”) were fully exercised resulting in the issuance of 305,772 shares of voting common stock. In connection with the exercise of the SARs, we recognized a tax benefit of \$2.1 million (refer to Note 8 - *Income Taxes*) during the nine months ended September 30, 2021. There are no further outstanding SARs.

**NOTE 11 – STOCKHOLDERS’ EQUITY**

**Preferred Stock**

We are authorized to issue 50,000,000 shares of preferred stock with par value of \$0.01 per share. Preferred shares outstanding rank senior to common shares both as to dividends and liquidation preference but generally have no voting rights. All of our outstanding shares of preferred stock had a \$1,000 per share liquidation preference.

The following table presents our total outstanding preferred stock as of the dates indicated:

(\$ in thousands)	September 30, 2022			December 31, 2021		
	Shares Outstanding	Liquidation Preference	Carrying Value	Shares Outstanding	Liquidation Preference	Carrying Value
Series E 7.00% non-cumulative perpetual	—	—	—	98,702	98,702	94,956
<b>Total</b>	<b>—</b>	<b>\$ —</b>	<b>\$ —</b>	<b>98,702</b>	<b>\$ 98,702</b>	<b>\$ 94,956</b>

The following table summarizes redemptions and repurchases of these depository shares for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Series D Preferred Stock:</b>				
Depository shares repurchased	—	—	—	3,730,767
Preferred Stock retired (shares)	—	—	—	93,269
Consideration paid	\$ —	\$ —	\$ —	\$ 93,269
Carrying value	—	—	—	89,922
Impact of preferred stock redemption	\$ —	\$ —	\$ —	\$ 3,347
<b>Series E Preferred Stock:</b>				
Depository shares repurchased	—	—	3,948,080	—
Preferred Stock retired (shares)	—	—	98,702	—
Consideration paid	\$ —	\$ —	\$ 98,703	\$ —
Carrying value	—	—	94,956	—
Impact of preferred stock redemption	\$ —	\$ —	\$ 3,747	\$ —

During the first quarter of 2022, we redeemed all of our outstanding Series E Depository Shares, resulting in an after-tax charge of \$3.7 million in the accompanying consolidated statements of operations. During the first quarter of 2021, we redeemed all of our outstanding Series D Depository Shares, resulting in an after-tax charge of \$3.3 million in the accompanying consolidated statements of operations.

#### **Stock Repurchase Program**

On March 15, 2022, we announced our Board of Directors authorized the repurchase of up to \$75 million of our common stock. The repurchase authorization expires in March 2023. Purchases may be made in open-market transactions, in block transactions on or off an exchange, in privately negotiated transactions or by other means as determined by our management and in accordance with the regulations of the SEC. The timing of purchases and the number of shares repurchased under the program will depend on a variety of factors including price, trading volume, corporate and regulatory requirements and market conditions.

During the three months ended September 30, 2022, common stock repurchased under the program totaled 740,332 shares at a weighted average price of \$17.49. During the nine months ended September 30, 2022, common stock repurchased under the program totaled 3,069,058 shares at a weighted average price of \$18.28. As of September 30, 2022, the Company had \$18.9 million remaining under the current stock repurchase authorization.

#### **Change in Accumulated Other Comprehensive (Loss) Income ("AOCI")**

Our AOCI includes unrealized gain (loss) on securities available-for-sale. Changes to AOCI are presented net of the tax effect as a component of stockholders' equity. Reclassifications from AOCI occur when a security is sold, called or matures and are recorded on the consolidated statements of operations either as a gain or loss. During the quarter ended March 31, 2022, we transferred certain debt securities available-for-sale to held-to-maturity. The unrealized loss on such securities at the time of transfer continues to be reported in AOCI and is amortized over the remaining life of the security as a yield adjustment. The following table presents changes to AOCI for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ (34,059)	\$ 14,740	\$ 7,743	\$ 7,746
Unrealized loss on securities available-for-sale:				
Unrealized loss arising during the period	(19,289)	(5,377)	(78,392)	4,535
Reclassification adjustment from other comprehensive income	—	—	(16)	—
Total unrealized loss on securities available-for-sale	(19,289)	(5,377)	(78,408)	4,535
Amortization of unrealized loss of available-for-sale securities transferred to held-to-maturity	275	—	608	—
Tax effect of current period changes	5,494	1,585	22,478	(1,333)
Total changes, net of taxes	(13,520)	(3,792)	(55,322)	3,202
<b>Balance at end of period</b>	<b>\$ (47,579)</b>	<b>\$ 10,948</b>	<b>\$ (47,579)</b>	<b>\$ 10,948</b>

## NOTE 12 – VARIABLE INTEREST ENTITIES

We hold ownership interests in alternative energy partnerships and qualified affordable housing partnerships and have a variable interest in a multifamily securitization trust. We evaluate our interests in these entities to determine whether they meet the definition of a variable interest entity ("VIE") and whether we are required to consolidate these entities. A VIE is consolidated by its primary beneficiary, which is the party that has both (i) the power to direct the activities that most significantly impact the economic performance of the VIE and (ii) a variable interest that could potentially be significant to the VIE. To determine whether or not a variable interest we hold could potentially be significant to the VIE, we consider both qualitative and quantitative factors regarding the nature, size, and form of our involvement with the VIE. We have determined that our interests in these entities meet the definition of variable interests; however none of the VIE's meet the criteria for consolidation.

### Unconsolidated VIEs

#### **Multifamily Securitization**

During the third quarter of 2019, we transferred \$573.5 million of multifamily loans, through a two-step process, to a third-party depositor which placed the multifamily loans into a third-party trust (a VIE) that issued structured pass-through certificates to investors. The transfer of these loans was accounted for as a sale for financial reporting purposes, in accordance with ASC 860. We determined that we are not the primary beneficiary of this VIE as we do not have the power to direct the activities that will have the most significant economic impact on the entity, therefore we do not consolidate the securitization trust. Our continuing involvement in this securitization is limited to customary obligations associated with the securitization of loans, including the obligation to cure, repurchase, or substitute loans in the event of a material breach in representations. Additionally, we have the obligation to guarantee credit losses up to 12% of the aggregate unpaid principal balances at cut-off date of the securitization. This obligation is supported by a \$68.8 million letter of credit between the Freddie Mac and the FHLB.

The maximum loss exposure that would be absorbed by us in the event that all of the assets in the securitization trust are deemed worthless is \$68.8 million, which represents the aforementioned obligation to guarantee credit losses up to 12%. We believe that the loss exposure on the multifamily securitization is reduced by both loan-to-value ratios of the underlying collateral balances and the overcollateralization that exists within the securitization trust. At September 30, 2022, we have a \$2.0 million repurchase reserve related to this VIE.

#### **Alternative Energy Partnerships**

We invested in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits). These entities were formed to invest in newly established residential and commercial solar leases and power purchase agreements. As a result of our investments, we have the right to certain investment tax credits and tax depreciation benefits (recognized on the flow through income statement method in accordance with ASC 740), and to a lesser extent, cash flows generated from the installed solar systems leased to individual consumers for a fixed period of time. While our interest in the alternative energy partnerships meets the definition of a VIE in accordance with ASC 810, we have determined that we are not the primary beneficiary because we do not have the power to direct the activities that most significantly impact the economic performance of the entities including operational and credit risk management activities. As we are not the primary beneficiary, we did not consolidate the entities.

We use the Hypothetical Liquidation at Book Value ("HLBV") method to account for our investments in energy tax projects as an equity investment under ASC 970-323-25-17. Under the HLBV method, an equity method investor determines its share of an investee's net earnings by comparing its claim on the investee's book value at the beginning and end of the period, assuming the investee were to liquidate all assets at their U.S. GAAP amounts and distribute the resulting cash to creditors and investors under their respective priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is our share of the earnings or losses from the equity investment for the period. To account for the tax credits earned on investments in alternative energy partnerships, we use the flow-through income statement method. Under this method, the tax credits are recognized as a reduction to income tax expense and the initial book-tax differences in the basis of the investments are recognized as additional tax expense in the year they are earned. Investments in alternative energy partnerships totaled \$22.4 million and \$25.9 million at September 30, 2022 and December 31, 2021.

The following table presents information regarding activity in our alternative energy partnerships for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash distribution from investment	\$ 626	\$ 657	\$ 1,782	\$ 1,765
(Loss) gain on investments in alternative energy partnerships	(504)	1,785	(1,705)	(1,016)
Tax (benefit) expense recognized from HLBV application	(146)	491	(493)	(280)

There were no fundings of alternative energy partnership or related income tax credits recognized for the three and nine months ended September 30, 2022 and 2021.

The following table represents the carrying value of the associated unconsolidated assets and liabilities and the associated maximum loss exposure for alternative energy partnerships as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
Cash	\$ 4,082	\$ 4,227
Equipment, net of depreciation	239,727	246,421
Other assets	9,841	9,098
<b>Total unconsolidated assets</b>	<b>\$ 253,650</b>	<b>\$ 259,746</b>
<b>Total unconsolidated liabilities</b>	<b>\$ 9,020</b>	<b>\$ 12,129</b>
<b>Maximum loss exposure</b>	<b>\$ 22,401</b>	<b>\$ 25,888</b>

The maximum loss exposure that would be absorbed by us in the event that all of the assets in alternative energy partnerships are deemed worthless is \$22.4 million, which is our recorded investment amount at September 30, 2022.

We believe that the loss exposure on our investments is reduced considering our return on our investment is provided not only by the cash flows of the underlying client leases and power purchase agreements, but also through the significant tax benefits, including the federal tax credit carryover that resulted from the investments. In addition, our exposure is further limited as the arrangements include a transition manager to support any transition of the solar company sponsor, whose role includes that of the servicer and operation and maintenance provider, in the event the sponsor would be required to be removed from its responsibilities (e.g., bankruptcy, breach of contract, etc.).

#### Capital Trusts - Trust Preferred Securities

In connection with our merger with PMB, we acquired investments in two grantor trusts. These grantor trusts were originally formed to sell and issue trust preferred securities to institutional investors (Refer to Note 7 - *Long-term Debt*). We are not the primary beneficiary, and consequently, these grantor trusts are not consolidated in the consolidated financial statements. At September 30, 2022 and December 31, 2021, our investment in these grantor trusts, which is included in other assets in the consolidated statements of financial condition, totaled \$527 thousand.

### Qualified Affordable Housing Partnerships - Low Income Housing Tax Credits

We invest in limited partnerships that operate qualified affordable housing projects that qualify for low income housing tax credits (“LIHTC”). The returns on these investments are generated primarily through allocated Federal tax credits and other tax benefits. In addition, LIHTC investments contribute to our compliance with the Community Reinvestment Act. These limited partnerships are considered to be VIEs, because either (i) they do not have sufficient equity investment at risk or (ii) the limited partners with equity at risk do not have substantive kick-out rights through voting rights or substantive participating rights over the general partner. As a limited partner, we are not the primary beneficiary because the general partner has the ability to direct the activities of the VIEs that most significantly impact their economic performance. As a result, we do not consolidate these partnerships.

The following table presents information regarding balances in LIHTC investments for the periods indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
Ending balance <sup>(1)</sup>	\$ 46,944	\$ 38,982
Aggregate funding commitment	72,967	61,278
Total amount funded	54,166	51,014
Unfunded commitment	18,801	10,264
Maximum loss exposure	46,944	38,982

(1) Included in other assets in the accompanying Consolidated Statements of Financial Condition.

The following table presents information regarding activity in our LIHTC investments for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Fundings	\$ 1,128	\$ 3,563	\$ 3,152	\$ 5,727
Proportional amortization recognized	1,350	1,051	3,727	3,114
Income tax credits recognized	1,298	1,155	3,834	3,466

### NOTE 13 – EARNINGS PER COMMON SHARE

The following table presents computations of basic and diluted earnings per common share ("EPS") for the three and nine months ended September 30, 2022:

(\$ in thousands except per share data)	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Net income	\$ 24,004	\$ 192	\$ 98,646	\$ 774
Less: preferred stock dividends	—	—	(1,409)	(11)
Less: preferred stock redemption	—	—	(3,718)	(29)
<b>Net income allocated to common stockholders</b>	<b>\$ 24,004</b>	<b>\$ 192</b>	<b>\$ 93,519</b>	<b>\$ 734</b>
<b>Weighted average common shares outstanding</b>	<b>59,567,082</b>	<b>477,321</b>	<b>60,846,798</b>	<b>477,321</b>
Dilutive effects of restricted shares/units	444,321	—	331,389	—
Dilutive effects of stock options	3,736	—	4,392	—
<b>Average shares and dilutive common shares</b>	<b>60,015,139</b>	<b>477,321</b>	<b>61,182,579</b>	<b>477,321</b>
<b>Basic earnings per common share</b>	<b>\$ 0.40</b>	<b>\$ 0.40</b>	<b>\$ 1.54</b>	<b>\$ 1.54</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.40</b>	<b>\$ 0.40</b>	<b>\$ 1.53</b>	<b>\$ 1.54</b>

[Table of Contents](#)

For the three and nine months ended September 30, 2022, there were 157,049 and 3,391 anti-dilutive restricted shares/units and no anti-dilutive stock options that were excluded from computing diluted earnings per common share.

The following table presents computations of basic and diluted EPS for the three and nine months ended September 30, 2021:

(\$ in thousands except per share data)	Three Months Ended September 30, 2021		Nine Months Ended September 30, 2021	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Net income	\$ 22,953	\$ 217	\$ 56,061	\$ 534
Less: income allocated to participating securities	—	—	(158)	(2)
Less: preferred stock dividends	(1,711)	(16)	(6,533)	(62)
Less: preferred stock redemption	—	—	(3,315)	(32)
<b>Net income allocated to common stockholders</b>	<b>\$ 21,242</b>	<b>\$ 201</b>	<b>\$ 46,055</b>	<b>\$ 438</b>
<b>Weighted average common shares outstanding</b>	<b>50,239,359</b>	<b>477,321</b>	<b>50,096,607</b>	<b>477,321</b>
Dilutive effects of stock units	188,850	—	242,803	—
Dilutive effects of stock options	3,787	—	5,241	—
<b>Average shares and dilutive common shares</b>	<b>50,431,996</b>	<b>477,321</b>	<b>50,344,651</b>	<b>477,321</b>
<b>Basic earnings per common share</b>	<b>\$ 0.42</b>	<b>\$ 0.42</b>	<b>\$ 0.92</b>	<b>\$ 0.92</b>
<b>Diluted earnings per common share</b>	<b>\$ 0.42</b>	<b>\$ 0.42</b>	<b>\$ 0.91</b>	<b>\$ 0.92</b>

For the three and nine months ended September 30, 2021, there were 206,035 and 194,615 anti-dilutive restricted shares/units and no anti-dilutive stock options that were excluded from computing diluted earnings per common share.

During the first quarter of 2021, all of the Company's outstanding stock appreciation rights (SARs) were exercised resulting in the net issuance of 305,772 shares of voting common stock. Prior to this exercise, the SARs were considered participating securities and income was allocated to the respective holder and not part of income (loss) available to common stockholders. After the exercise of all of the Company's outstanding SARs, there are no longer any participating securities outstanding and the net shares issued in settlement of such SARs are included in the computation of average common shares for both basic and diluted earnings per share.

**NOTE 14 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES**

Some financial instruments, such as unfunded loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met prior to their expiration dates. Commitments may expire without being used. Risk of credit loss exists up to the face amount of these instruments. The same credit policies are used to make such commitments as are used for originating loans, including obtaining collateral at exercise of the commitment.

The following table presents the contractual amount of financial instruments with off-balance-sheet risk as of the periods indicated:

(\$ in thousands)	September 30, 2022		December 31, 2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	\$ 67,786	\$ 209,519	\$ 37,107	\$ 136,921
Unused lines of credit	6,377	2,082,929	6,894	1,699,933
Letters of credit	2,579	7,088	2,553	5,617

***Other Commitments***

At September 30, 2022, we had unfunded commitments of \$18.8 million, \$9.4 million, and \$12.1 million for LIHTC investments, Small Business Investment Company ("SBIC") investments, and other investments, respectively.

**NOTE 15 – REVENUE RECOGNITION**

The following table presents noninterest income, segregated by revenue streams, in-scope and out-of-scope of Topic 606 - *Revenue From Contracts With Customers*, for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<b>Noninterest income</b>				
<i>In scope of Topic 606</i>				
Deposit service fees	\$ 1,486	\$ 913	\$ 4,767	\$ 2,548
Debit card fees	472	451	1,467	1,333
Other	240	146	536	327
Noninterest income (in-scope of Topic 606)	2,198	1,510	6,770	4,208
Noninterest income (out-of-scope of Topic 606)	3,483	4,009	12,007	9,563
<b>Total noninterest income</b>	<b>\$ 5,681</b>	<b>\$ 5,519</b>	<b>\$ 18,777</b>	<b>\$ 13,771</b>

We do not typically enter into long-term revenue contracts with clients and as of September 30, 2022 and December 31, 2021, we did not have any significant contract balances within the scope of Topic 606. As of September 30, 2022, we did not capitalize any revenue contract acquisition costs.

**Sale-leaseback Transactions**

In January 2022, we completed a sale-leaseback transaction for \$2.4 million and recognized a gain of \$771 thousand. In September 2021, we also completed a sale-leaseback transaction in which we sold a branch building for \$4.2 million and recognized a gain of \$841 thousand. Gains related to sale-leaseback are included in other income in the accompanying consolidated statements of operations.

**NOTE 16 – RELATED-PARTY TRANSACTIONS**

Certain of our executive officers and directors, and their related interests, are customers of, or have had transactions with the Bank in the ordinary course of business, including deposits, loans and other financial services related transactions. From time to time, the Bank may make loans to executive officers and directors, and their related interests, in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those of comparable transactions with non-insiders prevailing at the time, in accordance with the Bank’s underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features. As of September 30, 2022, no related party loans were categorized as nonaccrual, past due, restructured or potential problem loans.

**Transactions with Related Parties**

The Company and the Bank have engaged in transactions described below with the Company’s current or former directors, executive officers, and beneficial owners of more than five percent of the outstanding shares of the Company’s voting common stock and certain persons related to them.

As previously disclosed, the Company’s Board of Directors has authorized and directed the Company to provide indemnification, advancement and/or reimbursement for the costs of separate independent counsel retained by any then-current officer or director, in their individual capacity, with respect to matters related to (i) an investigation by the Special Committee of the Company’s Board of Directors in late 2016, (ii) a formal order of investigation issued by the SEC on January 4, 2017 (since resolved), and (iii) any civil or administrative proceedings against the Company as well as officers and directors currently or previously associated with the Company (collectively, the “Indemnified Matters”).

Indemnification costs were paid or reimbursed by the Company or its insurance carriers on behalf of certain current directors in connection with the Indemnified Matters, in an aggregate amount less than \$120 thousand and \$244 thousand for the three and nine months ended September 30, 2022. Indemnification costs were paid or reimbursed by the Company or its insurance carriers on behalf of certain current directors in connection with the Indemnified Matters in aggregate amounts \$244 thousand and \$400 thousand for the three and nine months ended September 30, 2021.

**NOTE 17 – LITIGATION**

From time to time, we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. In accordance with applicable accounting guidance, we establish an accrued liability when those matters present loss contingencies that are both probable and estimable.

While the ultimate liability with respect to legal actions cannot be determined at this time, we believe that damages, if any, and other amounts relating to pending matters are not likely to be material to the consolidated financial statements.

**NOTE 18 – SUBSEQUENT EVENTS**

We have evaluated events from the date of the consolidated financial statements on September 30, 2022 through the issuance of these consolidated financial statements included in this Quarterly Report on Form 10-Q.

Subsequent to September 30, 2022, we repurchased 1,044,009 shares of common stock at a weighted average price of \$16.58, or \$17.3 million. Since the announcement of the stock repurchase program on March 15, 2022, we have repurchased a total of 4,113,067 shares of common stock at a weighted average price of \$17.85 per share, or \$73.4 million.

There have been no other subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in the consolidated financial statements as of September 30, 2022.

## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management’s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and nine months ended September 30, 2022. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2021 and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022.

### Executive Overview

We are focused on providing core banking products and services, including customized and innovative banking and lending solutions designed to cater to the unique needs of California's diverse businesses, entrepreneurs and communities through our 29 full service branches in Orange, Los Angeles, San Diego, and Santa Barbara Counties. Through our over 684 dedicated professionals, we are committed to servicing and building enduring relationships by providing a higher standard of banking. We offer a variety of financial products and services designed around our target clients in order to serve their banking and financial needs. We also acquired Deepstack Technologies to be able to offer full stack payment processing solutions and become the hub of the financial services ecosystem for our clients. We continue to grow average loans and earning assets, improve our deposit mix, manage our cost of funds, and maintain disciplined expense control.

### Financial Highlights

For the third quarter of 2022, net income and net income available to common stockholders was \$24.2 million, or \$0.40 per diluted common share. This compares to net income of \$26.7 million and net income available to common stockholders of \$26.7 million, or \$0.43 per diluted common share, for the second quarter of 2022 and net income of \$23.2 million and net income available to common stockholders of \$21.4 million, or \$0.42 per diluted common share, for the third quarter of 2021. Net income available to common stockholders includes pre-tax transaction costs of \$2.1 million related to the Deepstack acquisition for the third quarter of 2022 and \$1.0 million related to the PMB acquisition for the third quarter of 2021. The operating results of PMB are included from its October 18, 2021 acquisition date, and consequently, may impact the comparison of the financial results for the periods presented.

Third quarter of 2022 highlights:

- Acquisition of Deepstack completed on September 15, 2022
- Adjusted diluted EPS of \$0.44
- Return on average assets of 1.02%
- Adjusted return on average assets of 1.13%
- Pre-tax pre-provision return on average assets of 1.44%
- Adjusted pre-tax pre-provision return on average assets of 1.59%
- Net interest margin of 3.58%
- Noninterest-bearing deposits increased \$117.0 million or 17% annualized to represent 40% of total quarter end deposits
- Average cost of total deposits of 0.47%
- Allowance for credit losses at 1.36% of total loans and 232% of non-performing loans, up from 1.34% and 224% in the prior quarter
- Repurchased \$13.0 million of common stock during the quarter and \$73.4 million cumulatively this year through November 4, 2022

### Acquisition of Deepstack Technologies

On September 15, 2022, the Company completed its acquisition of the assets of Deepstack for \$24 million in total consideration. Deepstack is a differentiated software-led and e-commerce payments platform that provides clients with payment solutions, including merchant processing, payments acceptance and disbursements, tokenization, virtual accounts, fraud protection tools, chargeback management, and reconciliation and reporting services. Deepstack advances Banc of California's goal to be the hub of the financial services ecosystem for clients while creating another driver of profitable long-term growth and franchise value including:

- Scalable, meaningful fee-based income
- New clients in verticals attractive to Banc of California
- New source of noninterest-bearing deposits

The Deepstack acquisition is accounted for as a business combination under U.S. GAAP and initial estimates of the fair value of identifiable intangible assets and goodwill acquired are reflected in the Company's balance sheet as of September 30, 2022.

## CRITICAL ACCOUNTING ESTIMATES

We follow accounting and reporting policies and procedures that conform, in all material respects, to GAAP and to practices generally applicable to the financial services industry, the most significant of which are described in Note 1 — *Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC. The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make judgments and accounting estimates that affect the amounts reported for assets, liabilities, revenues and expenses on the Consolidated Financial Statements and accompanying notes, and amounts disclosed as contingent assets and liabilities. While we base estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

Accounting estimates are necessary in the application of certain accounting policies and procedures that are particularly susceptible to significant change. Critical accounting policies are defined as those that require the most complex or subjective judgment and are reflective of significant uncertainties, and could potentially result in materially different results under different assumptions and conditions. Management has identified our most critical accounting policies and accounting estimates as: investment securities, allowance for credit losses, business combinations, valuation of acquired loans, goodwill and deferred income taxes. See Note 1 — *Summary of Significant Accounting Policies* of the Notes to Consolidated Financial Statements (Unaudited) included in Item 1 for a description of these policies.

*Investment Securities.* Held-to-maturity debt securities are carried at amortized cost and available-for-sale debt securities are carried at fair value. These securities are analyzed for credit deterioration under ASC 326, which requires the Company to determine whether impairment exists as of the reporting date and whether that impairment is due to credit deterioration. An allowance for credit losses would be established for losses on held-to-maturity and available-for-sale debt securities due to credit losses and would be reported as a component of provision for credit losses.

The valuation of investment securities considers observable data such as dealer quotes, market spreads, cash flows, yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and respective terms and conditions for debt instruments. We employ procedures to monitor the pricing service's assumptions and establish processes to challenge the pricing service's valuations that appear unusual or unexpected. Multiple quotes or prices may be obtained in this process and we determine which fair value is most appropriate based on market information and analysis. Quotes obtained through this process are generally non-binding. We follow established procedures to ensure that assets and liabilities are properly classified in the fair value hierarchy. All securities available-for-sale were classified as Level 2 at September 30, 2022 and December 31, 2021. When a market is illiquid or there is a lack of transparency around the inputs to valuation, including at least one unobservable input, the securities are classified as Level 3 and reliance is placed upon internally developed models and management's judgment and evaluation for valuation. We had no securities available-for-sale classified as Level 3 at September 30, 2022 and December 31, 2021.

The estimates used to determine the fair values of investment securities can be complex and require judgment. These critical estimates are difficult to predict and may result in credit losses in future periods if actual results materially differ from the estimated assumptions utilized in our valuation of these assets.

*Allowance for Credit Losses ("ACL").* The ACL is estimated on a quarterly basis and represents management's estimate of current expected credit losses ("CECL") in our loan portfolio. The ACL estimate is based on the accounting standard commonly known as CECL. Under the CECL method, pools of loans with similar risk characteristics are collectively evaluated while loans that no longer share risk characteristics with loan pools are evaluated individually. Collective loss estimates are determined by applying loss factors, designed to estimate current expected credit losses, to amortized cost balances over the remaining life of the collectively evaluated portfolio. The allowance for loan losses includes qualitative adjustments to bring the allowance to the level management believes is appropriate based on factors that have not otherwise been fully accounted for, including those described in the federal banking agencies' joint interagency policy statement on ALL. These factors include, among others, inherent imprecision in forecasting economic variables, including determining the depth and duration of economic cycles and their impact to relevant economic variables; qualitative adjustments based on our evaluation of different forecast scenarios and known recent events impacting relevant economic variables; data factors that address the risk that certain model inputs may not reflect all available information including (i) risk factors that have not been fully addressed in internal risk ratings, (ii) changes in lending policies and procedures, (iii) changes in the level and quality of experience held by lending management, (iv) imprecision in the risk rating system and (v) limitations in data available for certain loan portfolios. The ACL process also includes challenging and calibrating the model and model results against observed information, trends and events within the loan portfolio, among others. The ACL and provision for credit losses include amounts and changes from both the allowance for loan losses and the reserve for unfunded commitments.

**Business Combinations.** Business combinations are accounted for using the acquisition method of accounting under ASC Topic 805 - *Business Combinations*. Under the acquisition method, the Company measures the identifiable assets acquired, including identifiable intangible assets, and liabilities assumed in a business combination at fair value on acquisition date. Goodwill is generally determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

We allocate the fair value of the purchase consideration to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The fair values of other intangibles are determined utilizing information available near the acquisition date based on expectations and assumptions that are deemed reasonable by management. The estimates used to determine the fair values of assets and liabilities acquired in a business combination can be complex and require judgment, as such we typically engage third-party valuation specialists for significant items.

For example, we generally value core deposit intangible assets using a discounted cash flow approach, which require a number of critical estimates that include, but are not limited to, future expected cash flows from depositor relationships, expected "decay" rates, and the determination of discount rates. We used the multi-period excess earnings method to value developed technology, the foregone cash flow method to value client relationships, and the relief from royalty method to value trademarks. Non-compete agreements are estimated using a with and without scenario where cash flows are projected through the term of the non-compete agreement assuming the agreement is in place and compared to cash flows assuming it is not in place. In valuing these intangibles, we made forward looking assumptions regarding expected future revenues and expenses to develop the underlying forecasts, applied contributory asset charges, discount rates, useful lives and other estimates. These critical estimates are difficult to predict and may result in impairment charges in future periods if actual results materially differ from the estimated assumptions utilized in our initial valuation of net assets and liabilities acquired.

**Goodwill.** Goodwill represents the excess purchase price of businesses acquired over the fair value of the identifiable net assets acquired. Goodwill is not subject to amortization and is evaluated for impairment at least annually, normally during the fourth fiscal quarter, or more frequently in the interim if events occur or circumstances change indicating impairment may have occurred. The determination of whether impairment has occurred is based on an assessment of several factors, including, but not limited to, operating results, business plans, economic projections, anticipated future cash flows, and current market data. Any impairment identified as part of this testing is recognized through a charge to noninterest expense.

The assessment of impairment discussed above incorporate inherent uncertainties, including projected operating results and future market conditions, which are often difficult to predict and may result in impairment charges in future periods if actual results materially differ from the estimated assumptions utilized in our forecasts.

**Acquired Loans.** At acquisition date, loans are evaluated to determine whether they meet the criteria of a purchased credit-deteriorated ("PCD") loan. PCD loans are loans that in management's judgement have experienced more than insignificant deterioration in credit quality since origination. Factors that indicate a loan may have experienced more than insignificant credit deterioration include delinquency, downgrades in credit rating, non-accrual status, and other negative factors identified by management at the time of initial assessment. PCD loans are initially recorded at fair value, with the resulting non-credit discount or premium being amortized or accreted into interest income using the interest method. In addition to the fair value adjustment, at the date of acquisition, an ACL is established with a corresponding increase to the overall acquired loan balance. This initial ACL is determined using the Company's current expected credit losses methodology.

Acquired loans that are not considered PCD loans ("non-PCD loans") are also recognized at fair value at the acquisition date, with the resulting credit and non-credit discount or premium being amortized or accreted into interest income using the interest method. In addition to the fair value adjustment, at the time of acquisition, the Company establishes an initial ACL for acquired non-PCD loans through a charge to the provision for credit losses. This initial ACL is determined using the Company's current expected credit losses methodology.

Subsequent to acquisition date, the ACL for both PCD and non-PCD loans is determined using the same methodology to determine current expected credit losses that is applied to all other loans.

The estimates used to determine the fair values of non-PCD and PCD acquired loans can be complex and require significant judgment regarding items such as default rates, timing and amount of future cash flows, prepayment rates and other factors. These critical estimates are difficult to predict and may result in provisions for credit losses in future periods if actual losses materially differ from the estimated assumptions utilized in our initial valuation of acquired loans.

**Deferred Taxes.** Deferred income tax assets and liabilities are computed for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are also recognized for operating loss and tax credit carryforwards. Accounting guidance requires that companies assess whether a valuation allowance should be established against the deferred tax assets based on the consideration of all available evidence using a "more likely than not" standard. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management,

it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. In assessing the realization of deferred tax assets, management will continue to evaluate both positive and negative evidence on a quarterly basis, including considering the four possible sources of future taxable income, such as future reversal of existing taxable temporary differences, future taxable income exclusive of reversing temporary differences and carryforwards, taxable income in prior carryback year(s), and future tax planning strategies.

Although we believe our assessments of the realizability of deferred income taxes are reasonable, no assurance can be given that their realizability will not be different from that which is reflected in our net deferred tax asset balance.

Tax positions that are uncertain but meet a more-likely-than-not recognition threshold are initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position meets the more likely than not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our reserves are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made.

**Recent Accounting Pronouncements Not Yet Adopted**

Our recent accounting pronouncements not yet adopted are described in Note 1 to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 and in Note 1 Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

**Non-GAAP Financial Measures**

Under Item 10(e) of SEC Regulation S-K, public companies disclosing financial measures in filings with the SEC that are not calculated in accordance with GAAP must also disclose, along with each non-GAAP financial measure, certain additional information, including a presentation of the most directly comparable GAAP financial measure, a reconciliation of the non-GAAP financial measure to the most directly comparable GAAP financial measure, as well as a statement of the reasons why the company's management believes that presentation of the non-GAAP financial measure provides useful information to investors regarding the company's financial condition and results of operations and, to the extent material, a statement of the additional purposes, if any, for which the company's management uses the non-GAAP financial measure.

Tangible assets, tangible equity, tangible common equity, tangible equity to tangible assets, tangible common equity to tangible assets, tangible common equity per common share, return on average tangible common equity, adjusted noninterest expense, adjusted noninterest expense to average total assets, pre-tax pre-provision (PTPP) income, adjusted PTPP income, PTPP income (loss) ROAA, adjusted PTPP income ROAA, efficiency ratio, adjusted efficiency ratio, adjusted net income, adjusted net income available to common stockholders, adjusted diluted earnings per share (EPS) and adjusted return on average assets (ROAA) constitute supplemental financial information determined by methods other than in accordance with GAAP. These non-GAAP measures are used by management in its analysis of the Company's performance.

Tangible assets and tangible equity are calculated by subtracting goodwill and other intangibles from total assets and total equity. Tangible common equity is calculated by subtracting preferred stock from tangible equity. Return on average tangible common equity is computed by dividing net income (loss) available to common stockholders, after adjustment for amortization of other intangibles, by average tangible common equity. Banking regulators also exclude goodwill and other intangibles from stockholders' equity when assessing the capital adequacy of a financial institution.

PTPP income is calculated by adding net interest income and noninterest income (total revenue) and subtracting noninterest expense. Adjusted PTPP income is calculated by adding total revenue and subtracting adjusted noninterest expense. PTPP income ROAA is computed by dividing annualized PTPP income by average assets. Adjusted PTPP income ROAA is computed by dividing annualized adjusted PTPP income by average assets. Efficiency ratio is computed by dividing noninterest expense by total revenue. Adjusted efficiency ratio is computed by dividing adjusted noninterest expense by total revenue.

Adjusted net income is calculated by adjusting net income for tax-effected noninterest expense adjustments and the tax impact from the exercise of stock appreciation rights for the periods indicated. Adjusted ROAA is computed by dividing annualized adjusted net income by average assets. Adjusted net income available to common stockholders is computed by removing the impact of preferred stock redemptions from adjusted net income. Adjusted diluted earnings per share is computed by dividing adjusted net income available to common stockholders by the weighted average diluted common shares outstanding.

Management believes the presentation of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the financial results and operating performance of the Company. This disclosure should not be viewed as a substitute for results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP performance measures that may be presented by other companies.

The following tables provide reconciliations of the non-GAAP measures with financial measures defined by GAAP.

[Table of Contents](#)

(Dollars in thousands, except per share data)  
(Unaudited)

	September 30, 2022	December 31, 2021
<b>Tangible common equity, and tangible common equity to tangible assets ratio</b>		
Total assets	\$ 9,368,578	\$ 9,393,743
Less goodwill	(114,312)	(94,301)
Less other intangibles	(8,081)	(6,411)
Tangible assets <sup>(1)</sup>	<u>\$ 9,246,185</u>	<u>\$ 9,293,031</u>
Total stockholders' equity	\$ 951,990	\$ 1,065,290
Less preferred stock	—	(94,956)
Total common stockholders' equity	<u>\$ 951,990</u>	<u>\$ 970,334</u>
Total stockholders' equity	\$ 951,990	\$ 1,065,290
Less goodwill	(114,312)	(94,301)
Less other intangibles	(8,081)	(6,411)
Tangible equity <sup>(1)</sup>	<u>829,597</u>	<u>964,578</u>
Less preferred stock	—	(94,956)
Tangible common equity <sup>(1)</sup>	<u>\$ 829,597</u>	<u>\$ 869,622</u>
Total stockholders' equity to total assets	10.16 %	11.34 %
Tangible equity to tangible assets <sup>(1)</sup>	8.97 %	10.38 %
Tangible common equity to tangible assets <sup>(1)</sup>	8.97 %	9.36 %
Common shares outstanding	59,679,558	62,188,206
Class B non-voting non-convertible common shares outstanding	477,321	477,321
Total common shares outstanding	<u>60,156,879</u>	<u>62,665,527</u>
Book value per common share	\$ 15.83	\$ 15.48
Tangible common equity per common share <sup>(1)</sup>	\$ 13.79	\$ 13.88

(1) Non-GAAP measure.

[Table of Contents](#)

(Dollars in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
<b>Return on tangible common equity</b>					
Average total stockholders' equity	\$ 960,806	\$ 969,885	\$ 847,941	\$ 993,208	\$ 850,215
Less average preferred stock	—	—	(94,956)	(25,043)	(118,013)
Average total common stockholders' equity	960,806	969,885	752,985	968,165	732,202
Less average goodwill	(98,916)	(95,127)	(37,144)	(96,133)	(37,144)
Less average other intangibles	(4,570)	(4,869)	(1,941)	(5,216)	(2,226)
Average tangible common equity <sup>(1)</sup>	\$ 857,320	\$ 869,889	\$ 713,900	\$ 866,816	\$ 692,832
Net income available to common stockholders	\$ 24,196	\$ 26,712	\$ 21,443	\$ 94,253	\$ 46,493
Add amortization of other intangibles	396	313	282	1,150	846
Less tax effect on amortization of other intangibles <sup>(2)</sup>	(83)	(66)	(59)	(242)	(178)
Net income available to common stockholders <sup>(1)</sup>	\$ 24,509	\$ 26,959	\$ 21,666	\$ 95,161	\$ 47,161
Return on average equity	9.99 %	11.05 %	10.84 %	13.38 %	8.90 %
Return on average tangible common equity <sup>(1)</sup>	11.34 %	12.43 %	12.04 %	14.68 %	9.10 %

(1) Non-GAAP measure.

(2) Adjustments shown net of a statutory Federal tax rate of 21%.

(Dollars in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
<b>Adjusted noninterest expense</b>					
Total noninterest expense	\$ 50,962	\$ 48,612	\$ 37,811	\$ 146,170	\$ 124,806
Noninterest expense adjustments:					
Professional (fees) recoveries	(1,017)	(455)	2,152	(1,366)	2,715
Acquisition, integration and transaction costs	(2,080)	—	(1,000)	(2,080)	(2,400)
Noninterest expense adjustments before (loss) gain in alternative energy partnership investments	(3,097)	(455)	1,152	(3,446)	315
(Loss) gain in alternative energy partnership investments	(504)	(1,043)	1,785	(1,705)	(1,016)
Total noninterest expense adjustments	(3,601)	(1,498)	2,937	(5,151)	(701)
Adjusted noninterest expense <sup>(1)</sup>	\$ 47,361	\$ 47,114	\$ 40,748	\$ 141,019	\$ 124,105
Average assets	\$ 9,408,740	\$ 9,342,696	\$ 8,141,613	\$ 9,381,307	\$ 7,944,218
Noninterest expense to average total assets	2.15 %	2.09 %	1.84 %	2.08 %	2.10 %
Adjusted noninterest expense to average total assets <sup>(1)</sup>	2.00 %	2.02 %	1.99 %	2.01 %	2.09 %

(1) Non-GAAP measure.

(Dollars in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
<b>Adjusted pre-tax pre-provision income</b>					
Net interest income	\$ 79,408	\$ 78,299	\$ 62,976	\$ 234,148	\$ 180,739
Noninterest income	5,681	7,186	5,519	18,777	13,771
Total revenue	85,089	85,485	68,495	252,925	194,510
Noninterest expense	50,962	48,612	37,811	146,170	124,806
Pre-tax pre-provision income <sup>(1)</sup>	\$ 34,127	\$ 36,873	\$ 30,684	\$ 106,755	\$ 69,704
<b>Adjusted noninterest expense</b>					
Total revenue	\$ 85,089	\$ 85,485	\$ 68,495	\$ 252,925	\$ 194,510
Noninterest expense	50,962	48,612	37,811	146,170	124,806
Total noninterest expense adjustments	(3,601)	(1,498)	2,937	(5,151)	(701)
Adjusted noninterest expense <sup>(1)</sup>	47,361	47,114	40,748	141,019	124,105
Adjusted pre-tax pre-provision income <sup>(1)</sup>	\$ 37,728	\$ 38,371	\$ 27,747	\$ 111,906	\$ 70,405
Average assets	\$ 9,408,740	\$ 9,342,696	\$ 8,141,613	\$ 9,381,307	\$ 7,944,218
Pre-tax pre-provision income ROAA <sup>(1)</sup>	1.44 %	1.58 %	1.50 %	1.52 %	1.17 %
Adjusted pre-tax pre-provision income ROAA <sup>(1)</sup>	1.59 %	1.65 %	1.35 %	1.59 %	1.18 %
Efficiency ratio <sup>(1)</sup>	59.89 %	56.87 %	55.20 %	57.79 %	64.16 %
Adjusted efficiency ratio <sup>(1)</sup>	55.66 %	55.11 %	59.49 %	55.76 %	63.80 %

(1) Non-GAAP measure.

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
<b>Adjusted net income</b>					
Net income <sup>(1)</sup>	\$ 24,196	\$ 26,712	\$ 23,170	\$ 99,420	\$ 56,595
Adjustments:					
Noninterest expense adjustments	3,601	1,498	(2,937)	5,151	701
Tax impact of adjustments above <sup>(2)</sup>	(1,065)	(443)	868	(1,523)	(207)
Tax impact from exercise of stock appreciation rights	—	—	—	—	(2,093)
Adjustments to net income	2,536	1,055	(2,069)	3,628	(1,599)
Adjusted net income <sup>(3)</sup>	\$ 26,732	\$ 27,767	\$ 21,101	\$ 103,048	\$ 54,996
Average assets	\$ 9,408,740	\$ 9,342,696	\$ 8,141,613	\$ 9,381,307	\$ 7,944,218
ROAA	1.02 %	1.15 %	1.13 %	1.42 %	0.95 %
Adjusted ROAA <sup>(3)</sup>	1.13 %	1.19 %	1.03 %	1.47 %	0.93 %
<b>Adjusted net income available to common stockholders</b>					
Net income available to common stockholders	\$ 24,196	\$ 26,712	\$ 21,443	\$ 94,253	\$ 46,493
Adjustments to net income	2,536	1,055	(2,069)	3,628	(1,599)
Adjustments for impact of preferred stock redemption	—	—	—	3,747	3,347
Adjusted net income available to common stockholders <sup>(3)</sup>	\$ 26,732	\$ 27,767	\$ 19,374	\$ 101,628	\$ 48,241
Average diluted common shares	60,492,460	61,600,615	50,909,317	61,659,900	50,821,972
Diluted EPS	\$ 0.40	\$ 0.43	\$ 0.42	\$ 1.53	\$ 0.91
Adjusted diluted EPS <sup>(3)(4)</sup>	\$ 0.44	\$ 0.45	\$ 0.38	\$ 1.65	\$ 0.95

(1) Net income for the nine months ended September 30, 2022 includes a \$31.3 million pre-tax reversal of credit losses due to the recovery from the settlement of a previously charged-off loan; there is no similar recovery in any of the other periods presented. The Bank previously recognized a \$35.1 million charge-off for this loan during the third quarter of 2019.

(2) Tax impact of adjustments shown at an effective tax rate of 29.6%.

(3) Non-GAAP measure.

(4) Represents adjusted net income available to common stockholders divided by average diluted common shares.

**RESULTS OF OPERATIONS**
***Net Interest Income***

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their corresponding yields and costs expressed both in dollars and rates for the three months ended September 30, 2022, June 30, 2022 and September 30, 2021:

(\$ in thousands)	Three Months Ended								
	September 30, 2022			June 30, 2022			September 30, 2021		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
<b>Interest-earning assets:</b>									
Total loans <sup>(1)(2)</sup>	\$ 7,313,519	\$ 83,699	4.54 %	\$ 7,269,655	\$ 78,895	4.35 %	\$ 6,059,330	\$ 63,837	4.18 %
Securities	1,194,942	10,189	3.38 %	1,216,612	8,124	2.68 %	1,347,317	7,167	2.11 %
Other interest-earning assets <sup>(3)</sup>	292,819	2,085	2.82 %	295,715	1,399	1.90 %	222,274	787	1.40 %
Total interest-earning assets	8,801,280	95,973	4.33 %	8,781,982	88,418	4.04 %	7,628,921	71,791	3.73 %
Allowance for loan losses	(93,517)			(94,217)			(76,028)		
BOLI and noninterest-earning assets <sup>(4)</sup>	700,977			654,931			588,720		
<b>Total assets</b>	<b>\$ 9,408,740</b>			<b>\$ 9,342,696</b>			<b>\$ 8,141,613</b>		
<b>Interest-bearing liabilities:</b>									
Interest-bearing checking	\$ 2,285,071	3,880	0.67 %	\$ 2,363,233	1,457	0.25 %	\$ 2,280,429	632	0.11 %
Savings and money market	1,536,438	2,236	0.58 %	1,598,663	860	0.22 %	1,583,791	1,350	0.34 %
Certificates of deposit	832,506	2,871	1.37 %	631,415	863	0.55 %	571,822	430	0.30 %
Total interest-bearing deposits	4,654,015	8,987	0.77 %	4,593,311	3,180	0.28 %	4,436,042	2,412	0.22 %
FHLB advances	482,842	3,558	2.92 %	485,629	3,114	2.57 %	435,984	2,990	2.72 %
Other borrowings	70,431	412	2.32 %	117,688	325	1.11 %	126,352	34	0.11 %
Long-term debt	274,665	3,608	5.21 %	274,515	3,500	5.11 %	256,634	3,379	5.22 %
Total interest-bearing liabilities	5,481,953	16,565	1.20 %	5,471,143	10,119	0.74 %	5,255,012	8,815	0.67 %
Noninterest-bearing deposits	2,855,220			2,804,877			1,939,912		
Noninterest-bearing liabilities	110,761			96,791			98,748		
Total liabilities	8,447,934			8,372,811			7,293,672		
Total stockholders' equity	960,806			969,885			847,941		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,408,740</b>			<b>\$ 9,342,696</b>			<b>\$ 8,141,613</b>		
<b>Net interest income/spread</b>		<b>\$ 79,408</b>	<b>3.13 %</b>		<b>\$ 78,299</b>	<b>3.30 %</b>		<b>\$ 62,976</b>	<b>3.06 %</b>
<b>Net interest margin<sup>(5)</sup></b>			<b>3.58 %</b>			<b>3.58 %</b>			<b>3.28 %</b>
<b>Ratio of interest-earning assets to interest-bearing liabilities</b>	<b>161 %</b>			<b>161 %</b>			<b>145 %</b>		
<b>Total deposits<sup>(6)</sup></b>	<b>7,509,235</b>	<b>8,987</b>	<b>0.47 %</b>	<b>7,398,188</b>	<b>3,180</b>	<b>0.17 %</b>	<b>6,375,954</b>	<b>2,412</b>	<b>0.15 %</b>
<b>Total funding<sup>(7)</sup></b>	<b>8,337,173</b>	<b>16,565</b>	<b>0.79 %</b>	<b>8,276,020</b>	<b>10,119</b>	<b>0.49 %</b>	<b>7,194,924</b>	<b>8,815</b>	<b>0.49 %</b>

(1) Includes average loans held for sale of \$4.2 million, \$3.6 million and \$3.0 million for the three months ended September 30, 2022, June 30, 2022 and September 30, 2021, respectively, which are included in other assets in the accompanying consolidated statements of financial condition.

- (2) *Total loans are net of deferred fees, related direct costs, premiums and discounts, but exclude the allowance for credit losses. Nonaccrual loans are included in the average balance. Interest income includes net (amortization) accretion of deferred loan (costs) fees and purchased (premiums) discounts of \$51 thousand, \$(155) thousand and \$514 thousand for the three months ended September 30, 2022, June 30, 2022 and September 30, 2021, respectively.*
- (3) *Includes average balance of FHLB, FRB and other bank stock at cost and average time deposits with other financial institutions.*
- (4) *Includes average balance of bank-owned life insurance of \$125.6 million, \$124.8 million and \$113.4 million for the three months ended September 30, 2022, June 30, 2022 and September 30, 2021, respectively.*
- (5) *Annualized net interest income divided by average interest-earning assets.*
- (6) *Total deposits is the sum of interest-bearing deposits and noninterest-bearing deposits. The cost of total deposits is calculated as annualized total interest expense on deposits divided by average total deposits.*
- (7) *Total funding is the sum of interest-bearing liabilities and noninterest-bearing deposits. The cost of total funding is calculated as annualized total interest expense divided by average total funding.*

**Three Months Ended September 30, 2022 Compared to Three Months Ended June 30, 2022**

Net interest income increased \$1.1 million to \$79.4 million for the third quarter due to higher average balances and yield on interest-earning assets, partially offset by higher average balances and costs on interest-bearing liabilities.

The net interest margin remained unchanged at 3.58% for the third quarter as the average interest-earning assets yield increased 29 basis points and the cost of average total funding increased 30 basis points while average interest-bearing assets remain relatively unchanged. The yield on average interest-earning assets increased to 4.33% for the third quarter from 4.04% for the second quarter due to the mix of interest-earning assets and higher yields on loans, securities and other interest-earning assets. The overall loan yield increased 19 basis points to 4.54% during the third quarter as a result of the portfolio mix and the impact of higher market interest rates. The loan yields include the impact of prepayment penalty fees, the net reversal or recapture of nonaccrual loan interest and accelerated discount accretion on the early payoff of purchased loans; these items increased the overall loan yield by 6 basis points in the third quarter, compared to 10 basis points in the prior quarter.

The average cost of funds increased 30 basis points to 0.79% for the third quarter from 0.49% for the second quarter. This increase was driven by the higher cost of average interest-bearing liabilities, which increased 46 basis points to 1.20% for the third quarter from 0.74% for the second quarter. The cost of average interest-bearing deposits increased 49 basis points to 0.77% for the third quarter from 0.28% for the second quarter while the cost of average FHLB advances increased 35 basis points to 2.92% for the third quarter from 2.57% for the second quarter. These increases in the costs of funds were mostly a result of higher market interest rates.

Average noninterest-bearing deposits were \$50.3 million higher in the third quarter compared to the second quarter while average deposits were \$111.0 million higher for the linked quarters. Average noninterest-bearing deposits represented 38% of total average deposits for both the third quarter and the second quarter. The cost of total average deposits increased 30 basis points to 0.47% for the third quarter. The spot rate of total deposits was 0.56% at the end of the third quarter.

**Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021**

Net interest income for the third quarter of 2022 increased \$16.4 million to \$79.4 million compared to \$63.0 million for the same 2021 period. Net interest income was positively impacted by higher average interest-earning assets, a higher yield on such assets, and improved funding mix, partially offset by higher average interest-bearing liabilities and higher funding costs. The 2022 operating results include the impact of acquiring PMB in the fourth quarter of 2021.

The net interest margin increased 30 basis points to 3.58% for the third quarter of 2022 as the average interest-earning assets yield increased 60 basis points and the average cost of total funding increased 30 basis points. The average yield on interest-earning assets increased to 4.33% for the third quarter of 2022 from 3.73% for the same 2021 period due to the mix of interest-earning assets and higher yields on securities and other interest-earning assets as a result of higher market interest rates. The average Federal funds rate was 2.18% for the third quarter of 2022 compared to 0.09% for the same 2021 period. Average loans increased by \$1.25 billion from ongoing loan growth, including loans from the acquisition of PMB. The average yield on loans increased 36 basis points to 4.54% for the third quarter of 2022, compared to 4.18% for the

same 2021 period. The loan yield includes the impact of prepayment penalty fees, the net reversal or recapture of nonaccrual loan interest, accelerated discount accretion on the early payoff of purchased loans, and accelerated fees from PPP loan forgiveness; these items increased the loan yield by 6 basis points in the third quarter of 2022 compared to 11 basis points for same 2021 period.

The average cost of funds increased 30 basis points to 0.79% for the third quarter of 2022, from 0.49% for the same 2021 period. This increase was driven by the higher cost of average interest-bearing liabilities impacted by higher market rates. The average cost of interest-bearing liabilities increased 53 basis points to 1.20% for the third quarter of 2022 from 0.67% for the same 2021 period, partially offset by an improved funding mix, including higher average noninterest-bearing deposits as a result of the PMB acquisition and growth from ongoing business development efforts. Average noninterest-bearing deposits represented 38% of total average deposits for the third quarter of 2022, compared to 30% for the same 2021 period. The average cost of interest-bearing deposits increased 55 basis points to 0.77% for the third quarter of 2022 from 0.22% for the same 2021 period while the average cost of total deposits increased 32 basis points to 0.47% for the third quarter of 2022, compared to 0.15% for the same 2021 period. Average FHLB advances and other borrowings decreased \$9.1 million due mostly to lower overnight borrowings, offset by higher term advances.

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their corresponding yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the nine months ended September 30, 2022 and 2021:

(\$ in thousands)	Nine Months Ended September 30,					
	2022			2021		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
<b>Interest-earning assets:</b>						
Total loans <sup>(1)(2)</sup>	\$ 7,282,169	\$ 238,828	4.38 %	\$ 5,872,604	\$ 187,082	4.26 %
Securities	1,234,188	25,622	2.78 %	1,297,636	20,654	2.13 %
Other interest-earning assets <sup>(3)</sup>	284,725	4,210	1.98 %	272,126	2,350	1.15 %
Total interest-earning assets	8,801,082	268,660	4.08 %	7,442,366	210,086	3.77 %
Allowance for loan losses	(93,454)			(78,729)		
BOLI and noninterest-earning assets <sup>(4)</sup>	673,679			580,581		
<b>Total assets</b>	<b>\$ 9,381,307</b>			<b>\$ 7,944,218</b>		
<b>Interest-bearing liabilities:</b>						
Interest-bearing checking	\$ 2,352,067	5,978	0.34 %	\$ 2,201,568	2,212	0.13 %
Savings and money market	1,602,280	3,606	0.30 %	1,625,214	5,985	0.49 %
Certificates of deposit	658,576	3,971	0.81 %	641,157	2,044	0.43 %
Total interest-bearing deposits	4,612,923	13,555	0.39 %	4,467,939	10,241	0.31 %
FHLB advances	476,158	9,625	2.70 %	433,532	9,046	2.79 %
Other borrowings	101,369	792	1.04 %	49,914	40	0.11 %
Long-term debt	274,533	10,540	5.13 %	256,497	10,020	5.22 %
Total interest-bearing liabilities	5,464,983	34,512	0.84 %	5,207,882	29,347	0.75 %
Noninterest-bearing deposits	2,818,795			1,788,096		
Noninterest-bearing liabilities	104,321			98,025		
Total liabilities	8,388,099			7,094,003		
Total stockholders' equity	993,208			850,215		
<b>Total liabilities and stockholders' equity</b>	<b>\$ 9,381,307</b>			<b>\$ 7,944,218</b>		
<b>Net interest income/spread</b>		<b>\$ 234,148</b>	<b>3.24 %</b>		<b>\$ 180,739</b>	<b>3.02 %</b>
<b>Net interest margin <sup>(5)</sup></b>			<b>3.56 %</b>			<b>3.25 %</b>
Ratio of interest-earning assets to interest-bearing liabilities	161 %			143 %		
Total deposits <sup>(6)</sup>	7,431,718	13,555	0.24 %	6,256,035	10,241	0.22 %
Total funding <sup>(7)</sup>	8,283,778	34,512	0.56 %	6,995,978	29,347	0.56 %

- (1) Includes average loans held for sale of \$3.8 million and \$2.1 million for the nine months ended September 30, 2022 and 2021, which are included in other assets in the accompanying consolidated statements of financial condition.
- (2) Total loans are net of deferred fees, related direct costs, premiums and discounts, but exclude the allowance for credit losses. Nonaccrual loans are included in the average balance. Interest income includes net (amortization) accretion of deferred loan (costs) fees and purchased (premiums) discounts of \$(520) thousand and \$1.1 million for the nine months ended September 30, 2022 and 2021, respectively, are included in interest income.
- (3) Includes average balance of FHLB, FRB and other bank stock at cost and average time deposits with other financial institutions.
- (4) Includes average balance of bank-owned life insurance of \$124.8 million and \$112.7 million for the nine months ended September 30, 2022 and 2021.
- (5) Annualized net interest income divided by average interest-earning assets.
- (6) Total deposits is the sum of interest-bearing deposits and noninterest-bearing deposits. The cost of total deposits is calculated as annualized total interest expense on deposits divided by average total deposits.
- (7) Total funding is the sum of interest-bearing liabilities and noninterest-bearing deposits. The cost of total funding is calculated as annualized total interest expense divided by average total funding.

**Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021**

Net interest income increased \$53.4 million to \$234.1 million for the nine months ended September 30, 2022 due to higher average balances and yield on interest-earning assets, partially offset by higher average balances and costs of interest-bearing liabilities.

The net interest margin increased 31 basis points to 3.56% as the average earning-assets yield increased 31 basis points and the average cost of total funding remained unchanged between periods. The yield on average interest-earning assets increased to 4.08% for the nine months ended September 30, 2022, from 3.77% for 2021 due mostly to the mix of interest-earning assets and higher market interest rates. Average loans represented 83% of average earnings assets in 2022 compared to 79% for the same period in 2021. Average loans increased by \$1.41 billion from ongoing loan growth and the impact of the acquisition of PMB in the fourth quarter of 2021. The yield on average loans for the nine months ended September 30, 2022 was 4.38% compared to 4.26% for the same period in 2021. The yield on average investment securities and other interest-earning assets increased 65 basis points and 83 basis points, respectively, for the nine months ended September 30, 2022, compared to the same period in 2021.

The average cost of funds was 0.56% for both the nine months ended September 30, 2022 and 2021 despite a rising rate environment during the current year. The cost of average interest-bearing liabilities increased 9 basis points to 0.84% for the nine months ended September 30, 2022 compared to the same period in 2021 and included an 8 basis points increase in the cost of average interest-bearing deposits to 0.39%. The increase in the cost of average interest-bearing liabilities was offset by the overall improved funding mix, including higher average noninterest-bearing deposits as a result of growth from business development efforts and the impact of the acquisition of PMB.

Average noninterest-bearing deposits represented 38% of total average deposits for the nine months ended September 30, 2022 compared to 29% for the same period in 2021. Average noninterest-bearing deposits were \$1.03 billion higher for the nine months ended September 30, 2022 compared to the same period in 2021 while average total deposits were \$1.18 billion higher. The average cost of total deposits increased 2 basis points to 0.24% for the nine months ended September 30, 2022 compared to the same period in 2021.

Rate/Volume Analysis

The following table presents the changes in interest income and interest expense for the major components of interest-earning assets and interest-bearing liabilities. The information provided presents the changes attributable to: (i) changes in volume multiplied by the prior rate; and (ii) changes in rate multiplied by the prior volume. Changes attributable to both rate and volume which cannot be segregated have been allocated proportionately to the change due to volume and the change due to rate.

(\$ In thousands)	Three Months Ended September 30, 2022 vs. 2021			Nine Months Ended September 30, 2022 vs. 2021		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
<b>Interest and dividend income:</b>						
Total loans	\$ 14,021	\$ 5,841	\$ 19,862	\$ 46,083	\$ 5,663	\$ 51,746
Securities	(887)	3,909	3,022	(1,052)	6,020	4,968
Other interest-earning assets	309	989	1,298	114	1,746	1,860
Total interest and dividend income	\$ 13,443	\$ 10,739	\$ 24,182	\$ 45,145	\$ 13,429	\$ 58,574
<b>Interest expense:</b>						
Interest-bearing checking	\$ 1	\$ 3,247	\$ 3,248	\$ 161	\$ 3,605	\$ 3,766
Savings and money market	(192)	1,078	886	(918)	(1,461)	(2,379)
Certificates of deposit	277	2,164	2,441	56	1,871	1,927
FHLB advances	335	233	568	869	(290)	579
Other borrowings	(23)	401	378	79	673	752
Long-term debt	234	(5)	229	694	(174)	520
Total interest expense	632	7,118	7,750	941	4,224	5,165
<b>Net interest income</b>	<b>\$ 12,811</b>	<b>\$ 3,621</b>	<b>\$ 16,432</b>	<b>\$ 44,204</b>	<b>\$ 9,205</b>	<b>\$ 53,409</b>

***Provision for Credit Losses***

The provision for credit losses is charged to operations to adjust the allowance for credit losses to the level required to cover current expected credit losses in our loan portfolio and unfunded commitments. The following table presents the components of our provision for credit losses:

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
(Reversal of) provision for loan losses	\$ (500)	\$ (500)	\$ (2,566)	\$ (32,342)	\$ (6,458)
Provision for (reversal of) credit losses - unfunded loan commitments	500	500	1,419	800	2,050
<b>Total (reversal of) provision for credit losses</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (1,147)</b>	<b>\$ (31,542)</b>	<b>\$ (4,408)</b>

***Three Months Ended September 30, 2022 Compared to Three Months Ended June 30, 2022***

There was no provision for credit losses for both the third quarter and the second quarter as the benefits of the continuing favorable credit quality performance in the loan portfolio combined with a decrease in total loan balances offset the estimated allowance resulting from changes in the portfolio mix and our reasonable and supportable forecast, primarily related to the economic outlook from the FRB's actions to control inflation.

***Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021***

There was no provision for credit losses for the third quarter of 2022, compared to a reversal of \$1.1 million for the same 2021 period. The reversal of credit losses in the third quarter of 2021 was driven primarily by improvements in the economic forecasts with the rollout of the COVID-19 vaccines and continued improvement in credit metrics of the Bank. This was partially offset by loan growth experienced in the quarter resulting in higher balances.

***Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021***

During the nine months ended September 30, 2022, the provision for credit losses was a reversal of \$31.5 million, compared to a reversal of \$4.4 million during 2021. The higher reversal of credit losses for the nine months ended September 30, 2022 was due to a \$31.3 million recovery from the settlement of a loan previously charged-off in 2019.

See further discussion in "Allowance for Credit Losses."

***Noninterest Income***

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

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
Customer service fees	\$ 2,462	\$ 2,578	\$ 1,900	\$ 7,474	\$ 5,648
Loan servicing income	636	109	170	957	476
Income from bank owned life insurance	873	810	715	2,479	2,077
Net gain on sale of securities available-for-sale	—	—	—	16	—
Other income	1,710	3,689	2,734	7,851	5,570
<b>Total noninterest income</b>	<b>\$ 5,681</b>	<b>\$ 7,186</b>	<b>\$ 5,519</b>	<b>\$ 18,777</b>	<b>\$ 13,771</b>

**Three Months Ended September 30, 2022 Compared to Three Months Ended June 30, 2022**

Noninterest income decreased \$1.5 million to \$5.7 million for the third quarter compared to the prior quarter primarily due to lower other income of \$2.0 million, offset by higher loan servicing income of \$527 thousand. Other income decreased due mostly to lower gains from equity investments of \$2.1 million, which are recorded based on the most recent information available from the investee and fluctuates based on their underlying performance. The higher loan servicing income related to the purchase of loan servicing rights at the end of the second quarter of 2022, with an underlying loan servicing portfolio of \$1.7 billion and a remaining asset value of \$22.0 million at September 30, 2022.

**Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021**

Noninterest income for the third quarter of 2022 increased \$162 thousand to \$5.7 million compared to the same 2021 period due to higher customer service fees and loan servicing income, offset by lower other income. The \$562 thousand increase in customer services fees was due mostly to higher deposit activity fees of \$602 thousand attributed to higher average deposit balances and reflected a full quarter of activity from the acquisition of PMB. The \$466 thousand increase in loan servicing income related to the purchase of loan servicing rights in the second quarter of 2022. The \$1.0 million decrease in other income was due mostly to the 2021 period including a \$841 thousand gain related to a sale-leaseback transaction; there was no similar income in the third quarter of 2022.

**Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021**

Noninterest income for the nine months ended September 30, 2022 increased \$5.0 million to \$18.8 million compared to 2021. The increase for most categories are a result of including PMB's operations for a full nine months in 2022 compared to 2021. Customer services fees increased \$1.8 million due mostly to higher deposit activity fees of \$2.4 million attributed to higher average deposit balances, partially offset by lower loan fees of \$657 thousand. Loan servicing income increased \$481 thousand due mostly to the acquisition of servicing rights during the second quarter of 2022. Income from bank-owned life insurance increased \$402 thousand due to higher average balances. The \$2.3 million increase in other income is due mostly to higher income from equity investments of \$2.8 million, partially offset by a \$773 thousand decrease in the change in fair value of loans held for sale between periods.

**Noninterest Expense**

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

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2022	June 30, 2022	September 30, 2021	2022	2021
Salaries and employee benefits	\$ 27,997	\$ 28,264	\$ 24,786	\$ 85,248	\$ 75,547
Occupancy and equipment	8,649	7,876	7,124	24,380	21,597
Professional fees	4,507	4,107	892	11,521	6,663
Data processing	1,699	1,782	1,646	5,309	4,922
Regulatory assessments	925	1,021	812	2,721	2,355
Reversal of provision for loan repurchases	(26)	(490)	(42)	(987)	(273)
Amortization of other intangibles	396	313	282	1,150	846
Acquisition, integration and transaction costs	2,080	—	1,000	2,080	2,400
Other expense	4,231	4,696	3,096	13,043	9,733
<b>Noninterest expense before loss (gain) on investments in alternative energy partnerships</b>	<b>50,458</b>	<b>47,569</b>	<b>39,596</b>	<b>144,465</b>	<b>123,790</b>
Loss (gain) on investments in alternative energy partnerships	504	1,043	(1,785)	1,705	1,016
<b>Total noninterest expense</b>	<b>\$ 50,962</b>	<b>\$ 48,612</b>	<b>\$ 37,811</b>	<b>\$ 146,170</b>	<b>\$ 124,806</b>

***Three Months Ended September 30, 2022 Compared to Three Months Ended June 30, 2022***

Noninterest expense increased \$2.4 million to \$51.0 million for the third quarter compared to the second quarter. The increase was due mostly to (i) acquisition, integration and transaction costs of \$2.1 million related to the Deepstack acquisition, (ii) higher occupancy and equipment expense of \$773 thousand including an early lease termination charge of \$285 thousand, (iii) higher professional fees of \$400 thousand, due mostly to a \$562 thousand increase in indemnified legal fees (net of insurance recoveries), and (iv) lower reversal of provision for loan repurchases of \$464 thousand. These increases were offset by lower net loss in alternative energy partnership investments of \$539 thousand and lower other expenses of \$465 thousand. Professional fees included net indemnified legal expenses of \$1.0 million in the third quarter compared to net indemnified legal expenses of \$455 thousand in the second quarter.

Total operating costs, defined as noninterest expense adjusted for certain expense items (refer to section *Non-GAAP Measures*), increased \$247 thousand to \$47.4 million for the third quarter compared to \$47.1 million for the prior quarter. This increase is due mostly to (i) higher occupancy and equipment expense of \$773 thousand and (ii) lower reversal of provision for loan repurchase reserves of \$464 thousand, offset by a decrease in other expenses of \$990 thousand, including lower salary and employee benefits, professional fees and other expenses.

***Three Months Ended September 30, 2022 Compared to Three Months Ended September 30, 2021***

Noninterest expense was \$51.0 million for the third quarter of 2022, an increase of \$13.2 million from \$37.8 million for the comparable 2021 period due mostly to including PMB's operations since the date of acquisition. The increase included (i) higher professional fees of \$3.6 million, due mostly to net indemnified legal costs of \$1.0 million for the third quarter of 2022 compared to net recoveries of \$2.2 million during 2021, (ii) higher salaries and employee benefits of \$3.2 million due to a higher number of employees, (iii) higher loss on investments in alternative energy partnerships of \$2.3 million, (iv) higher occupancy and equipment of \$1.5 million, due to additional facilities, (v) higher acquisition, integration and transaction costs of \$1.1 million, and (vi) higher other expense of \$1.1 million. Other expense for the third quarter of 2021 included a gain on sale of other real estate owned of \$365 thousand; there was no sale of other real estate owned for the same period in 2022.

***Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021***

Noninterest expense for the nine months ended September 30, 2022 increased \$21.4 million to \$146.2 million compared to 2021. The increase was primarily due to: (i) higher salaries and employee benefits of \$9.7 million and occupancy and equipment expense of \$2.8 million due to the increases in personnel and facilities from the acquisition of PMB, (ii) higher professional fees of \$4.9 million, due mostly to a \$4.3 million increase in indemnified legal fees (net of insurance recoveries), (iii) higher other expense of \$3.3 million due to including the operations of PMB since the date of acquisition and (iv) higher loss in alternative energy partnership investments of \$689 thousand. These increases were partially offset by: (i) higher reversal of loan repurchase reserves of \$714 thousand and (ii) lower acquisition, integration and transaction costs of \$320 thousand.

**Income Tax Expense**

For the three months ended September 30, 2022, June 30, 2022 and September 30, 2021, income tax expense was \$9.9 million, \$10.2 million, and \$8.7 million, resulting in an effective tax rate of 29.1%, 27.6% and 27.2%, respectively. The effective tax rate for the full year 2022 is estimated to be 28%.

Income tax expense totaled \$38.9 million for the nine months ended September 30, 2022, representing an effective tax rate of 28.1%, compared to \$17.5 million and an effective tax rate of 23.6% for 2021. The effective tax rate for the nine months ended September 30, 2022 was higher than the comparable 2021 period due mostly to the first quarter of 2021 including a net tax benefit of \$2.1 million resulting from the exercise of all previously issued outstanding stock appreciation rights.

For additional information, see Note 8 to Consolidated Financial Statements included in Part I of this Quarterly Report on Form 10-Q.

**FINANCIAL CONDITION**

**Investment Securities**

The primary goal of our investment securities portfolio is to provide a relatively stable source of interest income while satisfactorily managing risk, including credit risk, reinvestment risk, liquidity risk, and interest rate risk. Certain investment securities provide a source of liquidity as collateral for FHLB advances, FRB Discount Window capacity, repurchase agreements, and certain public deposits.

*Investment Securities Available-for-Sale*

The following table presents the amortized cost and fair value of the investment securities available for sale portfolio and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income as of the dates indicated:

(\$ in thousands)	September 30, 2022			December 31, 2021		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
<b>Securities available-for-sale:</b>						
SBA loan pool securities	\$ 12,156	\$ 12,106	\$ (50)	\$ 14,679	\$ 14,591	\$ (88)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	12,012	10,696	(1,316)	190,382	191,969	1,587
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	151,582	141,157	(10,425)	242,458	241,541	(917)
Municipal securities	—	—	—	117,913	119,015	1,102
Non-agency residential mortgage-backed securities	52,076	41,514	(10,562)	56,014	56,025	11
Collateralized loan obligations	492,775	472,676	(20,099)	521,275	518,964	(2,311)
Corporate debt securities	177,774	169,416	(8,358)	162,002	173,598	11,596
<b>Total securities available-for-sale</b>	<b>\$ 898,375</b>	<b>\$ 847,565</b>	<b>\$ (50,810)</b>	<b>\$ 1,304,723</b>	<b>\$ 1,315,703</b>	<b>\$ 10,980</b>

Securities available-for-sale were \$847.6 million at September 30, 2022, a decrease of \$468.1 million, or 35.6%, from \$1.32 billion at December 31, 2021. The decrease was mainly due to the transfer of certain securities to the held-to-maturity portfolio as described further below, principal payments of \$31.1 million, collateralized loan obligation (CLO) payoffs of \$28.5 million, sales of \$17.6 million and higher unrealized net losses of \$61.8 million, offset by purchases of \$17.5 million.

Net unrealized losses on securities available-for-sale were \$50.8 million at September 30, 2022, compared to a net unrealized gain of \$11.0 million at December 31, 2021. The net unrealized gain or loss on securities available-for-sale, net of tax, is reflected in accumulated other comprehensive income (loss). Increases in longer term market interest rates resulted in higher net unrealized losses in our securities portfolio and stockholders' equity. As market interest rates increase, bond prices tend to fall and, consequently, the fair value of our securities may also decrease. To this end, we may have further net unrealized losses on our securities classified as available-for-sale, which would negatively affect our total and tangible stockholders' equity.

CLOs totaled \$472.7 million and \$519.0 million and were all AAA and AA rated at September 30, 2022 and December 31, 2021. We perform due diligence and ongoing credit quality review of our CLO holdings, which includes monitoring performance factors such as external credit ratings, collateralization levels, collateral concentration levels, and other performance factors.

We did not record credit impairment for any investment securities for the three and nine months ended September 30, 2022 or 2021. We monitor our securities portfolio to ensure it has adequate credit support and we consider the lowest credit rating for identification of potential credit impairment. As of September 30, 2022, we believe there was no credit impairment and we did not have the current intent to sell securities with a fair value below amortized cost at September 30, 2022, and it is more likely than not that we will not be required to sell such securities prior to the recovery of their amortized cost basis. As of September 30, 2022, all of our investment securities in an unrealized loss position received an investment grade credit rating. The overall net decreases in fair value during the period were attributable to a combination of changes in interest rates and credit market conditions.

*Investment Securities Held-to-Maturity*

Securities held-to-maturity totaled \$328.8 million at September 30, 2022 and included \$214.6 million in agency securities and \$114.2 million in municipal securities. During the first quarter of 2022, we transferred certain longer-duration fixed-rate mortgage-backed securities and municipal securities from the available-for-sale portfolio to the held-to-maturity portfolio to lower the adverse impact rising interest rates may have on the fair value of such securities. At the time of the transfer, the securities had an unrealized gross loss of \$16.6 million, which is subsequently amortized into interest income as a yield adjustment over the remaining life of the securities. The unrealized losses remaining in accumulated other comprehensive income are also accreted into interest income in a consistent manner. As a result, there is no impact on the consolidated statements of operations.

The following table presents the amortized cost and fair value of investment securities held-to-maturity as of the dates indicated:

(\$ in thousands)	September 30, 2022			December 31, 2021		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Securities held-to-maturity:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 153,127	\$ 123,949	\$ (29,178)	\$ —	\$ —	\$ —
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,426	49,476	(11,950)	—	—	—
Municipal securities	114,204	89,927	(24,277)	—	—	—
<b>Total securities held-to-maturity</b>	<b>\$ 328,757</b>	<b>\$ 263,352</b>	<b>\$ (65,405)</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

[Table of Contents](#)

The following table presents the fair values and weighted average yields or tax-equivalent yields using amortized cost of the securities held-to-maturity portfolio as of September 30, 2022, based on the earlier of contractual maturity dates or next repricing dates:

(\$ in thousands)	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Securities held-to-maturity:										
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 7,960	2.52 %	\$ 115,989	2.70 %	\$ 123,949	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	49,476	2.64 %	49,476	2.64 %
Municipal securities <sup>(1)</sup>	—	— %	—	— %	16,197	2.19 %	73,730	2.71 %	89,927	2.62 %
<b>Total securities held-to-maturity</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ —</b>	<b>— %</b>	<b>\$ 24,157</b>	<b>2.29 %</b>	<b>\$ 239,195</b>	<b>2.69 %</b>	<b>\$ 263,352</b>	<b>2.65 %</b>

(1) Computed on a tax-equivalent basis.

The following table presents the fair values and weighted average yields using amortized cost of the securities available-for-sale portfolio as of September 30, 2022, based on the earlier of contractual maturity dates or next repricing dates:

(\$ in thousands)	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield	Fair Value	Weighted Average Yield
Securities available-for-sale:										
SBA loan pools securities	\$ 12,106	1.82 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 12,106	1.82 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	10,696	2.23 %	—	— %	10,696	2.23 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	79,654	3.16 %	8,138	2.72 %	33,003	1.92 %	20,362	1.83 %	141,157	2.61 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	41,514	2.50 %	41,514	2.50 %
Collateralized loan obligations	472,676	4.23 %	—	— %	—	— %	—	— %	472,676	4.23 %
Corporate debt securities	—	— %	156,566	4.82 %	12,850	5.73 %	—	— %	169,416	4.89 %
<b>Total securities available-for-sale</b>	<b>\$ 564,436</b>	<b>4.03 %</b>	<b>\$ 164,704</b>	<b>4.71 %</b>	<b>\$ 56,549</b>	<b>2.76 %</b>	<b>\$ 61,876</b>	<b>2.30 %</b>	<b>\$ 847,565</b>	<b>3.93 %</b>

### Loans Receivable, Net

The following table presents the composition of our loan and lease portfolio as of the dates indicated:

<u>(\$ in thousands)</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>	<u>Amount Change</u>	<u>Percentage Change</u>
<b>Commercial:</b>				
Commercial and industrial <sup>(1)</sup>	\$ 1,993,416	\$ 2,668,984	\$ (675,568)	(25.3) %
Commercial real estate	1,240,927	1,311,105	(70,178)	(5.4) %
Multifamily	1,698,455	1,361,054	337,401	24.8 %
SBA <sup>(2)</sup>	85,674	205,548	(119,874)	(58.3) %
Construction	236,495	181,841	54,654	30.1 %
Total commercial loans	<u>5,254,967</u>	<u>5,728,532</u>	<u>(473,565)</u>	<u>(8.3) %</u>
<b>Consumer:</b>				
Single family residential mortgage	1,947,652	1,420,023	527,629	37.2 %
Other consumer	86,701	102,925	(16,224)	(15.8) %
Total consumer loans	<u>2,034,353</u>	<u>1,522,948</u>	<u>511,405</u>	<u>33.6 %</u>
<b>Total loans<sup>(3)</sup></b>	<b><u>7,289,320</u></b>	<b><u>7,251,480</u></b>	<b><u>37,840</u></b>	<b><u>0.5 %</u></b>
Allowance for loan losses	(92,444)	(92,584)	140	(0.2) %
<b>Total loans receivable, net</b>	<b><u>\$ 7,196,876</u></b>	<b><u>\$ 7,158,896</u></b>	<b><u>\$ 37,980</u></b>	<b><u>0.5 %</u></b>

(1) Includes warehouse lending balances of \$766.4 million and \$1.60 billion at September 30, 2022 and December 31, 2021.

(2) Includes 39 PPP loans totaling \$20.0 million, net of unamortized loan fees totaling \$4 thousand at September 30, 2022 and 397 PPP loans totaling \$123.1 million, net of unamortized loan fees totaling \$772 thousand at December 31, 2021.

(3) Total loans include net deferred loan origination costs (fees), purchased premiums (discounts), and fair value allocations of premiums (discounts) totaling \$7.1 million and \$5.5 million at September 30, 2022 and December 31, 2021.

Gross loans increased \$37.8 million to \$7.3 billion from December 31, 2021 due to loan fundings of \$3.0 billion, including single-family residential purchases of \$814.3 million, partially offset by a decrease in warehouse lending balances of \$836.1 million, PPP loans payoffs of \$103.1 million and other payoff and payoff activity. During the first quarter of 2022, \$150.1 million of owner-occupied commercial real estate loans acquired in the PMB acquisition were moved to the other commercial and industrial category from the commercial real estate category. SBA loans decreased by \$119.9 million due mostly from the SBA processing forgiveness requests. At September 30, 2022, SBA loans included \$20.0 million of PPP loans, compared to \$123.1 million at December 31, 2021.

Total commercial loans, excluding warehouse lending, increased \$362.6 million, or 6.6% on an annualized basis during the nine months ended September 30, 2022.

We continue to focus the real estate loan portfolio toward relationship-based multifamily, bridge, light infill construction, and commercial real estate loans. As of September 30, 2022, loans secured by residential real estate (single-family, multifamily, single-family construction, warehouse lending credit facilities) represent approximately 64% of our total loans outstanding.

### Credit Quality Indicators

We categorize loans into risk categories based on relevant information about the ability of borrowers to repay their debt such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. We perform a historical loss analysis that is combined with a comprehensive loan to value analysis to analyze the associated risks in the current loan portfolio. We analyze loans individually and grade each loan for credit risk. This analysis includes all loans delinquent over 60 days and non-homogeneous loans such as commercial and commercial real estate loans.

The following table presents the risk categories for total loans by class of loans as of September 30, 2022 and December 31, 2021:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
<b>September 30, 2022</b>					
Commercial:					
Commercial and industrial	\$ 1,900,686	\$ 33,713	\$ 59,017	\$ —	\$ 1,993,416
Commercial real estate	1,225,261	1,757	13,909	—	1,240,927
Multifamily	1,666,901	14,118	17,436	—	1,698,455
SBA	69,447	4,648	11,579	—	85,674
Construction	236,495	—	—	—	236,495
Consumer:					
Single family residential mortgage	1,931,549	7,411	8,692	—	1,947,652
Other consumer	86,315	142	244	—	86,701
<b>Total</b>	<b>\$ 7,116,654</b>	<b>\$ 61,789</b>	<b>\$ 110,877</b>	<b>\$ —</b>	<b>\$ 7,289,320</b>

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
<b>December 31, 2021</b>					
Commercial:					
Commercial and industrial	\$ 2,550,540	\$ 65,659	\$ 52,785	\$ —	\$ 2,668,984
Commercial real estate	1,292,837	4,845	13,423	—	1,311,105
Multifamily	1,312,038	46,314	2,702	—	1,361,054
SBA	181,129	6,040	18,379	—	205,548
Construction	171,731	10,110	—	—	181,841
Consumer:					
Single family residential mortgage	1,395,785	10,423	13,815	—	1,420,023
Other consumer	102,538	92	295	—	102,925
<b>Total</b>	<b>\$ 7,006,598</b>	<b>\$ 143,483</b>	<b>\$ 101,399</b>	<b>\$ —</b>	<b>\$ 7,251,480</b>

Loans risk rated special mention decreased \$81.7 million to \$61.8 million at September 30, 2022 compared to \$143.5 million at December 31, 2021 due mostly to activity within commercial and industrial and multifamily loans. Special mention payoffs totaled \$40.7 million and there was a net migration out of special mention of \$41.9 million. Loans risk rated substandard increased \$9.5 million to \$110.9 million at September 30, 2022 compared to \$101.4 million at December 31, 2021 due mostly to additions of \$52.7 million, partially offset by payoffs of \$28.4 million and upgrades of \$12.3 million. There were no loans risk rated doubtful at September 30, 2022 and December 31, 2021.

The C&I industry concentrations in dollars and as a percentage of total outstanding C&I loan balances are summarized below:

(\$ in thousands)	September 30, 2022	
	Amount	% of Portfolio
<b>C&amp;I Portfolio by Industry</b>		
Finance and Insurance - Warehouse Lending	\$ 766,362	38 %
Real Estate and Rental Leasing	190,308	10 %
Finance and Insurance - Other	124,676	6 %
Manufacturing	119,448	6 %
Healthcare	98,319	5 %
Television / Motion Pictures	70,803	4 %
Arts, Entertainment & Recreation	70,134	4 %
Gas Stations	59,712	3 %
Other Retail Trade	58,817	3 %
Construction	46,430	2 %
Wholesale Trade	41,913	2 %
Professional Services	41,262	2 %
Management of Companies and Enterprises	36,383	2 %
Educational Services	35,877	2 %
Food Services	31,247	2 %
Transportation	20,013	1 %
Accommodations	8,822	— %
Other	172,890	9 %
<b>Total</b>	<b>\$ 1,993,416</b>	<b>100 %</b>

#### Non-Traditional Mortgage Portfolio ("NTM")

NTM loans are included in our SFR mortgage portfolio and are comprised of interest only loans and Green Loans. While we no longer originate SFR loans, we have and may continue to purchase pools of loans that include NTM loans with maturities of up to 40 years and flexible initial repricing dates, ranging from 1 to 10 years, and periodic repricing dates through the life of the loan.

As of September 30, 2022 and December 31, 2021, the NTM loans totaled \$870.0 million, or 11.9% of total loans, and \$635.3 million, or 8.8% of total loans, respectively. Interest only loans are primarily SFR first mortgage loans that generally have a 30 to 40-year term at the time of origination and include payment features that allow interest only payments in initial periods before converting to a fully amortizing loan. At September 30, 2022 and December 31, 2021, interest only loans totaled \$863.2 million and \$613.3 million. Green Loans are SFR first and second mortgage lines of credit with a linked checking account that allows all types of deposits and withdrawals to be performed. Green Loans are generally interest only for a 15-year term with a balloon payment due at maturity. At September 30, 2022 and December 31, 2021, Green Loans totaled \$6.8 million and \$21.9 million.

The total NTM portfolio increased by \$234.8 million, or 37.0% during the nine months ended September 30, 2022. The increase was due to loan purchases, offset by principal paydowns and payoffs.

At September 30, 2022 and December 31, 2021, nonperforming NTM loans totaled zero and \$4.0 million.

#### Non-Traditional Mortgage Performance Indicators

Our risk management policy and credit monitoring include reviewing delinquency, FICO scores, and LTV ratios on the NTM loan portfolio. We also continually monitor market conditions for our geographic lending areas. We have determined that the most significant performance indicators for NTM first lien loans are LTV ratios and for Green Loans are FICO scores. At September 30, 2022, our NTM first lien portfolio had a weighted average LTV of approximately 59%.

Nonperforming Assets

The following table presents a summary of total nonperforming assets, excluding loans held-for-sale, as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021	Amount Change	Percentage Change
Loans past due 90 days or more still on accrual	\$ —	\$ —	\$ —	— %
Nonaccrual loans	42,674	52,558	(9,884)	(18.8) %
<b>Total nonperforming loans</b>	<b>42,674</b>	<b>52,558</b>	<b>(9,884)</b>	<b>(18.8) %</b>
Other real estate owned	—	—	—	— %
<b>Total nonperforming assets</b>	<b>\$ 42,674</b>	<b>\$ 52,558</b>	<b>\$ (9,884)</b>	<b>(18.8) %</b>
Performing restructured loans <sup>(1)</sup>	\$ 11,252	\$ 12,538	\$ (1,286)	(10.3) %
Nonaccrual loans to total loans	0.59 %	0.72 %		
Nonperforming loans to total loans	0.59 %	0.72 %		
Total nonperforming assets to total assets	0.46 %	0.56 %		
ALL to nonperforming loans	216.63 %	176.16 %		
ACL to nonperforming loans	231.64 %	186.82 %		

(1) Excluded from nonperforming loans

Loans are generally placed on nonaccrual status when they become 90 days past due, unless management believes the loan is well secured and in the process of collection. Past due loans may or may not be adequately collateralized, but collection efforts are continuously pursued. Loans may be restructured by management when a borrower experiences changes to their financial condition, causing an inability to meet the original repayment terms, and where we believe the borrower will eventually overcome those circumstances and repay the loan in full.

Additional interest income of approximately \$818 thousand and \$2.2 million would have been recorded during the three and nine months ended September 30, 2022, had these loans been paid in accordance with their original terms throughout the periods indicated.

Non-performing loans decreased \$9.9 million to \$42.7 million as of September 30, 2022, of which \$17.9 million, or 42%, relates to loans in a current payment status. The decrease was due mostly to \$20.4 million in payoffs, paydowns, and charge-offs and \$6.7 million in loans returning to accrual status, offset by additions of \$17.2 million. Of the \$17.2 million of loans placed on non-accrual status, \$9.1 million, related to SFR loans.

Troubled Debt Restructurings

Loans that we modify or restructure where the debtor is experiencing financial difficulties and makes a concession to the borrower in a below-market change in the stated interest rate, a reduction in the loan balance or accrued interest, an extension of the maturity date, or a note split with principal forgiveness are classified as troubled debt restructurings (“TDRs”). TDRs are loans modified for the purpose of alleviating temporary impairments to the borrower’s financial condition. A workout plan between a borrower and us is designed to provide a bridge for the cash flow shortfalls in the near term. If the borrower works through the near term issues, in most cases, the original contractual terms of the loan will be reinstated.

At each September 30, 2022 and December 31, 2021, we had 21 and 18 loans classified as TDRs, with an aggregate balance of \$30.8 million and \$16.7 million. When a loan becomes a TDR, we cease accruing interest, and classify it as nonaccrual until the borrower demonstrates that the loan is again performing. The increase in TDRs during the nine months ended September 30, 2022 was due mostly to the modification of two commercial and industrial loan relationships acquired in the PMB acquisition.

At September 30, 2022, of the 21 loans classified as TDRs, 10 loans totaling \$11.3 million were making payments according to their modified terms and were less than 90 days delinquent under the modified terms and, as such, were on accruing status. At December 31, 2021, of the 18 loans classified as TDRs, 11 loans totaling \$12.5 million were making payments according to their modified terms and were less than 90 days delinquent under the modified terms and, as such, were on accruing status.

*Allowance for Credit Losses (ACL)*

The ACL methodology uses a nationally recognized, third-party model that includes many assumptions based on historical and peer loss data, current loan portfolio risk profile including risk ratings, and economic forecasts including MEVs released by the model provider during September 2022. The published forecasts consider the FRB's monetary policy, labor market constraints, rising inflation, higher oil prices and the military conflict between Russia and Ukraine, among other factors.

The ACL also incorporates qualitative factors to account for certain loan portfolio characteristics that are not taken into consideration by the third-party model including underlying strengths and weaknesses in various segments of the loan portfolio. As is the case with all estimates, the ACL is expected to be impacted in future periods by economic volatility, changing economic forecasts, underlying model assumptions, and asset quality metrics, all of which may be better than or worse than current estimates.

The ACL process involves subjective and complex judgments as well as adjustments for numerous factors including those described in the federal banking agencies' joint interagency policy statement on ALL, which include underwriting experience and collateral value changes, among others.

The ACL, which includes the reserve for unfunded loan commitments, totaled \$98.8 million, or 1.36% of total loans, at September 30, 2022, compared to \$98.2 million, or 1.35% of total loans, at December 31, 2021. The \$660 thousand increase in the ACL was due primarily to higher specific reserves of \$657 thousand. During the nine months ended September 30, 2022, changes in portfolio mix and improved credit quality, in addition to net recoveries of \$860 thousand, offset the reserves needed due to growth. The \$31.3 million recovery in the first quarter of 2022 from the settlement of a loan previously charged-off in 2019 also resulted in a reversal of provision for credit losses and therefore had no net impact on the ACL. The ACL coverage of non-performing loans was 232% at September 30, 2022 compared to 187% at December 31, 2021.

The reserve for unfunded loan commitments was established to cover the current expected credit losses for the estimated level of funding of these loan commitments, except for unconditionally cancellable commitments for which no reserve is required.

The following table provides a summary of components of the allowance for credit losses and related ratios as of the dates indicated:

(\$ in thousands)	September 30, 2022	December 31, 2021
<b>Allowance for credit losses:</b>		
Allowance for loan losses (ALL)	\$ 92,444	\$ 92,584
Reserve for unfunded loan commitments	6,405	5,605
Total allowance for credit losses (ACL)	<u>\$ 98,849</u>	<u>\$ 98,189</u>
ALL to total loans	1.27 %	1.28 %
ACL to total loans	1.36 %	1.35 %
ACL to total loans, excluding PPP loans	1.36 %	1.38 %

The following tables provide summaries of activity in the allowance for credit losses for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,					
	2022			2021		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses
Balance at beginning of period	\$ 93,793	\$ 5,905	\$ 99,698	\$ 75,885	\$ 3,814	\$ 79,699
Loans charged off	(912)	—	(912)	(327)	—	(327)
Recoveries of loans previously charged off	63	—	63	532	—	532
Net (charge-offs) recoveries	(849)	—	(849)	205	—	205
(Reversal of) provision for credit losses	(500)	500	—	(2,566)	1,419	(1,147)
<b>Balance at end of period</b>	<u>\$ 92,444</u>	<u>\$ 6,405</u>	<u>\$ 98,849</u>	<u>\$ 73,524</u>	<u>\$ 5,233</u>	<u>\$ 78,757</u>

(\$ in thousands)	Nine Months Ended September 30,					
	2022			2021		
	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses	Allowance for Loan Losses	Reserve for Unfunded Loan Commitments	Allowance for Credit Losses
Balance at beginning of period	\$ 92,584	\$ 5,605	\$ 98,189	\$ 81,030	\$ 3,183	\$ 84,213
Loans charged off	(1,637)	—	(1,637)	(1,778)	—	(1,778)
Recoveries of loans previously charged off	33,839	—	33,839	730	—	730
Net recoveries (charge-offs)	32,202	—	32,202	(1,048)	—	(1,048)
(Reversal of) provision for credit losses	(32,342)	800	(31,542)	(6,458)	2,050	(4,408)
<b>Balance at end of period</b>	<b>\$ 92,444</b>	<b>\$ 6,405</b>	<b>\$ 98,849</b>	<b>\$ 73,524</b>	<b>\$ 5,233</b>	<b>\$ 78,757</b>

The following table presents a summary of net (charge-offs) recoveries and the annualized ratio of net charge-offs to average loans by loan class for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,					
	2022			2021		
	Net (Charge-offs) Recoveries	Average Loans	Annualized (Charge-off) Recovery Ratio	Net (Charge-offs) Recoveries	Average Loans	Annualized (Charge-off) Recovery Ratio
<b>Commercial:</b>						
Commercial and industrial	\$ (819)	\$ 2,101,671	(0.15)%	\$ 369	\$ 2,147,163	0.07 %
Commercial real estate	3	1,263,520	— %	(138)	916,548	(0.06)%
Multifamily	—	1,644,458	— %	—	1,325,892	— %
SBA	(44)	49,840	(0.35)%	(73)	175,209	(0.17)%
Construction	—	234,794	— %	—	137,522	— %
<b>Consumer:</b>						
Single family residential mortgage	1	1,927,694	— %	46	1,331,876	0.01 %
Other consumer	10	87,335	0.05 %	1	22,164	0.02 %
<b>Total loans</b>	<b>\$ (849)</b>	<b>\$ 7,309,312</b>	<b>(0.05)%</b>	<b>\$ 205</b>	<b>\$ 6,056,374</b>	<b>0.01 %</b>

Net charge-offs were \$849 thousand during the third quarter of 2022, compared to net recoveries of \$205 thousand during the comparable 2021 period. The increase in net charge-offs between periods was mainly due to net charge-offs within the commercial and industrial portfolio.

(\$ in thousands)	Nine Months Ended September 30,					
	2022			2021		
	Net (Charge-offs) Recoveries	Average Loans	Annualized (Charge-off) Recovery Ratio	Net (Charge-offs) Recoveries	Average Loans	Annualized (Charge-off) Recovery Ratio
<b>Commercial:</b>						
Commercial and industrial	\$ 31,678	\$ 2,395,169	1.76 %	\$ (628)	\$ 1,994,424	(0.04)%
Commercial real estate	3	1,266,418	— %	(138)	888,066	(0.02)%
Multifamily	—	1,481,355	— %	—	1,294,015	— %
SBA	565	78,497	0.96 %	(330)	238,738	(0.18)%
Construction	—	214,375	— %	—	156,781	— %
<b>Consumer:</b>						
Single family residential mortgage	183	1,749,968	0.01 %	46	1,273,624	— %
Other consumer	(227)	92,633	(0.33)%	2	24,832	0.01 %
Total loans	\$ 32,202	\$ 7,278,415	0.59 %	\$ (1,048)	\$ 5,870,480	(0.02)%

Net recoveries were \$32.2 million during the nine months ended September 30, 2022, compared to net charge-offs of \$1.0 million during the comparable 2021 period. The increase in net recoveries between periods was mainly due to a \$31.3 million recovery from the settlement of a loan previously charged-off in 2019.

The following table provides a summary of the allocation of the allowance for loan losses by loan category as well as loans receivable for each category as of the dates indicated:

(\$ in thousands)	September 30, 2022			December 31, 2021		
	Allowance for Loan Losses	Loans Receivable	% of Loans in Category to Total Loans	Allowance for Loan Losses	Loans Receivable	% of Loans in Category to Total Loans
	<b>Commercial:</b>					
Commercial and industrial	\$ 38,825	\$ 1,993,416	27.4 %	\$ 33,557	\$ 2,668,984	36.8 %
Commercial real estate	16,836	1,240,927	17.0 %	21,727	1,311,105	18.1 %
Multifamily	15,953	1,698,455	23.3 %	17,893	1,361,054	18.8 %
SBA	2,960	85,674	1.2 %	3,017	205,548	2.8 %
Construction	5,423	236,495	3.2 %	5,622	181,841	2.5 %
<b>Consumer:</b>						
Single family residential mortgage	11,847	1,947,652	26.7 %	9,608	1,420,023	19.6 %
Other consumer	600	86,701	1.2 %	1,160	102,925	1.4 %
<b>Total</b>	<b>\$ 92,444</b>	<b>\$ 7,289,320</b>	<b>100.0 %</b>	<b>\$ 92,584</b>	<b>\$ 7,251,480</b>	<b>100.0 %</b>

### Servicing Rights

We have retained servicing rights from certain sales of SFR mortgage loans and SBA loans. We also purchased mortgage servicing rights from unrelated third parties. Purchased mortgage servicing rights are recorded at the purchase price at the time of acquisition, which approximates the fair value. Subsequent to acquisition, we account for these servicing rights using the amortization method. We utilize a servicer to service the loans underlying the purchased mortgage servicing rights.

Mortgage servicing rights totaled \$23.3 million and \$1.3 million at September 30, 2022 and December 31, 2021, which are included in other assets in the accompanying consolidated balance sheets. We purchased \$22.8 million of SFR mortgage servicing rights during the second quarter of 2022. The unpaid principal balance of the loans underlying these purchased servicing rights is approximately \$1.70 billion at September 30, 2022 and these loans are not included in our consolidated statements of financial condition.

During the three and nine months ended September 30, 2022, we recognized loan servicing income of \$636 thousand and \$957 thousand. During the three and nine months ended September 30, 2021, we recognized loan servicing income of \$170 thousand and \$476 thousand.

**Alternative Energy Partnerships**

We invest in certain alternative energy partnerships (limited liability companies) formed to provide sustainable energy projects that are designed to generate a return primarily through the realization of federal tax credits (energy tax credits) and other tax benefits. The investment helps promote the development of renewable energy sources and help lower the cost of housing for residents by lowering homeowners' monthly utility costs.

As our respective investments in these entities are more than minor, we have significant influence, but not control, over the investee's activities that most significantly impact its economic performance. As a result, we are required to apply the equity method of accounting, which generally prescribes applying the percentage ownership interest to the investee's GAAP net income in order to determine the investor's earnings or losses in a given period. However, because the liquidation rights, tax credit allocations and other benefits to investors can change upon the occurrence of specified events, application of the equity method based on the underlying ownership percentages would not accurately represent our investment. As a result, we apply the Hypothetical Liquidation at Book Value ("HLBV") method of the equity method of accounting.

The HLBV method is a balance sheet approach whereby a calculation is prepared at each balance sheet date to estimate the amount that we would receive if the equity investment entity were to liquidate all of its assets (as valued in accordance with GAAP) and distribute that cash to the investors based on the contractually defined liquidation priorities. The difference between the calculated liquidation distribution amounts at the beginning and the end of the reporting period, after adjusting for capital contributions and distributions, is our share of the earnings or losses from the equity investment for the period.

The following table presents the activity related to our investment in alternative energy partnerships for the three and nine months ended September 30, 2022 and 2021:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 23,531	\$ 24,068	\$ 25,888	\$ 27,977
Cash distribution from investments	(626)	(657)	(1,782)	(1,765)
Gain (loss) on investments using HLBV method	(504)	1,785	(1,705)	(1,016)
<b>Balance at end of period</b>	<b>\$ 22,401</b>	<b>\$ 25,196</b>	<b>\$ 22,401</b>	<b>\$ 25,196</b>
<b>Unfunded equity commitments at end of period</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>

Our most recent investment in alternative energy partnerships totaling \$3.6 million occurred in March 2020.

During the three months ended September 30, 2022 and 2021, we recognized net losses on investment of \$504 thousand and net gains of \$1.8 million. During the nine months ended September 30, 2022 and 2021, we recognized net losses on investment of \$1.7 million and \$1.0 million, respectively. From an income tax benefits perspective, we recognized no investment tax credits during these periods; however, we recorded income tax (benefit) expense related to these investments of \$(146) thousand and \$491 thousand for the three months ended September 30, 2022 and 2021 and \$(493) thousand and \$(280) thousand for the nine months ended September 30, 2022 and 2021.

For additional information, see Note 12 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

**Deposits**

The following table shows the composition of deposits by type as of the dates indicated:

(\$ in thousands)	September 30, 2022		December 31, 2021		Amount Change
	Amount	% of Total Deposits	Amount	% of Total Deposits	
Noninterest-bearing deposits	\$ 2,943,585	40.4 %	\$ 2,788,196	37.5 %	\$ 155,389
Interest-bearing demand deposits	1,921,816	26.4 %	2,393,386	32.2 %	(471,570)
Savings and money market accounts	1,478,045	20.2 %	1,751,135	23.5 %	(273,090)
Certificates of deposit of \$250,000 or less	536,861	7.4 %	285,768	3.8 %	251,093
Certificates of deposit of more than \$250,000	400,078	5.5 %	220,950	3.0 %	179,128
<b>Total deposits</b>	<b>\$ 7,280,385</b>	<b>100.0 %</b>	<b>\$ 7,439,435</b>	<b>100.0 %</b>	<b>\$ (159,050)</b>

Total deposits were \$7.3 billion at September 30, 2022, a decrease of \$159.1 million, or 2.1%, from \$7.4 billion at December 31, 2021 due mostly to lower interest-bearing demand deposits of \$471.6 million and lower savings and money market balances of \$273.1 million, partially offset by higher certificates of deposits of \$430.2 million and noninterest-bearing checking balances of \$155.4 million. Noninterest-bearing deposits totaled \$2.94 billion and represented 40.4% of total deposits at September 30, 2022 compared to \$2.79 billion and 37.5% at December 31, 2021.

Brokered deposits were \$332.4 million and \$10.0 million at September 30, 2022 and December 31, 2021. During the nine months ended September 30, 2022, certain higher-costing deposits were strategically replaced with longer term fixed rate advances and other wholesale certificates of deposit.

The following table presents the scheduled maturities of certificates of deposit as of September 30, 2022:

(\$ in thousands)	Three Months or Less	Over Three Months Through Six Months	Over Six Months Through Twelve Months	Over One Year	Total
Certificates of deposit of \$250,000 or less	\$ 182,878	\$ 44,398	\$ 130,955	\$ 178,630	\$ 536,861
Certificates of deposit of more than \$250,000	203,039	147,897	17,531	31,611	400,078
<b>Total certificates of deposit</b>	<b>\$ 385,917</b>	<b>\$ 192,295</b>	<b>\$ 148,486</b>	<b>\$ 210,241</b>	<b>\$ 936,939</b>

**Borrowings**

**FHLB Advances.** We utilize FHLB advances to leverage our capital base, to provide funds for lending and investing activities, as a source of liquidity, and to enhance interest rate risk management.

During the nine months ended September 30, 2022, FHLB advances increased \$251.0 million, or 52.7%, to \$727.0 million, net of unamortized debt issuance costs of \$4.0 million, as of September 30, 2022, due to an increase in overnight borrowings of \$50.0 million and term advances of \$200.0 million.

At September 30, 2022, FHLB advances included \$120.0 million in overnight borrowings and \$611.0 million in term advances with a weighted average life of 3.7 years and weighted average interest rate of 2.91%.

FHLB advances are collateralized by a blanket lien on all real estate loans. Our secured borrowing capacity with the FHLB totaled \$2.23 billion, of which the Bank was eligible to borrow an additional \$1.21 billion at September 30, 2022 based on qualifying loans with an aggregate unpaid principal balance of \$3.20 billion as of that date. As of September 30, 2022, the Bank also has additional borrowing capacity with the FHLB of \$164.0 million, of which the Bank was eligible to borrow an additional \$44.0 million based on investment securities pledged with a carrying value of \$214.6 million.

**FRB Borrowings.** We maintain additional borrowing availabilities from the FRB Discount Window and BIC program.

At September 30, 2022, the Bank had borrowing capacity with the Federal Reserve Bank of San Francisco (the "Federal Reserve") of \$733.5 million, including the secured borrowing capacity through the FRB Discount Window and Borrower-in-Custody ("BIC") program. Borrowings under the BIC program are overnight advances with interest chargeable at the discount window ("primary credit") borrowing rate.

There were no secured borrowings from the FRB Discount Window and no borrowings under the BIC program for the three and nine months ended September 30, 2022. There were no borrowings from the Federal Reserve at September 30, 2022 and December 31, 2021.

**Other Borrowings.** The Bank maintains available unsecured federal funds lines with five correspondent banks totaling \$210.0 million, with no outstanding borrowings at September 30, 2022.

The Bank also has the ability to perform unsecured overnight borrowing from various financial institutions through AFX. The availability of such unsecured borrowings fluctuates regularly, is subject to the counterparties discretion and totaled \$445.0 million and \$441.0 million at September 30, 2022 and December 31, 2021. Borrowings under the AFX totaled zero and \$25.0 million at September 30, 2022 and December 31, 2021.

The holding company maintains a \$50.0 million revolving line of credit, which matures on December 19, 2022. We have the option to select paying interest using either (i) Prime Rate or (ii) LIBOR + 1.75%. The line of credit is also subject to an unused commitment fee of 0.40% per annum. Borrowings under the line of credit totaled \$10.0 million and zero at September 30, 2022 and December 31, 2021. The line of credit is subject to certain operational and financial covenants and we were in compliance with these covenants at September 30, 2022.

The Bank also maintained repurchase agreements and had no outstanding securities sold under agreements to repurchase at September 30, 2022 and December 31, 2021. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and the pledging of additional investment securities.

For additional information, see Note 6 to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

**Long-term Debt**

The following table presents our long-term debt as of the dates indicated:

(\$ in thousands)	Interest Rate	Maturity Date	September 30, 2022		December 31, 2021	
			Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Senior notes	5.25%	4/15/2025	\$ 175,000	\$ (816)	\$ 175,000	\$ (1,014)
Subordinated notes	4.375%	10/30/2030	85,000	(1,965)	85,000	(2,127)
PMB Statutory Trust III, junior subordinated debentures	Libor + 3.40%	9/26/2032	7,217	—	7,217	—
PMB Capital Trust III, junior subordinated debentures	Libor + 2.00%	10/8/2034	10,310	—	10,310	—
<b>Total</b>			<b>\$ 277,527</b>	<b>\$ (2,781)</b>	<b>\$ 277,527</b>	<b>\$ (3,141)</b>

At September 30, 2022, we were in compliance with all covenants under our long-term debt agreements.

**Liquidity Management**

We are required to maintain sufficient liquidity to ensure a safe and sound operation. Liquidity may increase or decrease depending upon availability of funds and comparative yields on investments in relation to the return on loans. Historically, we have maintained liquid assets above levels believed to be adequate to meet the requirements of normal operations, including both expected and unexpected cash flow needs such as funding loan commitments, potential deposit outflows and dividend payments. Cash flow projections are regularly reviewed and updated to ensure that adequate liquidity is maintained. We also monitor our liquidity requirements in light of rising interest rate trends, changes in the economy and scheduled maturity and interest rate sensitivity of our investment and loan portfolio and deposits.

*Banc of California, N.A.*

The Bank's liquidity, represented by cash and cash equivalents and securities available-for-sale, is a product of its operating, investing, and financing activities. The Bank's primary sources of funds are deposits, payments and maturities of outstanding loans and investment securities; sales of loans, investment securities, and other short-term investments; and funds provided from operations. While scheduled payments and maturity of loans, investment securities and other short-term investments are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition.

The Bank also generates cash through secured and unsecured secondary sources of funds. The Bank maintains pre-established secured lines of credit with the FHLB and the FRB as secondary sources of liquidity to provide funds for lending and investment activities and to enhance interest rate risk and liquidity risk management. At September 30, 2022, we had available unused secured borrowing capacities of \$1.21 billion from the FHLB and \$733.5 million through the FRB Discount Window and BIC programs. At September 30, 2022 and December 31, 2021, FHLB advances totaled \$727.0 million and \$476.1 million, net of unamortized debt issuance costs of \$4.0 million and \$4.9 million. At September 30, 2022, the Bank had pledged certain qualifying loans with an unpaid principal balance of \$3.20 billion and securities with a carrying value of \$214.6 million.

Borrowings under the BIC program are overnight advances with interest chargeable at the discount window ("primary credit") borrowing rate. There were no borrowings under the FRB's Discount Window and BIC programs at September 30, 2022 and December 31, 2021. At September 30, 2022, the Bank had pledged certain qualifying loans with an unpaid principal balance of \$975.5 million and securities with a carrying value of \$123.1 million as collateral for these FRB programs. The Bank may also utilize securities sold under repurchase agreements to leverage its capital base and while it maintains repurchase agreements, there were none outstanding at September 30, 2022 and December 31, 2021. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and would require the Bank to pledge additional investment securities. The Bank had unpledged securities available-for-sale of \$819.3 million at September 30, 2022.

In addition, the Bank has additional sources of secondary liquidity through pre-established unsecured fed funds lines with correspondent banks, pre-approved unsecured overnight borrowing lines with various financial institutions through the AFX platform, and its ability to obtain brokered deposits. At September 30, 2022, the Bank had \$210.0 million in pre-established unsecured federal funds lines of credit with correspondent banks. There were no borrowings with these correspondent banks at September 30, 2022 and December 31, 2021. The availability of unsecured borrowings through the AFX platform fluctuates regularly and is subject to the counterparties' discretion and totaled \$445.0 million at September 30, 2022. Borrowings under the AFX platform totaled zero and \$25.0 million at September 30, 2022 and December 31, 2021. The brokered deposits outstanding at September 30, 2022 and December 31, 2021 totaled \$332.4 million and \$10.0 million.

*Banc of California, Inc.*

The primary sources of funds for Banc of California, Inc., on a stand-alone holding company basis, are dividends and intercompany tax payments from the Bank, outside borrowing, and its ability to raise capital and issue debt securities. Dividends from the Bank are largely dependent upon the Bank's earnings and are subject to restrictions under certain regulations that limit its ability to transfer funds to the holding company. OCC regulations impose various restrictions on the ability of a bank to make capital distributions, which include dividends, stock redemptions or repurchases, and certain other items. Generally, a well-capitalized bank may make capital distributions during any calendar year equal to up to 100 percent of year-to-date net income plus retained net income for the two preceding years without prior OCC approval. However, any dividend paid by the Bank would be limited by the need to maintain its well-capitalized status plus the capital buffer in order to avoid additional dividend restrictions (Refer to *Capital - Dividend Restrictions* below for additional information). Currently, the Bank does not have sufficient dividend-paying capacity to declare and pay such dividends to the holding company without obtaining prior approval from the OCC under the applicable regulations. During the nine months ended September 30, 2022, the Bank paid \$91.0 million of dividends to Banc of California, Inc. At September 30, 2022, Banc of California, Inc. had \$23.1 million in cash, all of which was on deposit at the Bank.

In December 2021, the holding company entered into a \$50.0 million revolving line of credit. The line of credit matures on December 19, 2022. We have the option to pay interest using either (i) Prime Rate or (ii) LIBOR + 1.75%. The line of credit is also subject to an unused commitment fee of 0.40% per annum. At September 30, 2022, there were \$10.0 million in borrowings under this line of credit.

On March 15, 2022, we announced that our Board of Directors authorized the repurchase of up to \$75 million of our common stock. The repurchase authorization expires in March 2023. During the three months ended September 30, 2022, common stock repurchased under the program totaled 740,332 shares at a weighted average price of \$17.49. During the nine months ended September 30, 2022, common stock repurchased under the program totaled 3,069,058 shares at a weighted average price of \$18.28. As of September 30, 2022, the Company had \$18.9 million remaining under the current stock repurchase authorization.

On March 15, 2022 we redeemed all outstanding Series E Preferred Stock, and the corresponding depository shares, each representing a 1/40th interest in a share of the Series E Preferred Stock. The redemption price for the Series E Preferred Stock was \$1,000 per share (equivalent to \$25 per Series E Depository Share). Upon redemption, the Series E Preferred Stock and the Series E Depository Shares were no longer outstanding and all rights with respect to such stock and depository shares ceased and terminated, except the right to payment of the redemption price. Also upon redemption, the Series E Depository Shares were delisted from trading on the New York Stock Exchange. The \$3.7 million difference between the consideration paid and the \$95.0 million aggregate carrying value of the Series E Preferred Stock was reclassified to retained earnings and resulted in a decrease to net income allocated to common stockholders

On a consolidated basis, cash and cash equivalents totaled \$256.1 million, or 2.7% of total assets at September 30, 2022. This compared to \$228.1 million, or 2.4% of total assets, at December 31, 2021. The \$27.9 million increase was due mainly to (i) net income of \$99.4 million generated during the year, (ii) a \$235.0 million increase in FHLB advances and other borrowings, and (iii) net investment securities inflows of \$60.8 million from repayments, net of securities purchases, offset by (iv) a \$159.1 million decrease in deposits, (v) net loan outflows of \$6.2 million from originations net of repayments and loan purchases, (vi) the redemption of Series E Preferred Stock of \$98.7 million, (vii) payments of common and preferred dividends of \$12.7 million, (viii) net cash used to acquire Deepstack of \$10.3 million, and (ix) repurchases of common stock of \$56.2 million.

We believe that our liquidity sources are stable and are adequate to meet our day-to-day cash flow requirements as of September 30, 2022.

**Commitments and Contractual Obligations**

The following table presents our commitments and contractual obligations as of September 30, 2022:

(\$ in thousands)	Commitments and Contractual Obligations				
	Total Amount Committed	Within One Year	More Than One Year Through Three Years	More Than Three Years Through Five Years	Over Five Years
Commitments to extend credit	\$ 277,305	\$ 19,960	\$ 174,037	\$ 34,444	\$ 48,864
Unused lines of credit	2,089,306	1,778,491	203,832	76,771	30,212
Standby letters of credit	9,667	8,771	—	896	—
<b>Total commitments</b>	<b>\$ 2,376,278</b>	<b>\$ 1,807,222</b>	<b>\$ 377,869</b>	<b>\$ 112,111</b>	<b>\$ 79,076</b>
FHLB advances	\$ 731,000	\$ 120,000	\$ 291,000	\$ 320,000	\$ —
Other borrowings	10,000	10,000	—	—	—
Long-term debt	277,527	—	175,000	—	102,527
Operating and capital lease obligations	35,870	8,486	15,328	8,789	3,267
Certificates of deposit	936,939	726,698	207,301	2,940	—
<b>Total contractual obligations</b>	<b>\$ 1,991,336</b>	<b>\$ 865,184</b>	<b>\$ 688,629</b>	<b>\$ 331,729</b>	<b>\$ 105,794</b>

At September 30, 2022, we had unfunded commitments of \$18.8 million, \$9.4 million, and \$12.1 million for LIHTC investments, SBIC investments, and other investments, respectively.

**Capital**

In order to maintain adequate levels of capital, we continuously assess projected sources and uses of capital to support projected asset growth, operating needs and credit risk. We consider, among other things, earnings generated from operations and access to capital from financial markets. In addition, we perform capital stress tests on an annual basis to assess the impact of adverse changes in the economy on our capital base. During the first half of 2022, increases in market interest rates resulted in higher net unrealized losses in our securities portfolio and stockholders' equity. As market interest rates increase, bond prices tend to fall and, consequently, the fair value of our securities may also decrease. To this end, we may have further net unrealized losses on our securities classified as available-for-sale, which would negatively affect our total and tangible stockholders' equity.

**Regulatory Capital**

The Company and the Bank are subject to the regulatory capital adequacy guidelines that are established by the federal banking regulators. Inclusive of the capital conservation buffer, the common equity Tier 1 capital, Tier 1 risk-based capital and total risk-based capital ratio minimums are 7.0%, 8.5% and 10.5%, respectively.

The following table presents the regulatory capital amounts and ratios for the Company and the Bank as of dates indicated:

(\$ in thousands)	Amount	Ratio	Minimum Capital Requirements		Minimum Required to Be Well-Capitalized Under Prompt Corrective Action Provisions		
			Amount	Ratio	Amount	Ratio	
<b>September 30, 2022</b>							
Banc of California, Inc.							
Total risk-based capital	\$ 1,076,881	13.86 %	\$ 621,640	8.00 %	N/A	N/A	
Tier 1 risk-based capital	887,899	11.43 %	466,230	6.00 %	N/A	N/A	
Common equity tier 1 capital	887,899	11.43 %	349,673	4.50 %	N/A	N/A	
Tier 1 leverage	887,899	9.52 %	373,127	4.00 %	N/A	N/A	
Banc of California, NA							
Total risk-based capital	\$ 1,218,318	15.70 %	\$ 620,972	8.00 %	\$ 776,215	10.00 %	
Tier 1 risk-based capital	1,129,898	14.56 %	465,729	6.00 %	620,972	8.00 %	
Common equity tier 1 capital	1,129,898	14.56 %	349,297	4.50 %	504,539	6.50 %	
Tier 1 leverage	1,129,898	12.12 %	372,965	4.00 %	466,206	5.00 %	
<b>December 31, 2021</b>							
Banc of California, Inc.							
Total risk-based capital	\$ 1,140,480	14.98 %	\$ 609,062	8.00 %	N/A	N/A	
Tier 1 risk-based capital	955,747	12.55 %	456,796	6.00 %	N/A	N/A	
Common equity tier 1 capital	860,841	11.31 %	342,597	4.50 %	N/A	N/A	
Tier 1 leverage	955,747	10.37 %	368,610	4.00 %	N/A	N/A	
Banc of California, NA							
Total risk-based capital	\$ 1,195,050	15.71 %	\$ 608,740	8.00 %	\$ 760,925	10.00 %	
Tier 1 risk-based capital	1,110,767	14.60 %	456,555	6.00 %	608,740	8.00 %	
Common equity tier 1 capital	1,110,767	14.60 %	342,416	4.50 %	494,601	6.50 %	
Tier 1 leverage	1,110,767	12.06 %	368,306	4.00 %	460,382	5.00 %	

#### **Dividend Restrictions**

Payment of dividends by the Company are subject to guidance provided by the Federal Reserve. That guidance provides that bank holding companies that plan to pay dividends that exceed net earnings for a given period should first consult with the Federal Reserve. To the extent future quarterly dividends exceed quarterly net earnings, payment of dividends in respect of the Company's common stock will be subject to prior consultation and non-objection from the Federal Reserve.

Our principal source of funds for dividend payments is dividends received from the Bank. Federal banking laws and regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, in the case of the Bank, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. Accordingly, any dividend granted by the Bank would be limited by the need to maintain its well capitalized status plus the capital buffer in order to avoid additional dividend restrictions. As described above, any near term dividend by the Bank will require OCC approval. During the three and nine months ended September 30, 2022, the Bank paid \$25.0 million and \$91.0 million in dividends to Banc of California, Inc.

During the three and nine months ended September 30, 2022, we declared and paid dividends on our common stock of \$0.06 and \$0.18 per share totaling \$3.6 million and \$11.0 million. In addition, prior to the redemption of our preferred stock, we paid \$1.7 million in related dividends during the first quarter of 2022.

#### **ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Our Risk When Interest Rates Change.*** The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. Market interest rates change over time. Accordingly, our results of operations, like those of other financial institutions, are impacted by changes in interest rates and the interest rate sensitivity of our assets and liabilities.

The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is our most significant market risk.

**How We Measure Our Risk of Interest Rate Changes.** As part of our attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we have established asset/liability committees to monitor our interest rate risk. In monitoring interest rate risk we continually analyze and manage assets and liabilities based on their payment streams and interest rates, the timing of their maturities and/or prepayments, and their sensitivity to actual or potential changes in market interest rates.

We maintain both a management asset/liability committee (“Management ALCO”), comprised of select members of senior management, and a joint asset/liability committee of the Boards of Directors of the Company and the Bank (“Board ALCO”, together with Management ALCO, “ALCOs”). In order to manage the risk of potential adverse effects of material and prolonged or volatile changes in interest rates on our results of operations, we have adopted asset/liability management policies to align maturities and repricing terms of interest-earning assets to interest-bearing liabilities. The asset/liability management policies establish guidelines for the volume and mix of assets and funding sources taking into account relative costs and spreads, interest rate sensitivity and liquidity needs, while management monitors adherence to those guidelines with oversight by the ALCOs. The objectives are to manage assets and funding sources to produce results that are consistent with liquidity, capital adequacy, growth, risk, and profitability goals. The ALCOs meet no less than quarterly to review, among other things, economic conditions and interest rate outlook, current and projected liquidity needs and capital position, anticipated changes in the volume and mix of assets and liabilities and interest rate risk exposure limits versus current projections pursuant to our net present value of equity analysis.

In order to manage our assets and liabilities and achieve the desired liquidity, credit quality, interest rate risk, profitability and capital targets, we evaluate various strategies including:

- Originating and purchasing adjustable rate mortgage loans,
- Selling longer duration fixed or hybrid mortgage loans,
- Originating shorter-term consumer loans,
- Managing the duration of investment securities,
- Managing our deposits to establish stable deposit relationships,
- Using FHLB advances and/or certain derivatives such as swaps to align maturities and repricing terms, and
- Managing the percentage of fixed rate loans in our portfolio.

At times, depending on the level of general interest rates, the relationship between long- and short-term interest rates, market conditions and competitive factors, the ALCOs may decide to increase our interest rate risk position within the asset/liability tolerance set forth by our Board of Directors.

As part of its procedures, the ALCOs regularly review interest rate risk by forecasting the impact of alternative interest rate environments on net interest income and market value of portfolio equity, which is defined as the net present value of an institution’s existing assets, liabilities and off-balance sheet instruments, and evaluating such impacts against the maximum potential changes in net interest income and market value of portfolio equity.

#### **Interest Rate Sensitivity of Economic Value of Equity and Net Interest Income**

Interest rate risk results from our banking activities and is the primary market risk for us. Interest rate risk is caused by the following factors:

- Repricing risk - timing differences in the repricing and maturity of interest-earning assets and interest-bearing liabilities;
- Option risk - changes in the expected maturities of assets and liabilities, such as borrowers’ ability to prepay loans and depositors’ ability to redeem certificates of deposit before maturity;
- Yield curve risk - changes in the yield curve where interest rates increase or decrease in a nonparallel fashion; and
- Basis risk - changes in spread relationships between different yield curves, such as U.S. Treasuries, U.S. Prime Rate and London Interbank Offered Rate.

Since our earnings are primarily dependent on our ability to generate net interest income, we focus on actively monitoring and managing the effects of adverse changes in interest rates on our net interest income. Management of our interest rate risk is overseen by the Board ALCO. Board ALCO delegates the day to day management of interest rate risk to the Management ALCO. Management ALCO ensures that the Bank is following the appropriate and current regulatory guidance in the formulation and implementation of our interest rate risk program. Board ALCO reviews the results of our interest rate risk modeling quarterly to ensure that we have appropriately measured our interest rate risk, mitigated our exposures appropriately

and any residual risk is acceptable. In addition to our annual review of our asset liability management policy, our Board of Directors periodically reviews the interest rate risk policy limits.

Interest rate risk management is an active process that encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic repricing characteristics of our assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

Our interest rate risk exposure is measured and monitored through various risk management tools, including a simulation model that performs interest rate sensitivity analysis under multiple scenarios. The simulation model is based on the actual maturities and re-pricing characteristics of the Bank's interest-rate sensitive assets and liabilities. The simulated interest rate scenarios include an instantaneous parallel shift in the yield curve ("Rate Shock"). We then evaluate the simulation results using two approaches: Net Interest Income at Risk ("NII at Risk"), and Economic Value of Equity ("EVE"). Under NII at Risk, the impact on net interest income from changes in interest rates on interest-earning assets and interest-bearing liabilities is modeled utilizing various assumptions for assets, liabilities, and derivatives.

EVE measures the period end present value of assets minus the present value of liabilities. Asset liability management uses this value to measure the changes in the economic value of the Company under various interest rate scenarios. In some ways, the economic value approach provides a broader scope than net income volatility approach since it captures all anticipated cash flows.

The balance sheet is considered "asset sensitive" when an increase in short-term interest rates is expected to expand our net interest margin, as rates earned on our interest-earning assets reprice higher at a pace faster than rates paid on our interest-bearing liabilities. Conversely, the balance sheet is considered "liability sensitive" when an increase in short-term interest rates is expected to compress our net interest margin, as rates paid on our interest-bearing liabilities reprice higher at a pace faster than rates earned on our interest-earning assets.

At September 30, 2022, our interest rate risk profile reflects an "asset sensitive" position. Given the uncertainty of the magnitude, timing and direction of future interest rate movements, as well as the shape of the yield curve, actual results may vary from those predicted by our model.

The following table presents the projected change in the Company's economic value of equity at September 30, 2022 and net interest income over the next twelve months, that would occur upon an immediate change in interest rates based on independent analysis, but without giving effect to any steps that management might take to counteract that change:

(\$ in thousands)	Change in Interest Rates in Basis Points (bps) <sup>(1)</sup>					
	Economic Value of Equity			Net Interest Income		
	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
<b>September 30, 2022</b>						
+200 bps	\$ 1,772,075	\$ 27,038	1.5 %	\$ 349,999	\$ 12,316	3.6 %
+100 bps	1,755,262	10,225	0.6 %	343,782	6,099	1.8 %
0 bps	1,745,037			337,683		
-100 bps	1,692,534	(52,503)	(3.0)%	327,249	(10,434)	(3.1)%
-200 bps	1,613,524	(131,513)	(7.5)%	313,558	(24,125)	(7.1)%

(1) Assumes an instantaneous uniform change in interest rates at all maturities and no rate shock has a rate lower than zero percent.

We believe we are well positioned to benefit from the current cycle of rising interest rates. Due to the transformation of the franchise to our relationship-based banking model, with higher percentages of noninterest-bearing deposits and variable rate commercial loans, our one year gap ratio, which compares the percentage of earning assets that are scheduled to mature or reprice within one year to the percentage of rate sensitive term liabilities that are scheduled to mature or reprice within one year, has increased since December 31, 2019. At September 30, 2022, our one year gap ratio stood at 24%. While this is only one measure of asset sensitivity, we expect to see some expansion in our net interest margin as short-term rates increase.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features which restrict changes in interest

rates on a short-term basis and over the life of the asset. Further, if interest rates change, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Interest rate risk is the most significant market risk affecting us. Other types of market risk, such as foreign currency exchange risk and commodity price risk, do not directly impact us in the normal course of our business activities and operations.

#### **ITEM 4 - CONTROLS AND PROCEDURES**

##### **Evaluation of Disclosure Controls and Procedures**

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act) as of September 30, 2022 was carried out under the supervision and with the participation of the Company's Principal Executive Officer, Principal Financial Officer and other members of the Company's senior management. The Company's Principal Executive Officer and Principal Financial Officer concluded that, as of September 30, 2022, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Principal Executive Officer and Principal Financial Officer) to allow timely decisions regarding required disclosure; and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Act) that occurred during the three months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of a control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

**PART II — OTHER INFORMATION****ITEM 1 - LEGAL PROCEEDINGS**

From time to time we are involved as plaintiff or defendant in various legal actions arising in the normal course of business. The outcome of such legal actions and the timing of ultimate resolution are inherently difficult to predict. In the opinion of management, based upon information currently available to us, any resulting liability, in addition to amounts already accrued, and taking into consideration insurance which may be applicable, would not have a material adverse effect on the Company's financial statements or operations.

**ITEM 1A - RISK FACTORS**

There have been no material changes to the risk factors that appeared under Part I, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

**ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

(\$ in thousands, except per share data)	Purchase of Equity Securities by the Issuer			Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan
	Total Number of Shares	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	
<b>Common Stock:</b>				
From July 1, 2022 to July 31, 2022	485,252	\$ 18.07	485,252	\$ 23,091
From August 1, 2022 to August 31, 2022	5,350	\$ 18.03	—	\$ 23,091
From September 1, 2022 to September 30, 2022	260,097	\$ 16.40	255,080	\$ 18,911
<b>Total</b>	<b>750,699</b>	<b>\$ 17.50</b>	<b>740,332</b>	

During the three and nine months ended September 30, 2022, purchases of shares of common stock related to shares purchased under our stock repurchase program and shares surrendered by employees in order to pay employee tax liabilities associated with vested awards under our employee stock benefit plans.

On March 15, 2022, we announced a repurchase program of up to \$75 million of our common stock. The repurchase authorization expires in March 2023. Purchases may be made in open-market transactions, in block transactions on or off an exchange, in privately negotiated transactions or by other means as determined by our management and in accordance with the regulations of the SEC. The timing of purchases and the number of shares repurchased under the program will depend on a variety of factors including price, trading volume, corporate and regulatory requirements and market conditions.

**ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4 MINE SAFETY DISCLOSURES**

Not applicable

**ITEM 5 - OTHER INFORMATION**

None

**ITEM 6 - EXHIBITS**

3.1	<a href="#">Second Articles of Restatement of the charter of the Registrant (Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 5, 2018 and incorporated herein by reference.)</a>
3.2	<a href="#">Fifth Amended and Restated Bylaws of the Registrant (Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 30, 2017 and incorporated herein by reference.)</a>
31.1	<a href="#">Rule 13a-14(a) Certification (Principal Executive Officer)</a>
31.2	<a href="#">Rule 13a-14(a) Certification (Principal Financial Officer)</a>
32.0	<a href="#">Rule 13a-14(b) and 18 U.S.C. 1350 Certification</a>
101.0	The following financial statements and footnotes from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income (Loss); (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

## SIGNATURES

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

BANC OF CALIFORNIA, INC.

Date: November 7, 2022

/s/ Jared Wolff

Jared Wolff  
President/Chief Executive Officer  
*(Principal Executive Officer)*

Date: November 7, 2022

/s/ Lynn M. Hopkins

Lynn M. Hopkins  
Executive Vice President/Chief Financial Officer  
*(Principal Financial Officer)*

Date: November 7, 2022

/s/ Diana Hanson

Diana Hanson  
Senior Vice President/Chief Accounting Officer  
*(Principal Accounting Officer)*

## CERTIFICATIONS

I, Jared Wolff, certify that:

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

Date: November 7, 2022

/s/ Jared Wolff

Jared Wolff

President/Chief Executive Officer  
(Principal Executive Officer)

## CERTIFICATIONS

I, Lynn M. Hopkins, certify that:

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

Date: November 7, 2022

/s/ Lynn M. Hopkins

Lynn M. Hopkins  
Executive Vice President/Chief Financial Officer  
(Principal Financial Officer)

SECTION 1350 CERTIFICATION

Each of the undersigned hereby certifies in his or her capacity as an officer of Banc of California, Inc. (“the Company”) that this Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2022 fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: November 7, 2022

/s/ Jared Wolff

Jared Wolff  
President/Chief Executive Officer  
*(Principal Executive Officer)*

Date: November 7, 2022

/s/ Lynn M. Hopkins

Lynn M. Hopkins  
Executive Vice President/Chief Financial Officer  
*(Principal Financial Officer)*