

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 June 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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
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 August 4, 2022, the registrant had outstanding 59,502,549 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
June 30, 2022
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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;
- 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)

	June 30, 2022	December 31, 2021
ASSETS		
Cash and due from banks	\$ 43,736	\$ 41,729
Interest-earning deposits in financial institutions	199,328	186,394
Total cash and cash equivalents	243,064	228,123
Securities held-to-maturity, at amortized cost (fair value of \$285,672 at June 30, 2022)	329,272	—
Securities available-for-sale, at fair value	865,435	1,315,703
Loans receivable	7,451,264	7,251,480
Allowance for loan losses	(93,793)	(92,584)
Loans receivable, net	7,357,471	7,158,896
Federal Home Loan Bank and other bank stock, at cost	51,489	44,632
Premises and equipment, net	108,523	112,868
Bank owned life insurance	125,326	123,720
Operating lease right-of-use assets	32,632	35,442
Investments in alternative energy partnerships, net	23,531	25,888
Deferred income taxes, net	54,455	50,774
Income tax receivable	4,563	7,952
Goodwill	95,127	94,301
Other intangible assets, net	4,677	6,411
Other assets	206,548	189,033
Total assets	\$ 9,502,113	\$ 9,393,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 2,826,599	\$ 2,788,196
Interest-bearing deposits	4,732,084	4,651,239
Total deposits	7,558,683	7,439,435
Federal Home Loan Bank advances, net	511,695	476,059
Other borrowings	98,000	25,000
Long-term debt, net	274,587	274,386
Reserve for loss on repurchased loans	3,222	4,348
Operating lease liabilities	37,500	40,675
Accrued expenses and other liabilities	69,296	68,550
Total liabilities	8,552,983	8,328,453
Commitments and contingent liabilities		
Preferred stock	—	94,956
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 64,725,426 shares issued and 59,985,736 shares outstanding at June 30, 2022; 64,599,170 shares issued and 62,188,206 shares outstanding at December 31, 2021	647	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 June 30, 2022 and at December 31, 2021	5	5
Additional paid-in capital	856,079	854,873
Retained earnings	210,471	147,894
Treasury stock, at cost (4,739,690 and 2,410,964 shares at June 30, 2022 and December 31, 2021)	(84,013)	(40,827)
Accumulated other comprehensive (loss) income, net	(34,059)	7,743
Total stockholders' equity	949,130	1,065,290
Total liabilities and stockholders' equity	\$ 9,502,113	\$ 9,393,743

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			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Interest and dividend income					
Loans, including fees	\$ 78,895	\$ 76,234	\$ 61,900	\$ 155,129	\$ 123,245
Securities	8,124	7,309	6,986	15,433	13,487
Other interest-earning assets	1,399	726	791	2,125	1,563
Total interest and dividend income	88,418	84,269	69,677	172,687	138,295
Interest expense					
Deposits	3,180	1,388	3,543	4,568	7,829
Federal Home Loan Bank advances	3,114	2,953	2,944	6,067	6,056
Long-term debt and other interest-bearing liabilities	3,825	3,487	3,343	7,312	6,647
Total interest expense	10,119	7,828	9,830	17,947	20,532
Net interest income	78,299	76,441	59,847	154,740	117,763
(Reversal of) provision for credit losses	—	(31,542)	(2,154)	(31,542)	(3,261)
Net interest income after (reversal of) provision for credit losses	78,299	107,983	62,001	186,282	121,024
Noninterest income					
Customer service fees	2,578	2,434	1,990	5,012	3,748
Loan servicing income	109	212	38	321	306
Income from bank owned life insurance	810	796	690	1,606	1,362
Net gain on sale of securities available-for-sale	—	16	—	16	—
Other income	3,689	2,452	725	6,141	2,836
Total noninterest income	7,186	5,910	3,443	13,096	8,252
Noninterest expense					
Salaries and employee benefits	28,264	28,987	25,042	57,251	50,761
Occupancy and equipment	7,876	7,855	7,277	15,731	14,473
Professional fees	4,107	2,907	1,749	7,014	5,771
Data processing	1,782	1,828	1,621	3,610	3,276
Regulatory assessments	1,021	775	769	1,796	1,543
Loss (gain) on investments in alternative energy partnerships	1,043	158	(829)	1,201	2,801
Reversal of provision for loan repurchases	(490)	(471)	(99)	(961)	(231)
Amortization of intangible assets	313	441	282	754	564
Merger-related costs	—	—	700	—	1,400
All other expense	4,696	4,116	3,320	8,812	6,637
Total noninterest expense	48,612	46,596	39,832	95,208	86,995
Income from operations before income taxes	36,873	67,297	25,612	104,170	42,281
Income tax expense	10,161	18,785	6,562	28,946	8,856
Net income	26,712	48,512	19,050	75,224	33,425
Preferred stock dividends	—	1,420	1,727	1,420	4,868
Income allocated to participating securities	—	—	—	—	122
Impact of preferred stock redemption	—	3,747	—	3,747	3,347
Net income available to common stockholders	\$ 26,712	\$ 43,345	\$ 17,323	\$ 70,057	\$ 25,088
Earnings per common share:					
Basic	\$ 0.44	\$ 0.69	\$ 0.34	\$ 1.13	\$ 0.50
Diluted	\$ 0.43	\$ 0.69	\$ 0.34	\$ 1.13	\$ 0.49
Earnings per class B common share:					
Basic	\$ 0.44	\$ 0.69	\$ 0.34	\$ 1.13	\$ 0.50
Diluted	\$ 0.44	\$ 0.69	\$ 0.34	\$ 1.13	\$ 0.50

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended			Six Months Ended	
	June 30, 2022	March 31, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net income	\$ 26,712	\$ 48,512	\$ 19,050	\$ 75,224	\$ 33,425
Other comprehensive (loss)/income, net of tax:					
Unrealized (loss) gain on available-for-sale securities:					
Unrealized (loss) gain arising during the period	(15,113)	(26,913)	9,555	(42,026)	6,994
Reclassification adjustment for gain included in net income	—	(11)	—	(11)	—
Total change in unrealized (loss) gain on available-for-sale securities	(15,113)	(26,924)	9,555	(42,037)	6,994
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	226	9	—	235	—
Total other comprehensive (loss)/income	(14,887)	(26,915)	9,555	(41,802)	6,994
Comprehensive income	\$ 11,825	\$ 21,597	\$ 28,605	\$ 33,422	\$ 40,419

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						
Three Months Ended June 30, 2022									
Balance at March 31, 2022	\$ —	\$ 646	\$ 5	\$ 855,198	\$ 187,457	\$ (45,125)	\$ (19,172)	\$ 979,009	
Comprehensive income:									
Net income	—	—	—	—	26,712	—	—	26,712	
Other comprehensive loss, net	—	—	—	—	—	—	(14,887)	(14,887)	
Issuance of common stock	—	1	—	(1)	—	—	—	—	
Purchase of 2,113,176 shares of treasury stock	—	—	—	—	—	(38,888)	—	(38,888)	
Share-based compensation expense	—	—	—	1,482	—	—	—	1,482	
Restricted stock surrendered due to employee tax liability	—	—	—	(600)	—	—	—	(600)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(30)	—	—	(30)	
Dividends declared (\$0.06 per common share)	—	—	—	—	(3,668)	—	—	(3,668)	
Preferred stock dividends	—	—	—	—	—	—	—	—	
Balance at June 30, 2022	\$ —	\$ 647	\$ 5	\$ 856,079	\$ 210,471	\$ (84,013)	\$ (34,059)	\$ 949,130	
Three Months Ended June 30, 2021									
Balance at March 31, 2021	\$ 94,956	\$ 526	\$ 5	\$ 629,844	\$ 115,004	\$ (40,827)	\$ 5,185	\$ 804,693	
Comprehensive income:									
Net income	—	—	—	—	19,050	—	—	19,050	
Other comprehensive gain, net	—	—	—	—	—	—	9,555	9,555	
Issuance of common stock	—	1	—	(1)	—	—	—	—	
Share-based compensation expense	—	—	—	1,338	—	—	—	1,338	
Restricted stock surrendered due to employee tax liability	—	—	—	(527)	—	—	—	(527)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(30)	—	—	(30)	
Dividends declared (\$0.06 per common share)	—	—	—	—	(2,990)	—	—	(2,990)	
Preferred stock dividends	—	—	—	—	(1,727)	—	—	(1,727)	
Balance at June 30, 2021	\$ 94,956	\$ 527	\$ 5	\$ 630,654	\$ 129,307	\$ (40,827)	\$ 14,740	\$ 829,362	

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						
Six Months Ended June 30, 2022									
Balance at December 31, 2021	\$ 94,956	\$ 646	\$ 5	\$ 854,873	\$ 147,894	\$ (40,827)	\$ 7,743	\$ 1,065,290	
Comprehensive income:									
Net income	—	—	—	—	75,224	—	—	75,224	
Other comprehensive loss, net	—	—	—	—	—	—	(41,802)	(41,802)	
Issuance of common stock	—	1	—	(1)	—	—	—	—	
Redemption of preferred stock	(94,956)	—	—	—	(3,747)	—	—	(98,703)	
Purchase of 2,328,726 shares of treasury stock	—	—	—	—	—	(43,186)	—	(43,186)	
Share-based compensation expense	—	—	—	2,767	—	—	—	2,767	
Restricted stock surrendered due to employee tax liability	—	—	—	(1,560)	—	—	—	(1,560)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(60)	—	—	(60)	
Dividends declared (\$0.12 per common share)	—	—	—	—	(7,420)	—	—	(7,420)	
Preferred stock dividends	—	—	—	—	(1,420)	—	—	(1,420)	
Balance at June 30, 2022	\$ —	\$ 647	\$ 5	\$ 856,079	\$ 210,471	\$ (84,013)	\$ (34,059)	\$ 949,130	
Six Months Ended June 30, 2021									
Balance at December 31, 2020	\$ 184,878	\$ 522	\$ 5	\$ 634,704	\$ 110,179	\$ (40,827)	\$ 7,746	\$ 897,207	
Comprehensive loss:									
Net loss	—	—	—	—	33,425	—	—	33,425	
Other comprehensive income, net	—	—	—	—	—	—	6,994	6,994	
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	—	—	—	2,882	—	—	—	2,882	
Restricted stock surrendered due to employee tax liability	—	—	—	(1,855)	—	—	—	(1,855)	
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(59)	—	—	(59)	
Dividends declared (\$0.12 per common share)	—	—	—	—	(6,023)	—	—	(6,023)	
Preferred stock dividends	—	—	—	—	(4,868)	—	—	(4,868)	
Balance at June 30, 2021	\$ 94,956	\$ 527	\$ 5	\$ 630,654	\$ 129,307	\$ (40,827)	\$ 14,740	\$ 829,362	

See accompanying notes to consolidated financial statements (unaudited)

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

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net income	\$ 75,224	\$ 33,425
Adjustments to reconcile net income to net cash provided by operating activities		
Reversal of provision for credit losses	(31,542)	(3,261)
Reversal of provision for loan repurchases	(961)	(231)
Depreciation on premises and equipment	7,920	7,741
Amortization of intangible assets	754	564
Amortization of debt issuance costs	837	812
Net amortization of premium on securities	587	774
Net accretion of deferred loan costs and fees	(81)	(1,983)
Net amortization of premiums on purchased loans	652	1,434
Deferred income tax expense (benefit)	975	(1,963)
Bank owned life insurance income	(1,606)	(1,362)
Share-based compensation expense	2,767	2,882
Income from interest rate swaps	(185)	(200)
Loss on investments in alternative energy partnerships and affordable housing investments	3,456	4,864
Fair value adjustment for loans held-for-sale	—	(20)
Net gain on sale of securities available-for-sale	(16)	—
Gain on sale-leaseback of branch	(771)	—
Loss on disposal of property and equipment	8	—
Repurchase of mortgage loans	(1,262)	(1,433)
Proceeds from sales of and principal collected on other loans held-for-sale	—	13
Change in accrued interest receivable and other assets	26,514	(3,246)
Change in accrued interest payable and other liabilities	(8,122)	25,279
Net cash provided by operating activities	<u>75,148</u>	<u>64,089</u>
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	100,230
Purchases of securities available-for-sale	(15,000)	(226,813)
Proceeds from principal repayments of securities held-to-maturity and available-for-sale	20,495	14,000
Loan originations and principal collections, net	474,252	274,971
Purchases of loans	(641,556)	(366,000)
Redemption of Federal Home Loan Bank stock	—	436
Purchases of Federal Home Loan Bank and other bank stock	(6,857)	(499)
Purchase of mortgage servicing rights	(20,563)	—
Purchases of premises and equipment	(1,381)	(1,718)
Proceeds from sale-leaseback of branch	2,400	—
Payments of capital lease obligations	—	(69)
Funding of equity investments	(3,950)	(1,879)
Decrease in investments in alternative energy partnerships	1,156	1,108
Net cash (used in) provided by investing activities	<u>(134,859)</u>	<u>(206,233)</u>
Cash flows from financing activities:		
Net increase in deposits	119,248	120,744
Net increase (decrease) in short-term Federal Home Loan Bank advances	35,000	(50,000)
Net increase in other borrowings	73,000	125,000
Redemption of preferred stock	(98,703)	(93,269)
Purchase of treasury stock	(43,186)	—
Proceeds from exercise of stock options	—	300
Purchase of stock surrendered to pay tax liability	(1,560)	(7,227)
Dividends paid on preferred stock	(1,727)	(4,868)
Dividends paid on common stock	(7,420)	(6,023)
Net cash provided by financing activities	<u>74,652</u>	<u>84,657</u>
Net change in cash and cash equivalents	14,941	(57,487)
Cash and cash equivalents at beginning of period	228,123	220,819
Cash and cash equivalents at end of period	<u>\$ 243,064</u>	<u>\$ 163,332</u>
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	16,574	19,996
Income taxes paid	9,692	8,932
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	3,883
Operating lease liabilities recognized	1,253	3,883
Commitments to fund low income housing tax credit investments	7,000	—
Goodwill adjustments for purchase accounting	826	—

BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 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 31 full-service branches located throughout Southern California as of June 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. The December 31, 2021 consolidated statements of financial condition presented herein have been derived from the audited financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2021 filed with the SEC. Certain prior period amounts have been reclassified to conform to current period presentation, including reclassification of (i) loans held for sale to other assets in the consolidated statement of financial condition, (ii) fair value adjustment for loans held-for-sale to other income, (iii) income or loss from equity investments to other income, and (iv) advertising and promotion to all other expense in the accompanying consolidated statements of operations.

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 six months ended June 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 June 30, 2022 and December 31, 2021 and for the three and six months ended June 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 significant changes in our critical 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, 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, 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 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, MSRs 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. MSRs are evaluated quarterly for impairment by estimating the fair value of the MSRs 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 MSRs. Subsequent increases in the fair value of impaired MSRs are recognized only up to the amount of the previously recognized valuation allowance. The estimated fair value of the MSRs 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 MSRs.

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 \$1.73 billion at June 30, 2022. We do not have an ownership interest in the mortgage loan balances therefore those loans are not included in our consolidated statements of financial condition.

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 intangible assets, 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 Combination: 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 Pacific Mercantile Bank, a California state chartered commercial bank headquartered in Costa Mesa, California and 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 \$58.0 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 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)
June 30, 2022				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 13,062	\$ —	\$ 13,062	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	11,365	—	11,365	—
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	154,053	—	154,053	—
Non-agency residential mortgage-backed securities	45,481	—	45,481	—
Collateralized loan obligations	478,203	—	478,203	—
Corporate debt securities	163,271	—	163,271	—
Derivative assets:				
Interest rate swaps ⁽¹⁾	1,074	—	1,074	—
Foreign exchange contracts ⁽¹⁾	186	—	186	—
Liabilities				
Derivative liabilities:				
Interest rate swaps ⁽²⁾	1,082	—	1,082	—
Foreign exchange contracts ⁽²⁾	168	—	168	—
December 31, 2021				
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 ⁽¹⁾	3,390	—	3,390	—
Foreign exchange contracts ⁽¹⁾	175	—	175	—
Liabilities				
Derivative liabilities:				
Interest rate swaps ⁽²⁾	3,594	—	3,594	—
Foreign exchange contracts ⁽²⁾	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 six months ended June 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)
June 30, 2022				
Assets				
Collateral dependent loans:				
Single family residential mortgage	\$ 3,600	\$ —	\$ —	\$ 3,600
Commercial and industrial	10,903	—	—	10,903
SBA	4,029	—	—	4,029
December 31, 2021				
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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Collateral dependent loans:				
Single family residential mortgage	\$ (1)	\$ (211)	\$ (340)	\$ (211)
Commercial and industrial	(564)	20	(1,198)	38
SBA	(198)	(376)	(172)	(509)
Other consumer	(216)	—	(243)	—
Commercial real estate	—	(140)	—	(140)

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	
June 30, 2022					
Financial assets					
Cash and cash equivalents	\$ 243,064	\$ 243,064	\$ —	\$ —	\$ 243,064
Securities held-to-maturity	329,272	—	285,672	—	285,672
Securities available-for-sale	865,435	—	865,435	—	865,435
Federal Home Loan Bank and other bank stock	51,489	—	51,489	—	51,489
Loans receivable, net of allowance for credit losses	7,357,471	—	—	6,980,780	6,980,780
Accrued interest receivable	32,750	32,750	—	—	32,750
Derivative assets	1,260	—	1,260	—	1,260
Financial liabilities					
Deposits	7,558,683	6,809,378	743,027	—	7,552,405
Advances from Federal Home Loan Bank	511,695	—	506,061	—	506,061
Other borrowings	98,000	—	98,017	—	98,017
Long-term debt	274,587	—	269,763	—	269,763
Derivative liabilities	1,250	—	1,250	—	1,250
Accrued interest payable	4,082	4,082	—	—	4,082
December 31, 2021					
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
June 30, 2022				
Securities held-to-maturity:				
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 153,621	\$ —	\$ (18,334)	\$ 135,287
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,447	—	(8,051)	53,396
Municipal securities	114,204	—	(17,215)	96,989
Total securities held-to-maturity	\$ 329,272	\$ —	\$ (43,600)	\$ 285,672
Securities available-for-sale:				
SBA loan pool securities	\$ 13,085	\$ —	\$ (23)	\$ 13,062
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	12,051	—	(686)	11,365
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	160,657	258	(6,862)	154,053
Non-agency residential mortgage-backed securities	53,122	—	(7,641)	45,481
Collateralized loan obligations	492,775	—	(14,572)	478,203
Corporate debt securities	165,266	973	(2,968)	163,271
Total securities available-for-sale	\$ 896,956	\$ 1,231	\$ (32,752)	\$ 865,435
December 31, 2021				
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
Total securities available-for-sale	\$ 1,304,723	\$ 18,324	\$ (7,344)	\$ 1,315,703

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 along with the related unrealized loss in accumulated other comprehensive income, is being amortized into interest income as a yield adjustment over the remaining term of the securities.

At June 30, 2022, our investment securities portfolio consisted of agency securities, municipal securities, mortgage-backed securities, collateralized loan obligations (“CLOs”), 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 June 30, 2022 and December 31, 2021. The Company does 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 \$5.5 million and \$4.7 million at June 30, 2022 and December 31, 2021, and is included within other assets in the accompanying consolidated statements of financial condition.

At June 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.

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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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Gross realized gains	\$ —	\$ —	\$ 209	\$ —
Gross realized losses	—	—	(193)	—
Net realized gains on sales and calls	\$ —	\$ —	\$ 16	\$ —
Proceeds from sales and calls	\$ 38,500	\$ 100,230	\$ 56,145	\$ 100,230

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
June 30, 2022						
Securities available-for-sale:						
SBA loan pool securities	\$ —	\$ —	\$ 13,062	\$ (23)	\$ 13,062	\$ (23)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	11,365	(686)	—	—	11,365	(686)
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	86,032	(4,126)	21,159	(2,736)	107,191	(6,862)
Non-agency residential mortgage-backed securities	45,481	(7,641)	—	—	45,481	(7,641)
Collateralized loan obligations	218,486	(6,514)	240,717	(8,058)	459,203	(14,572)
Corporate debt securities	88,532	(2,968)	—	—	88,532	(2,968)
Total securities available-for-sale	\$ 449,896	\$ (21,935)	\$ 274,938	\$ (10,817)	\$ 724,834	\$ (32,752)
December 31, 2021						
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)
Total securities available-for-sale	\$ 284,581	\$ (3,459)	\$ 296,109	\$ (3,885)	\$ 580,690	\$ (7,344)

At June 30, 2022, our securities available-for-sale portfolio consisted of 79 securities, of which 63 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.

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 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 June 30, 2022, all of our collateralized loan obligations investment securities in an unrealized loss position received an investment grade credit rating.

During the three and six months ended June 30, 2022 and 2021, there was no provision for credit losses related to securities held-to-maturity or available-for-sale.

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 June 30, 2022:

(\$ in thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Maturity:				
Within one year	\$ —	\$ —	\$ 592,364	\$ 577,867
One to five years	—	—	162,240	159,271
Five to ten years	19,351	17,134	65,645	60,513
Greater than ten years	309,921	268,538	76,707	67,784
Total	\$ 329,272	\$ 285,672	\$ 896,956	\$ 865,435

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 faster than their contractual maturities due to prepayments and amortization.

Pledged Securities

Investment securities with carrying values of \$123.2 million and \$8.9 million as of June 30, 2022 and December 31, 2021 were pledged to the FRB Discount Window. Investments securities with carrying value of \$205.5 million and zero as of June 30, 2022 and December 31, 2021 were pledged to secure FHLB advances.

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The following table presents the fair value and weighted average yields using amortized cost of the securities held-to-maturity portfolio as of June 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	\$ —	— %	\$ —	— %	\$ —	— %	\$ 135,287	2.69 %	\$ 135,287	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	53,396	2.64 %	53,396	2.64 %
Municipal securities	—	— %	—	— %	17,134	2.19 %	79,855	2.71 %	96,989	2.62 %
Total securities held-to-maturity	\$ —	— %	\$ —	— %	\$ 17,134	2.19 %	\$ 268,538	2.68 %	\$ 285,672	2.66 %

The following table presents the fair value and weighted average yields using amortized cost of the securities available-for-sale portfolio as of June 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	\$ 13,062	1.06 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 13,062	1.06 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	11,365	2.23 %	—	— %	11,365	2.23 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	86,602	1.73 %	9,630	2.24 %	35,518	1.55 %	22,303	1.81 %	154,053	1.73 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	45,481	2.51 %	45,481	2.51 %
Collateralized loan obligations	478,203	2.70 %	—	— %	—	— %	—	— %	478,203	2.70 %
Corporate debt securities	—	— %	149,641	4.71 %	13,630	5.73 %	—	— %	163,271	4.80 %
Total securities available-for-sale	\$ 577,867	2.52 %	\$ 159,271	4.56 %	\$ 60,513	2.52 %	\$ 67,784	2.29 %	\$ 865,435	2.87 %

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)	June 30, 2022	December 31, 2021
Commercial:		
Commercial and industrial ⁽¹⁾	\$ 2,433,464	\$ 2,668,984
Commercial real estate	1,204,414	1,311,105
Multifamily	1,572,308	1,361,054
SBA ⁽²⁾	92,235	205,548
Construction	228,341	181,841
Consumer:		
Single family residential mortgage	1,832,279	1,420,023
Other consumer	88,223	102,925
Total loans	\$ 7,451,264	\$ 7,251,480
Allowance for loan losses	(93,793)	(92,584)
Loans receivable, net	\$ 7,357,471	\$ 7,158,896

(1) Includes warehouse lending balances of \$1.16 billion and \$1.60 billion at June 30, 2022 and December 31, 2021.

(2) Includes 79 PPP loans totaling \$28.4 million at June 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)	June 30, 2022	December 31, 2021
Unpaid principal balance	\$ 7,436,887	\$ 7,245,952
Unamortized net premiums	25,960	18,005
Unamortized net deferred (fees) costs	(902)	819
Unamortized SBA PPP fees	(21)	(831)
Fair value adjustment ⁽¹⁾	(10,660)	(12,465)
Total loans	\$ 7,451,264	\$ 7,251,480

(1) At June 30, 2022, includes \$9.0 million related to the PMB Acquisition, of which \$4.3 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 June 30, 2022:

Term Loans Amortized Cost Basis by Origination Year									
(\$ in thousands)	2022	2021	2020	2019	2018	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
June 30, 2022									
Commercial:									
Commercial and industrial									
Pass	\$ 151,151	\$ 217,900	\$ 69,281	\$ 74,539	\$ 82,341	\$ 181,285	\$ 1,528,413	\$ 11,741	\$ 2,316,651
Special mention	3,367	5,373	30	516	1,877	18,566	13,160	2,516	45,405
Substandard	—	1,265	4,586	14,162	12,377	3,207	35,359	452	71,408
Doubtful	—	—	—	—	—	—	—	—	—
Commercial and industrial	154,518	224,538	73,897	89,217	96,595	203,058	1,576,932	14,709	2,433,464
Commercial real estate									
Pass	188,712	385,057	61,027	118,169	161,165	271,356	1,167	66	1,186,719
Special mention	—	—	—	—	1,909	1,770	—	—	3,679
Substandard	—	—	—	—	4,188	8,936	892	—	14,016
Doubtful	—	—	—	—	—	—	—	—	—
Commercial real estate	188,712	385,057	61,027	118,169	167,262	282,062	2,059	66	1,204,414
Multifamily									
Pass	424,820	405,151	158,545	263,048	116,158	160,374	9,384	—	1,537,480
Special mention	—	—	4,968	—	11,165	—	—	—	16,133
Substandard	—	—	—	—	—	18,695	—	—	18,695
Doubtful	—	—	—	—	—	—	—	—	—
Multifamily	424,820	405,151	163,513	263,048	127,323	179,069	9,384	—	1,572,308
SBA									
Pass	5,310	32,808	9,532	2,453	1,276	23,115	628	156	75,278
Special mention	—	—	—	3,909	219	1,091	—	2	5,221
Substandard	—	—	338	190	385	9,361	666	796	11,736
Doubtful	—	—	—	—	—	—	—	—	—
SBA	5,310	32,808	9,870	6,552	1,880	33,567	1,294	954	92,235

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Construction									
Pass	52,355	86,325	30,183	10,288	15,223	25,446	(26)	—	219,794
Special mention	—	—	—	—	—	8,547	—	—	8,547
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Construction	52,355	86,325	30,183	10,288	15,223	33,993	(26)	—	228,341
Consumer:									
Single family residential mortgage									
Pass	473,398	815,560	77,676	50,930	102,538	290,831	6,135	—	1,817,068
Special mention	651	222	—	670	902	3,547	—	226	6,218
Substandard	—	—	—	339	6,091	2,563	—	—	8,993
Doubtful	—	—	—	—	—	—	—	—	—
Single family residential mortgage	474,049	815,782	77,676	51,939	109,531	296,941	6,135	226	1,832,279
Other consumer									
Pass	12,734	19,886	10,469	6,538	3,843	19,725	12,893	1,639	87,727
Special mention	—	—	—	3	—	21	63	58	145
Substandard	—	—	59	—	73	35	—	184	351
Doubtful	—	—	—	—	—	—	—	—	—
Other consumer	12,734	19,886	10,528	6,541	3,916	19,781	12,956	1,881	88,223
Total loans	\$ 1,312,498	\$ 1,969,547	\$ 426,694	\$ 545,754	\$ 521,730	\$ 1,048,471	\$ 1,608,734	\$ 17,836	\$ 7,451,264
Total loans									
Pass	\$ 1,308,480	\$ 1,962,687	\$ 416,713	\$ 525,965	\$ 482,544	\$ 972,132	\$ 1,558,594	\$ 13,602	\$ 7,240,717
Special mention	4,018	5,595	4,998	5,098	16,072	33,542	13,223	2,802	85,348
Substandard	—	1,265	4,983	14,691	23,114	42,797	36,917	1,432	125,199
Doubtful	—	—	—	—	—	—	—	—	—
Total loans	\$ 1,312,498	\$ 1,969,547	\$ 426,694	\$ 545,754	\$ 521,730	\$ 1,048,471	\$ 1,608,734	\$ 17,836	\$ 7,451,264

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

(\$ in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
	2021	2020	2019	2018	2017	Prior			
December 31, 2021									
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	—	—	—	—	—	—	—	—	—
Commercial and industrial	255,426	87,389	103,524	90,674	67,085	120,453	1,926,015	18,418	2,668,984
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	—	—	—	—	—	—	—	—	—
Commercial real estate	465,524	82,759	140,614	194,188	85,755	329,945	12,249	71	1,311,105
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	—	—	—	—	—	—	—	—	—
Multifamily	410,958	210,384	315,119	168,901	61,457	194,231	4	—	1,361,054
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	—	—	—	—	—	—	—	—	—
SBA	106,749	31,446	11,667	2,583	14,194	36,336	1,527	1,046	205,548

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Construction									
Pass	67,074	32,995	29,038	17,139	25,485	—	—	—	171,731
Special mention	—	—	—	1,607	—	8,503	—	—	10,110
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Construction	67,074	32,995	29,038	18,746	25,485	8,503	—	—	181,841
Consumer:									
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	—	—	—	—	—	—	—	—	—
Single family residential mortgage	713,844	97,983	67,414	152,244	89,790	285,686	12,828	234	1,420,023
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	—	—	—	—	—	—	—	—	—
Other consumer	26,179	13,617	8,909	5,413	9,084	16,002	21,390	2,331	102,925
Total loans	\$ 2,045,754	\$ 556,573	\$ 676,285	\$ 632,749	\$ 352,850	\$ 991,156	\$ 1,974,013	\$ 22,100	\$ 7,251,480
Total loans									
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	—	—	—	—	—	—	—	—	—
Total loans	\$ 2,045,754	\$ 556,573	\$ 676,285	\$ 632,749	\$ 352,850	\$ 991,156	\$ 1,974,013	\$ 22,100	\$ 7,251,480

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
June 30, 2022						
Commercial:						
Commercial and industrial	3,433	2,567	7,204	13,204	2,420,260	2,433,464
Commercial real estate	893	—	—	893	1,203,521	1,204,414
Multifamily	—	—	—	—	1,572,308	1,572,308
SBA	4,766	115	10,087	14,968	77,267	92,235
Construction	—	—	—	—	228,341	228,341
Consumer:						
Single family residential mortgage	23,226	2,848	6,430	32,504	1,799,775	1,832,279
Other consumer	437	—	184	621	87,602	88,223
Total	\$ 32,755	\$ 5,530	\$ 23,905	\$ 62,190	\$ 7,389,074	\$ 7,451,264
December 31, 2021						
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
Total	\$ 36,431	\$ 3,711	\$ 32,609	\$ 72,751	\$ 7,178,729	\$ 7,251,480

Nonaccrual Loans

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

(\$ in thousands)	June 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	\$ 25,380	\$ 6,413	\$ 28,594	\$ 9,137
Commercial real estate	893	893	—	—
SBA	10,537	5,163	16,653	11,443
Consumer:				
Single family residential mortgage	7,341	3,412	7,076	7,076
Other consumer	292	292	235	235
Total nonaccrual loans	\$ 44,443	\$ 16,173	\$ 52,558	\$ 27,891

At June 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 June 30, 2022 and December 31, 2021, there was no other real estate owned. At June 30, 2022, there were four consumer mortgage loans totaling \$4.5 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 (MEVs) released by the model provider during June 2022. The published forecasts consider rising inflation, higher oil prices, ongoing supply chain issues 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 June 30, 2022 and December 31, 2021, the reserve for unfunded loan commitments was \$5.9 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 June 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	\$ 93,226	\$ 5,405	\$ 98,631	\$ 79,353	\$ 3,360	\$ 82,713
Charge-offs	(494)	—	(494)	(886)	—	(886)
Recoveries	1,561	—	1,561	26	—	26
Net recoveries (charge-offs)	1,067	—	1,067	(860)	—	(860)
(Reversal of) provision for credit losses	(500)	500	—	(2,608)	454	(2,154)
Balance at end of period	\$ 93,793	\$ 5,905	\$ 99,698	\$ 75,885	\$ 3,814	\$ 79,699

(\$ in thousands)	Six Months Ended June 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	(725)	—	(725)	(1,451)	—	(1,451)
Recoveries	33,776	—	33,776	198	—	198
Net charge-offs	33,051	—	33,051	(1,253)	—	(1,253)
(Reversal of) provision for credit losses	(31,842)	300	(31,542)	(3,892)	631	(3,261)
Balance at end of period	\$ 93,793	\$ 5,905	\$ 99,698	\$ 75,885	\$ 3,814	\$ 79,699

During the six months ended June 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 \$26.6 million and \$25.8 million at June 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 estimate of expected credit losses.

The following table presents the activity and balance in the ALL and the recorded investment, excluding accrued interest, in loans as of or for the three and six months ended June 30, 2022:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Single Family Residential Mortgage	Other Consumer	Total
ALL:								
<i>Three Months Ended June 30, 2022:</i>								
Balance at March 31, 2022	\$ 39,967	\$ 16,490	\$ 15,337	\$ 3,041	\$ 6,268	\$ 11,029	\$ 1,094	\$ 93,226
Charge-offs	(138)	—	—	(139)	—	—	(217)	(494)
Recoveries	1,400	—	—	3	—	154	4	1,561
Net recoveries (charge-offs)	1,262	—	—	(136)	—	154	(213)	1,067
Provision for (reversal of) credit losses - loans	184	(748)	341	128	(2,013)	1,622	(14)	(500)
Balance at June 30, 2022	\$ 41,413	\$ 15,742	\$ 15,678	\$ 3,033	\$ 4,255	\$ 12,805	\$ 867	\$ 93,793
<i>Six Months Ended June 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	(320)	—	—	(152)	—	(10)	(243)	(725)
Recoveries	32,817	—	—	761	—	192	6	33,776
Net recoveries (charge-offs)	32,497	—	—	609	—	182	(237)	33,051
Provision for (reversal of) credit losses - loans	(24,641)	(5,985)	(2,215)	(593)	(1,367)	3,015	(56)	(31,842)
Balance at June 30, 2022	\$ 41,413	\$ 15,742	\$ 15,678	\$ 3,033	\$ 4,255	\$ 12,805	\$ 867	\$ 93,793

The following table presents the activity and balance in the ALL and the recorded investment, excluding accrued interest, in loans as of or for the three and six months ended June 30, 2021:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Single Family Residential Mortgage	Other Consumer	Total
ALL:								
<i>Three Months Ended June 30, 2021:</i>								
Balance at March 31, 2021	\$ 19,703	\$ 17,100	\$ 23,884	\$ 3,451	\$ 5,552	\$ 9,161	\$ 502	\$ 79,353
Charge-offs	(500)	—	—	(386)	—	—	—	(886)
Recoveries	23	—	—	3	—	—	—	26
Net (charge-offs) recoveries	(477)	—	—	(383)	—	—	—	(860)
(Reversal of) provision for credit losses - loans	930	(676)	(2,481)	628	(818)	(53)	(138)	(2,608)
Balance at June 30, 2021	\$ 20,156	\$ 16,424	\$ 21,403	\$ 3,696	\$ 4,734	\$ 9,108	\$ 364	\$ 75,885
<i>Six Months Ended June 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	(1,065)	—	—	(386)	—	—	—	(1,451)
Recoveries	68	—	—	129	—	—	1	198
Net (charge-offs) recoveries	(997)	—	—	(257)	—	—	1	(1,253)
Provision for (reversal of) credit losses - loans	545	(2,650)	(1,109)	808	(1,115)	(83)	(288)	(3,892)
Balance at June 30, 2021	\$ 20,156	\$ 16,424	\$ 21,403	\$ 3,696	\$ 4,734	\$ 9,108	\$ 364	\$ 75,885

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 ACL 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)	June 30, 2022				
	Real Estate		Business Assets	Automobile	Total
	Commercial	Residential			
Commercial:					
Commercial and industrial	\$ 12,349	\$ —	\$ 4,316	\$ —	\$ 16,665
Commercial real estate	893	—	—	—	893
SBA	98	4,710	5,729	—	10,537
Consumer:					
Single family residential mortgage	—	8,789	—	—	8,789
Other consumer	—	184	—	111	295
Total loans	\$ 13,340	\$ 13,683	\$ 10,045	\$ 111	\$ 37,179

(\$ 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
Total loans	\$ 14,207	\$ 18,507	\$ 16,287	\$ 235	\$ 49,236

Troubled Debt Restructurings

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

(\$ in thousands)	June 30, 2022	December 31, 2021
Commercial:		
Commercial and industrial	\$ 19,778	\$ 5,241
Commercial real estate	4,187	4,243
SBA	522	265
Consumer:		
Single family residential mortgage	1,448	6,935
Total	\$ 25,935	\$ 16,684

We had commitments to lend to customers with outstanding loans that were classified as TDRs of \$769 thousand and \$63 thousand at June 30, 2022 and December 31, 2021. Accruing TDRs were \$10.9 million and nonaccrual TDRs were \$15.0 million at June 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 six months ended June 30, 2022 was due mostly to the modification of a non-performing PCD loan acquired in the PMB acquisition.

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

(\$ in thousands)	Three Months Ended			Six 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
June 30, 2022						
Commercial:						
Commercial and industrial ⁽¹⁾	—	\$ —	\$ —	1	\$ 12,840	\$ 12,840
SBA	2	833	833	2	833	833
Total	2	\$ 833	\$ 833	3	\$ 13,673	\$ 13,673
June 30, 2021						
Consumer:						
Single family residential mortgage ⁽¹⁾	—	\$ —	\$ —	1	\$ 1,800	\$ 1,800
Total	—	\$ —	\$ —	1	\$ 1,800	\$ 1,800

(1) Modifications during the three and six months ended June 30, 2022 and 2021 consisted of extensions of maturity.

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 six months ended June 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 six months ended June 30, 2022, we purchased loans aggregating \$277.2 million and \$641.5 million. During the three and six months ended June 30, 2021, we purchased loans aggregating \$233.1 million and \$366.0 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 six months ended June 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 June 30, 2022 and December 31, 2021, the NTM loans totaled \$841.1 million, or 11.3% 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 June 30, 2022 and December 31, 2021, interest only loans totaled \$833.6 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 June 30, 2022 and December 31, 2021, Green Loans totaled \$7.4 million and \$21.9 million.

At June 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 June 30, 2022, our NTM first lien portfolio had a weighted average LTV of approximately 60%.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS, NET

At June 30, 2022 and December 31, 2021, we had goodwill of \$95.1 million and \$94.3 million. We evaluate goodwill for impairment as of October 1st 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.

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

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Goodwill, beginning of period	\$ 95,127	\$ 37,144	\$ 94,301	\$ 37,144
Goodwill adjustments for purchase accounting	—	—	826	—
Goodwill, end of period	\$ 95,127	\$ 37,144	\$ 95,127	\$ 37,144
Accumulated impairment losses at end of period	\$ 2,100	\$ 2,100	\$ 2,100	\$ 2,100

During the six months ended June 30, 2022, goodwill was adjusted for fair value and deferred tax adjustments related to the PMB acquisition.

Core deposit intangibles are amortized over their useful lives of ten years and reviewed for impairment at least quarterly. As of June 30, 2022, the weighted average remaining amortization period for core deposit intangibles was approximately 7.6 years.

The following table presents changes in the carrying amount of intangible assets, net for the periods indicated:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Core deposit intangibles:				
Balance, beginning of period	\$ 34,978	\$ 30,904	\$ 35,958	\$ 30,904
Core deposit intangible adjustments for purchase accounting	—	—	(980)	—
Balance, end of period	34,978	30,904	34,978	30,904
Accumulated amortization:				
Balance, beginning of period	29,988	28,553	29,547	28,271
Amortization of intangible assets	313	282	754	564
Balance, end of period	30,301	28,835	30,301	28,835
Intangible assets, net	\$ 4,677	\$ 2,069	\$ 4,677	\$ 2,069

The following table presents estimated future amortization expense of intangible assets, net as of June 30, 2022:

(\$ in thousands)	Remainder of 2022	2023	2024	2025	2026	2027 and After	Total
Estimated future amortization expense	\$ 745	\$ 1,092	\$ 719	\$ 420	\$ 373	\$ 1,328	\$ 4,677

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)	June 30, 2022	December 31, 2021
Fixed rate:		
Outstanding balance ⁽¹⁾	\$ 411,000	\$ 411,000
Interest rates ranging from	0.64 %	0.64 %
Interest rates ranging to	3.32 %	3.32 %
Weighted average interest rate	2.53 %	2.53 %
Variable rate:		
Outstanding balance	\$ 105,000	\$ 70,000
Weighted average interest rate	1.64 %	0.20 %

(1) Excludes \$4.3 million and \$4.9 million of unamortized debt issuance costs at June 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 June 30, 2022, FHLB advances included \$105.0 million in overnight borrowings with a weighted average interest rate of 1.64% and \$411.0 million in term advances with a weighted average life of 3.5 years and weighted average interest rate of 2.53%.

Investments securities with carrying value of \$205.5 million as of June 30, 2022 were pledged to secure FHLB advances. The Bank's advances from the FHLB are also collateralized by a blanket lien on all real estate loans. Our secured borrowing capacity with the FHLB totaled \$1.76 billion, of which the Bank was eligible to borrow an additional \$985.4 million at June 30, 2022 based on qualifying loans with an aggregate unpaid principal balance of \$2.38 billion as of that date.

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

FRB Borrowings

At June 30, 2022, the Bank had borrowing capacity with the Federal Reserve Bank of San Francisco (the "Federal Reserve") of \$789.0 million, including the secured borrowing capacity through the Federal Reserve Discount Window and Borrower-in-Custody ("BIC") program. At June 30, 2022, the Bank has pledged certain qualifying loans with an unpaid principal balance of \$1.01 billion and securities with a carrying value of \$123.2 million as collateral for these lines of credit.

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 at June 30, 2022 and December 31, 2021.

There were no borrowings under this arrangement for the three and six months ended June 30, 2022 and 2021.

The Bank's investment in capital stock of the Federal Reserve totaled \$34.2 million and \$27.3 million at June 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 June 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 at June 30, 2022 and December 31, 2021. Borrowings under the AFX totaled \$85.0 million and \$25.0 million at June 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 \$13.0 million and zero in borrowings under this line of credit at June 30, 2022 and December 31, 2021. At June 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 June 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	June 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	\$ (910)	\$ 175,000	\$ (1,014)
Subordinated notes	4.375%	10/30/2030	85,000	(2,030)	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	—
Total			\$ 277,527	\$ (2,940)	\$ 277,527	\$ (3,141)

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

NOTE 8 – INCOME TAXES

For the three and six months ended June 30, 2022, income tax expense was \$10.2 million and \$28.9 million, resulting in an effective tax rate of 27.6% and 27.8%. For the three and six months ended June 30, 2021, income tax expense was \$6.6 million and \$8.9 million, resulting in an effective tax rate of 25.6% and 20.9%. The effective tax rate for the three and six months ended June 30, 2022 and for the three months ended June 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 six months ended June 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 \$2.6 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 \$54.5 million and \$50.8 million at June 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 \$955 thousand and \$925 thousand at June 30, 2022 and December 31, 2021, respectively. We do not believe that the unrecognized tax benefits will change materially in the next twelve months. As of June 30, 2022, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was \$725 thousand.

At June 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 six months ended June 30, 2022, changes in fair value of interest rate swaps on loans and foreign exchange contracts were gains of \$82 thousand and \$185 thousand and were included in other income on the consolidated statements of operations. During the three and six months ended June 30, 2021, changes in fair value of interest rate swaps on loans and foreign exchange contracts were losses of \$71 thousand and gains of \$200 thousand.

The following table presents the notional amount and fair value of derivative instruments included in the consolidated statements of financial condition as of the dates indicated.

(\$ in thousands)	June 30, 2022		December 31, 2021	
	Notional Amount	Fair Value ⁽¹⁾	Notional Amount	Fair Value ⁽¹⁾
Derivative assets:				
Interest rate swaps on loans	\$ 34,702	\$ 1,074	\$ 58,834	\$ 3,390
Foreign exchange contracts	5,511	186	4,725	175
Total	\$ 40,213	\$ 1,260	\$ 63,559	\$ 3,565
Derivative liabilities:				
Interest rate swaps on loans	\$ 34,702	\$ 1,082	\$ 58,834	\$ 3,594
Foreign exchange contracts	5,511	168	4,725	146
Total	\$ 40,213	\$ 1,250	\$ 63,559	\$ 3,740

(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 June 30, 2022, 2,169,018 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Restricted stock awards and units	\$ 1,482	\$ 1,338	\$ 2,767	\$ 2,882
Related tax benefits	\$ 428	\$ 394	\$ 799	\$ 849

Total stock-based compensation expense represents the cost of time-based and performance-based stock units and awards. At June 30, 2022, unrecognized compensation expense related to restricted stock awards and restricted stock units totaled \$14.2 million and will be recognized over a weighted average remaining period of 3.0 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 valued at the closing price of our stock on the measurement date. 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 six months ended June 30, 2022:

	Three Months Ended June 30, 2022		Six Months Ended June 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	784,791	\$ 18.08	649,010	\$ 17.17
Granted ⁽¹⁾	750,615	\$ 11.52	1,021,182	\$ 13.65
Vested ⁽²⁾	(122,738)	\$ 15.66	(239,319)	\$ 16.34
Forfeited ⁽³⁾	(9,608)	\$ 19.31	(27,813)	\$ 17.28
Outstanding at end of period	1,403,060	\$ 14.77	1,403,060	\$ 14.77

(1) There were 695,567 and 764,692 performance-based shares/units included in shares granted for the three and six months ended June 30, 2022.

(2) There were 24,783 and 24,783 performance-based shares/units included in vested shares for the three and six months ended June 30, 2022.

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

Stock Options

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

(\$ in thousands, except per share data)	Three Months Ended June 30, 2022			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	14,904	\$ 13.05		
Exercised	—	\$ —		
Outstanding at end of period	14,904	\$ 13.05	2.8 years	\$ 68
Exercisable at end of period	14,904	\$ 13.05	2.8 years	\$ 68

The following table represents stock option activity for the six months ended June 30, 2022:

(\$ in thousands, except per share data)	Six Months Ended June 30, 2022			
	Number of Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contract Term	Aggregated Intrinsic Value
Outstanding at beginning of period	14,904	\$ 13.05		
Exercised	—	\$ —		
Outstanding at end of period	14,904	\$ 13.05	2.8 years	\$ 68
Exercisable at end of period	14,904	\$ 13.05	2.8 years	\$ 68

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 six months ended June 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)	June 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
Total	—	\$ —	\$ —	98,702	\$ 98,702	\$ 94,956

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

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Series D Preferred Stock:				
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
Series E Preferred Stock:				
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 Depositary 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 Depositary 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 June 30, 2022, common stock repurchased under the program totaled 2,113,176 shares at a weighted average price of \$18.38. During the six months ended June 30, 2022, common stock repurchased under the program totaled 2,328,726 shares at a weighted average price of \$18.52. As of June 30, 2022, the Company had \$31.9 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 AFS debt securities to HTM. 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ (19,172)	\$ 5,185	\$ 7,743	\$ 7,746
Unrealized loss on securities available-for-sale:				
Unrealized loss arising during the period	(21,016)	13,550	(59,103)	9,912
Reclassification adjustment from other comprehensive income	—	—	(16)	—
Total unrealized loss on securities available-for-sale	(21,016)	13,550	(59,119)	9,912
Amortization of unrealized loss of available-for-sale securities transferred to held-to-maturity	246	—	333	—
Tax effect of current period changes	5,883	(3,995)	16,984	(2,918)
Total changes, net of taxes	(14,887)	9,555	(41,802)	6,994
Balance at end of period	\$ (34,059)	\$ 14,740	\$ (34,059)	\$ 14,740

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 June 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 \$23.5 million and \$25.9 million at June 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Fundings	\$ —	\$ —	\$ —	\$ —
Cash distribution from investment	582	570	1,156	1,108
(Loss) gain on investments in alternative energy partnerships	(1,043)	829	(1,201)	(2,801)
Income tax credits recognized	—	—	—	—
Tax expense (benefit) recognized from HLBV application	(301)	228	(347)	(770)

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)	June 30, 2022	December 31, 2021
Cash	\$ 2,367	\$ 4,227
Equipment, net of depreciation	242,097	246,421
Other assets	9,311	9,098
Total unconsolidated assets	\$ 253,775	\$ 259,746
Total unconsolidated liabilities	\$ 9,292	\$ 12,129
Maximum loss exposure	\$ 23,531	\$ 25,888

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 \$23.5 million, which is our recorded investment amount at June 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 June 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)	June 30, 2022	December 31, 2021
Ending balance ⁽¹⁾	\$ 44,006	\$ 38,982
Aggregate funding commitment	67,961	61,278
Total amount funded	53,038	51,014
Unfunded commitment	14,923	10,264
Maximum loss exposure	44,006	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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Fundings	\$ 919	\$ 1,161	\$ 2,024	\$ 2,164
Proportional amortization recognized	1,027	881	2,573	2,063
Income tax credits recognized	1,163	1,158	2,536	2,311

NOTE 13 – EARNINGS PER COMMON SHARE

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

(\$ in thousands except per share data)	Three Months Ended June 30, 2022		Six Months Ended June 30, 2022	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Net income	\$ 26,504	\$ 208	\$ 74,645	\$ 579
Less: preferred stock dividends	—	—	(1,409)	(11)
Less: preferred stock redemption	—	—	(3,718)	(29)
Net income allocated to common stockholders	\$ 26,504	\$ 208	\$ 69,518	\$ 539
Weighted average common shares outstanding	60,873,481	477,321	61,497,261	477,321
Dilutive effects of restricted shares/units	245,571	—	269,093	—
Dilutive effects of stock options	4,242	—	4,701	—
Average shares and dilutive common shares	61,123,294	477,321	61,771,055	477,321
Basic earnings per common share	\$ 0.44	\$ 0.44	\$ 1.13	\$ 1.13
Diluted earnings per common share	\$ 0.43	\$ 0.44	\$ 1.13	\$ 1.13

For the three and six months ended June 30, 2022, there were 354,484 and 806 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 six months ended June 30, 2021:

(\$ in thousands except per share data)	Three Months Ended June 30, 2021		Six Months Ended June 30, 2021	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Net income	\$ 18,870	\$ 180	\$ 33,109	\$ 316
Less: income allocated to participating securities	—	—	(121)	(1)
Less: preferred stock dividends	(1,711)	(16)	(4,822)	(46)
Less: preferred stock redemption	—	—	(3,315)	(32)
Net income allocated to common stockholders	\$ 17,159	\$ 164	\$ 24,851	\$ 237
Weighted average common shares outstanding	50,172,865	477,321	50,024,048	477,321
Dilutive effects of stock units	238,008	—	302,848	—
Dilutive effects of stock options	4,008	—	6,068	—
Average shares and dilutive common shares	50,414,881	477,321	50,332,964	477,321
Basic earnings per common share	\$ 0.34	\$ 0.34	\$ 0.50	\$ 0.50
Diluted earnings per common share	\$ 0.34	\$ 0.34	\$ 0.49	\$ 0.50

For the three and six months ended June 30, 2021, there were 218,829 and 134,037 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)	June 30, 2022		December 31, 2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	\$ 48,805	\$ 185,478	\$ 37,107	\$ 136,921
Unused lines of credit	4,454	1,995,891	6,894	1,699,933
Letters of credit	2,825	7,299	2,553	5,617

Other Commitments

At June 30, 2022, we had unfunded commitments of \$14.9 million, \$9.4 million, and \$7.9 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Noninterest income				
<i>In scope of Topic 606</i>				
Deposit service fees	\$ 1,627	\$ 825	\$ 3,281	\$ 1,635
Debit card fees	542	496	995	883
Other	137	102	296	181
Noninterest income (in-scope of Topic 606)	2,306	1,423	4,572	2,699
Noninterest income (out-of-scope of Topic 606)	4,880	2,020	8,524	5,553
Total noninterest income	\$ 7,186	\$ 3,443	\$ 13,096	\$ 8,252

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

Sale-leaseback Transaction: In January 2022, we completed a sale-leaseback transaction for one of our branch locations. We sold the branch for \$2.4 million and recognized a gain of \$771 thousand which is 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 June 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 \$208 thousand for the three and six months ended June 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 amount of \$156 thousand for the three and six months ended June 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 June 30, 2022 through the issuance of these consolidated financial statements included in this Quarterly Report on Form 10-Q.

Subsequent to June 30, 2022, we repurchased 485,282 shares of common stock at a weighted average price of \$18.07, or \$8.8 million. Since the announcement of the stock repurchase program on March 15, 2022, we have repurchased a total of 2,813,978 shares of common stock at a weighted average price of \$18.45 per share, or \$51.9 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 June 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 six months ended June 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 June 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 31 full service branches in Orange, Los Angeles, San Diego, and Santa Barbara Counties. Through our over 670 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 continue to grow average loans and earning assets, improve our deposit mix, reduce our cost of deposits, and maintain disciplined expense control. Strong loan production helped to offset runoff in certain legacy areas of our portfolio. Our loan pipeline is steadily building which is expected to support continued loan and earning asset growth through the year, assuming improving economic trends continue.

On October 18, 2021, we consummated our merger with Pacific Mercantile Bancorp (PMB). Through these efforts, we continue to transform our franchise into a relationship-focused community bank, maintaining our credit quality and serving businesses, entrepreneurs and individuals within our footprint.

Financial Highlights

For the second quarter of 2022, net income and net income available to common stockholders was \$26.7 million, or \$0.43 per diluted common share. This compares to net income of \$48.5 million and net income available to common stockholders of \$43.3 million, or \$0.69 per diluted common share, for the first quarter of 2022 and net income of \$19.1 million and net income available to common stockholders of \$17.3 million, or \$0.34 per diluted common share, for the second quarter of 2021. The first quarter of 2022 net income available to common stockholders included a \$31.3 million pre-tax recovery from the settlement of a previously charged-off loan and a \$3.7 million after-tax charge related to the redemption of Series E Preferred Stock. The operating results of PMB have been included since the date of acquisition in the fourth quarter of 2021 and consequently, may impact the comparison of the financial results for the periods presented.

Financial results for the second quarter of 2022 included:

- Adjusted EPS of \$0.45
- Return on average assets of 1.15%, compared to 2.09% in the prior quarter
- Pre-tax pre-provision return on average assets of 1.58%, up from 1.54% in the prior quarter
- Net interest margin of 3.58%, an increase of 7 basis points from the prior quarter
- Average noninterest-bearing deposits of 38%, flat with the prior quarter
- Book value per common share of \$15.70, up from \$15.65 in the prior quarter
- Tangible common equity per common share of \$14.05, flat with the prior quarter
- Average cost of total deposits of 0.17%, an increase of 9 basis points from the prior quarter
- Allowance for credit losses at 1.34% of total loans and 224% of non-performing loans, up from 1.32% and 181% in the prior quarter
- Repurchased \$38.9 million of common stock during the quarter and \$51.9 million cumulatively through July 20

COVID-19 Operational Update

The markets in which we operate are impacted by continuing uncertainty about the pace and strength of reopening and recovering from the COVID-19 pandemic. Despite the challenges created by the pandemic, we continue to execute on our strategic initiatives and the transformation of our balance sheet. All of our branches have been reopened, including those branches in overlapping areas we temporarily closed at the beginning of the pandemic to ensure an adequate balance between employee and client safety and business continuity to meet our clients' banking needs. We have adopted a hybrid workplace environment, allowing many of our employees outside of our branches the flexibility to continue to work remotely. We encourage our employees to get vaccinated and we continue to monitor all federal, state, and local laws to ensure we are in compliance with the latest health orders.

As of June 30, 2022, we have helped businesses through the funding of \$411 million in PPP loans and continue to support our clients as we work with them through the forgiveness process. Prior to acquisition, PMB originated \$390 million in PPP loans. At June 30, 2022, outstanding PPP loans totaled \$28.4 million, net of fees, of which \$6.1 million related to round one and \$22.3 million related to round two of the SBA program.

Borrower Payment Relief Efforts

We have been committed to supporting our customers during this period of economic uncertainty. We actively engaged with our borrowers seeking payment relief and waived certain fees for impacted clients. One method we deployed was to offer forbearance and deferments to qualified clients. For single-family residential mortgage loans, the forbearance period was initially 90 days in length and was patterned after the HUD guidelines where applicable. With respect to our non-SFR loan portfolio, the forbearance and deferment periods were also initially 90 days in length and were permitted to be extended. For those commercial borrowers that demonstrated a continuing need for a deferral, we generally obtained credit enhancements such as additional collateral, personal guarantees, and/or reserve requirements in order to grant an additional deferral period. As of June 30, 2022, we no longer offer COVID-related deferments or forbearances, and we do not have any deferments or forbearances outstanding.

For a discussion of the risk factors related to COVID-19, please refer to Part II, Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021.

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 June 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 June 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.

The estimates used to determine the fair values of assets and liabilities acquired in a business combination can be complex and require judgment. 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. 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 intangible assets 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 intangible assets, by average tangible common equity. Banking regulators also exclude goodwill and other intangible assets 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.

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

	June 30, 2022	December 31, 2021
Tangible common equity, and tangible common equity to tangible assets ratio		
Total assets	\$ 9,502,113	\$ 9,393,743
Less goodwill	(95,127)	(94,301)
Less other intangible assets	(4,677)	(6,411)
Tangible assets ⁽¹⁾	<u>\$ 9,402,309</u>	<u>\$ 9,293,031</u>
Total stockholders' equity	\$ 949,130	\$ 1,065,290
Less preferred stock	—	(94,956)
Total common stockholders' equity	<u>\$ 949,130</u>	<u>\$ 970,334</u>
Total stockholders' equity	\$ 949,130	\$ 1,065,290
Less goodwill	(95,127)	(94,301)
Less other intangible assets	(4,677)	(6,411)
Tangible equity ⁽¹⁾	<u>849,326</u>	<u>964,578</u>
Less preferred stock	—	(94,956)
Tangible common equity ⁽¹⁾	<u>\$ 849,326</u>	<u>\$ 869,622</u>
Total stockholders' equity to total assets	9.99 %	11.34 %
Tangible equity to tangible assets ⁽¹⁾	9.03 %	10.38 %
Tangible common equity to tangible assets ⁽¹⁾	9.03 %	9.36 %
Common shares outstanding	59,985,736	62,188,206
Class B non-voting non-convertible common shares outstanding	477,321	477,321
Total common shares outstanding	<u>60,463,057</u>	<u>62,665,527</u>
Book value per common share	\$ 15.70	\$ 15.48
Tangible common equity per common share ⁽¹⁾	\$ 14.05	\$ 13.88

(1) Non-GAAP measure.

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(Dollars in thousands) (Unaudited)	Three Months Ended			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Return on tangible common equity					
Average total stockholders' equity	\$ 969,885	\$ 1,049,912	\$ 814,973	\$ 1,009,677	\$ 851,371
Less average preferred stock	—	(75,965)	(94,956)	(37,773)	(129,733)
Average total common stockholders' equity	969,885	973,947	720,017	971,904	721,638
Less average goodwill	(95,127)	(94,307)	(37,144)	(94,719)	(37,144)
Less average other intangible assets	(4,869)	(6,224)	(2,224)	(5,543)	(2,370)
Average tangible common equity ⁽¹⁾	\$ 869,889	\$ 873,416	\$ 680,649	\$ 871,642	\$ 682,124
Net income available to common stockholders	\$ 26,712	\$ 43,345	\$ 17,323	\$ 70,057	\$ 25,088
Add amortization of intangible assets	313	441	282	754	564
Less tax effect on amortization of intangible assets ⁽²⁾	(66)	(93)	(59)	(158)	(118)
Net income available to common stockholders ⁽¹⁾	\$ 26,959	\$ 43,693	\$ 17,546	\$ 70,653	\$ 25,534
Return on average equity	11.05 %	18.74 %	9.38 %	15.02 %	7.92 %
Return on average tangible common equity ⁽¹⁾	12.43 %	20.29 %	10.34 %	16.35 %	7.55 %

(1) Non-GAAP measure.

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

(Dollars in thousands) (Unaudited)	Three Months Ended			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Adjusted noninterest expense					
Total noninterest expense	\$ 48,612	\$ 46,596	\$ 39,832	\$ 95,208	\$ 86,995
Noninterest expense adjustments:					
Professional recoveries (fees)	(455)	106	1,284	(349)	563
Merger-related costs	—	—	(700)	—	(1,400)
Noninterest expense adjustments before (loss) gain in alternative energy partnership investments	(455)	106	584	(349)	(837)
(Loss) gain in alternative energy partnership investments	(1,043)	(158)	829	(1,201)	(2,801)
Total noninterest expense adjustments	(1,498)	(52)	1,413	(1,550)	(3,638)
Adjusted noninterest expense ⁽¹⁾	\$ 47,114	\$ 46,544	\$ 41,245	\$ 93,658	\$ 83,357
Average assets	\$ 9,342,696	\$ 9,392,305	\$ 7,827,006	\$ 9,367,364	\$ 7,843,885
Noninterest expense to average total assets	2.09 %	2.01 %	2.04 %	2.05 %	2.24 %
Adjusted noninterest expense to average total assets ⁽¹⁾	2.02 %	2.01 %	2.11 %	2.02 %	2.14 %

(1) Non-GAAP measure.

(Dollars in thousands) (Unaudited)	Three Months Ended			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Adjusted pre-tax pre-provision income					
Net interest income	\$ 78,299	\$ 76,441	\$ 59,847	\$ 154,740	\$ 117,763
Noninterest income	7,186	5,910	3,443	13,096	8,252
Total revenue	85,485	82,351	63,290	167,836	126,015
Noninterest expense	48,612	46,596	39,832	95,208	86,995
Pre-tax pre-provision income ⁽¹⁾	\$ 36,873	\$ 35,755	\$ 23,458	\$ 72,628	\$ 39,020
Total revenue	\$ 85,485	\$ 82,351	\$ 63,290	\$ 167,836	\$ 126,015
Noninterest expense	48,612	46,596	39,832	95,208	86,995
Total noninterest expense adjustments	(1,498)	(52)	1,413	(1,550)	(3,638)
Adjusted noninterest expense ⁽¹⁾	47,114	46,544	41,245	93,658	83,357
Adjusted pre-tax pre-provision income ⁽¹⁾	\$ 38,371	\$ 35,807	\$ 22,045	\$ 74,178	\$ 42,658
Average assets	\$ 9,342,696	\$ 9,392,305	\$ 7,827,006	\$ 9,367,364	\$ 7,843,885
Pre-tax pre-provision income ROAA ⁽¹⁾	1.58 %	1.54 %	1.20 %	1.56 %	1.00 %
Adjusted pre-tax pre-provision income ROAA ⁽¹⁾	1.65 %	1.55 %	1.13 %	1.60 %	1.10 %
Efficiency ratio ⁽¹⁾	56.87 %	56.58 %	62.94 %	56.73 %	69.04 %
Adjusted efficiency ratio ⁽¹⁾	55.11 %	56.52 %	65.17 %	55.80 %	66.15 %

(1) Non-GAAP measure.

	Three Months Ended			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Adjusted net income					
Net income ⁽¹⁾	\$ 26,712	\$ 48,512	\$ 19,050	\$ 75,224	\$ 33,425
Adjustments:					
Noninterest expense adjustments	1,498	52	(1,413)	1,550	3,638
Tax impact of adjustments above ⁽²⁾	(443)	(15)	418	(458)	(1,076)
Tax impact from exercise of stock appreciation rights	—	—	—	—	(2,093)
Adjustments to net income	1,055	37	(995)	1,092	469
Adjusted net income ⁽³⁾	\$ 27,767	\$ 48,549	\$ 18,055	\$ 76,316	\$ 33,894
Average assets	\$ 9,342,696	\$ 9,392,305	\$ 7,827,006	\$ 9,367,364	\$ 7,843,885
ROAA	1.15 %	2.09 %	0.98 %	1.62 %	0.86 %
Adjusted ROAA ⁽³⁾	1.19 %	2.10 %	0.93 %	1.64 %	0.87 %
Adjusted net income available to common stockholders					
Net income available to common stockholders	\$ 26,712	\$ 43,345	\$ 17,323	\$ 70,057	\$ 25,088
Adjustments to net income	1,055	37	(995)	1,092	469
Adjustments for impact of preferred stock redemption	—	3,747	—	3,747	3,347
Adjusted net income available to common stockholders ⁽³⁾	\$ 27,767	\$ 47,129	\$ 16,328	\$ 74,896	\$ 28,904
Average diluted common shares	61,600,615	62,906,003	50,892,202	62,248,376	50,810,285
Diluted EPS	\$ 0.43	\$ 0.69	\$ 0.34	\$ 1.13	\$ 0.49
Adjusted diluted EPS ⁽³⁾⁽⁴⁾	\$ 0.45	\$ 0.75	\$ 0.32	\$ 1.20	\$ 0.57

(1) Net income for the three months ended March 31, 2022 and six months ended June 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 June 30, 2022, March 31, 2022 and June 30, 2021:

(\$ in thousands)	Three Months Ended								
	June 30, 2022			March 31, 2022			June 30, 2021		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
Interest-earning assets:									
Total loans ⁽¹⁾⁽²⁾	\$ 7,269,655	\$ 78,895	4.35 %	\$ 7,262,774	\$ 76,234	4.26 %	\$ 5,771,415	\$ 61,900	4.30 %
Securities	1,216,612	8,124	2.68 %	1,292,079	7,309	2.29 %	1,308,230	6,986	2.14 %
Other interest-earning assets ⁽³⁾	295,715	1,399	1.90 %	265,339	726	1.11 %	258,915	791	1.23 %
Total interest-earning assets	8,781,982	88,418	4.04 %	8,820,192	84,269	3.87 %	7,338,560	69,677	3.81 %
Allowance for loan losses	(94,217)			(92,618)			(79,103)		
BOLI and noninterest-earning assets ⁽⁴⁾	654,931			664,731			567,549		
Total assets	\$ 9,342,696			\$ 9,392,305			\$ 7,827,006		
Interest-bearing liabilities:									
Interest-bearing checking	\$ 2,363,233	1,457	0.25 %	\$ 2,409,262	641	0.11 %	\$ 2,182,419	679	0.12 %
Savings and money market	1,598,663	860	0.22 %	1,673,244	510	0.12 %	1,638,105	2,244	0.55 %
Certificates of deposit	631,415	863	0.55 %	508,244	237	0.19 %	633,101	620	0.39 %
Total interest-bearing deposits	4,593,311	3,180	0.28 %	4,590,750	1,388	0.12 %	4,453,625	3,543	0.32 %
FHLB advances	485,629	3,114	2.57 %	459,749	2,953	2.60 %	418,111	2,944	2.82 %
Other borrowings	117,688	325	1.11 %	116,495	55	0.19 %	17,920	4	0.09 %
Long-term debt	274,515	3,500	5.11 %	274,417	3,432	5.07 %	256,492	3,339	5.22 %
Total interest-bearing liabilities	5,471,143	10,119	0.74 %	5,441,411	7,828	0.58 %	5,146,148	9,830	0.77 %
Noninterest-bearing deposits	2,804,877			2,795,633			1,767,711		
Noninterest-bearing liabilities	96,791			105,349			98,174		
Total liabilities	8,372,811			8,342,393			7,012,033		
Total stockholders' equity	969,885			1,049,912			814,973		
Total liabilities and stockholders' equity	\$ 9,342,696			\$ 9,392,305			\$ 7,827,006		
Net interest income/spread		\$ 78,299	3.30 %		\$ 76,441	3.29 %		\$ 59,847	3.04 %
Net interest margin⁽⁵⁾			3.58 %			3.51 %			3.27 %
Ratio of interest-earning assets to interest-bearing liabilities	161 %			162 %			143 %		
Total deposits⁽⁶⁾	7,398,188	3,180	0.17 %	7,386,383	1,388	0.08 %	6,221,336	3,543	0.23 %
Total funding⁽⁷⁾	8,276,020	10,119	0.49 %	8,237,044	7,828	0.39 %	6,913,859	9,830	0.57 %

(1) Includes average loans held for sale of \$3.6 million, \$3.4 million and \$2.0 million for the three months ended June 30, 2022, March 31, 2022 and June 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. Nonaccrual loans are included in the average balance. Interest income includes net accretion of deferred loan fees of \$610 thousand, \$1.1 million and \$1.0 million and net amortization of premium on purchased loans of \$363 thousand, \$(1.0) million and \$(1.0) million for the three months ended June 30, 2022, March 31, 2022 and June 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 \$124.8 million, \$124.0 million and \$112.7 million for the three months ended June 30, 2022, March 31, 2022 and June 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 June 30, 2022 Compared to Three Months Ended March 31, 2022

Net interest income increased \$1.9 million to \$78.3 million for the second quarter due to higher yield on interest-earning assets, offset by lower average interest-earning assets and higher average interest-bearing liabilities balances and costs.

The net interest margin increased 7 basis points to 3.58% for the second quarter as the average interest-earning assets yield increased 17 basis points and the cost of average total funding increased 10 basis points. The yield on average interest-earning assets increased to 4.04% for the second quarter from 3.87% for the first quarter due to the mix of interest-earning assets and higher yields on loan and securities. The average yield on loans increased 9 basis points to 4.35% during the second quarter as a result of the portfolio mix and the impact of higher market interest rates. 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 10 basis points in both the second quarter and prior quarter.

The average cost of funds increased 10 basis points to 0.49% for the second quarter from 0.39% for the first quarter. This increase was driven by the higher average cost of interest-bearing deposits. Average noninterest-bearing deposits represented 38% of total average deposits for both the second quarter and the first quarter. Average noninterest-bearing deposits were \$9.2 million higher in the second quarter compared to the first quarter while average deposits were \$11.8 million higher for the linked quarters. Average Federal Home Loan Bank (FHLB) advances and other borrowings increased \$27.1 million. The average cost of interest-bearing liabilities increased 16 basis points to 0.74% for the second quarter from 0.58% for the first quarter due to higher cost of interest-bearing deposits. The average cost of interest-bearing deposits increased 16 basis points to 0.28% for the second quarter from 0.12% for the first quarter. The average cost of total deposits increased 9 basis points to 0.17% for the second quarter due mostly to higher market interest rates. The spot rate of total deposits was 0.21% at the end of the second quarter.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

Net interest income for the second quarter of 2022 increased \$18.5 million to \$78.3 million from \$59.8 million for the same 2021 period. Net interest income was positively impacted by a higher average interest-earning assets, a higher yield on such assets, and improved funding costs, offset by higher average interest-bearing liabilities. The 2022 operating results include the impact of acquiring PMB in the fourth quarter of 2021.

The net interest margin increased 31 basis points to 3.58% for the second quarter of 2022 as the average interest-earning assets yield increased 23 basis points and the average cost of total funding decreased 8 basis points. The average yield on interest-earning assets increased to 4.04% for the second quarter of 2022 from 3.81% 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 0.77% for the second quarter of 2022 compared to 0.07% for the same 2021 period. Average loans increased by \$1.50 billion from ongoing loan growth, including the loans from the acquisition of PMB. The average yield on loans increased 5 basis points to 4.35% for the second quarter of 2022, compared to 4.30% 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 10 basis points in the second quarter of 2022 compared to 18 basis points for same 2021 period.

The average cost of funds decreased 8 basis points to 0.49% for the second quarter of 2022, from 0.57% for the same 2021 period. This decrease was driven by the lower average cost of interest-bearing liabilities due to 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 second quarter of 2022, compared to 28% for the same 2021 period. Average noninterest-bearing deposits were \$1.04 billion higher in the second quarter of 2022, compared to same 2021 period, while average deposits were \$1.18 billion higher. Average FHLB advances and other borrowings increased \$167.3 million due mostly to higher overnight borrowings, offset by lower term advances. The average cost of interest-bearing liabilities decreased 3 basis points to 0.74% for the second quarter of 2022 from 0.77% for the same 2021 period due to the funding mix including the impact of including deposits from the PMB acquisition. The average cost of interest-bearing deposits declined 4 basis points to 0.28% for the second quarter of 2022, from 0.32% for the same 2021 period while the average cost of total deposits decreased 6 basis points to 0.17% for the second quarter of 2022, compared to 0.23% for the same 2021 period.

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 six months ended June 30, 2022 and 2021:

(\$ in thousands)	Six Months Ended June 30,					
	2022			2021		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
Interest-earning assets:						
Total loans ⁽¹⁾⁽²⁾	\$ 7,266,234	\$ 155,129	4.31 %	\$ 5,777,693	\$ 123,245	4.30 %
Securities	1,254,137	15,433	2.48 %	1,272,383	13,487	2.14 %
Other interest-earning assets ⁽³⁾	280,611	2,125	1.53 %	297,465	1,563	1.06 %
Total interest-earning assets	8,800,982	172,687	3.96 %	7,347,541	138,295	3.80 %
Allowance for loan losses	(93,422)			(80,102)		
BOLI and noninterest-earning assets ⁽⁴⁾	659,804			576,446		
Total assets	\$ 9,367,364			\$ 7,843,885		
Interest-bearing liabilities:						
Interest-bearing checking	\$ 2,386,120	2,097	0.18 %	\$ 2,161,483	1,581	0.15 %
Savings and money market	1,635,747	1,371	0.17 %	1,646,269	4,634	0.57 %
Certificates of deposit	570,170	1,100	0.39 %	676,400	1,614	0.48 %
Total interest-bearing deposits	4,592,037	4,568	0.20 %	4,484,152	7,829	0.35 %
FHLB advances	472,760	6,067	2.59 %	432,286	6,056	2.83 %
Other borrowings	117,095	379	0.65 %	11,061	6	0.11 %
Long-term debt	274,466	6,933	5.09 %	256,427	6,641	5.22 %
Total interest-bearing liabilities	5,456,358	17,947	0.66 %	5,183,926	20,532	0.80 %
Noninterest-bearing deposits	2,800,281			1,710,930		
Noninterest-bearing liabilities	101,048			97,658		
Total liabilities	8,357,687			6,992,514		
Total stockholders' equity	1,009,677			851,371		
Total liabilities and stockholders' equity	\$ 9,367,364			\$ 7,843,885		
Net interest income/spread		\$ 154,740	3.30 %		\$ 117,763	3.00 %
Net interest margin ⁽⁵⁾			3.55 %			3.23 %
Ratio of interest-earning assets to interest-bearing liabilities		161 %			142 %	
Total deposits ⁽⁶⁾	7,392,318	4,568	0.12 %	6,195,082	7,829	0.25 %
Total funding ⁽⁷⁾	8,256,639	17,947	0.44 %	6,894,856	20,532	0.60 %

(1) Includes average loans held for sale of \$3.5 million and \$1.7 million for the six months ended June 30, 2022 and 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. Net accretion (amortization) of deferred loan fees (costs) of \$1.7 million and \$2.4 million and (amortization) accretion of (premium) discount on purchased loans of \$(591) thousand and \$(1.4) million for the six months ended June 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 \$124.4 million and \$112.4 million for the six months ended June 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.*

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Net interest income increased \$37.0 million to \$154.7 million for the six months ended June 30, 2022 due to higher average balances and yield on interest-earning assets, higher average balances and lower costs of interest-bearing liabilities.

The net interest margin increased 32 basis points to 3.55% as the average earning-assets yield increased 16 basis points and the average cost of total funding decreased 16 basis points. The yield on average interest-earning assets increased to 3.96% for the six months ended June 30, 2022, from 3.80% 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 \$1.49 billion from ongoing loan growth, including the acquisition of PMB in the fourth quarter of 2021. The yield on average loans for the six months ended June 30, 2022 was 4.31% compared to 4.30% for the same period in 2021. The yield on average investment securities and other interest-earning assets increased 34 basis points and 47 basis points, respectively, for the six months ended June 30, 2022, compared to the same period in 2021.

The average cost of funds decreased 16 basis points to 0.44% for the six months ended June 30, 2022 from 0.60% for 2021. This decrease was driven by the lower average cost of interest-bearing liabilities and the overall improved funding mix, including higher average noninterest-bearing deposits as a result of growth from the acquisition of PMB and continuous business development efforts. Average noninterest-bearing deposits represented 38% of total average deposits for the six months ended June 30, 2022 compared to 28% for the same period in 2021. Average noninterest-bearing deposits were \$1.09 billion higher during the six months ended June 30, 2022 compared to the same period in 2021 while average total deposits were \$1.20 billion higher. Average FHLB advances and other borrowings increased \$146.5 million due mostly to higher overnight borrowings offset by lower term advances. The average cost of interest-bearing liabilities decreased 14 basis points to 0.66% for the six months ended June 30, 2022 compared to the same period in 2021. This included a 15 basis points decline in the average cost of interest-bearing deposits to 0.20% for the six months ended June 30, 2022 compared to 0.35% for the same period in 2021. The average cost of total deposits decreased 13 basis points to 0.12% for the six months ended June 30, 2022.

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 June 30, 2022 vs. 2021			Six Months Ended June 30, 2022 vs. 2021		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest and dividend income:						
Total loans	\$ 16,267	\$ 728	\$ 16,995	\$ 31,598	\$ 286	\$ 31,884
Securities	(518)	1,656	1,138	(194)	2,140	1,946
Other interest-earning assets	123	485	608	(93)	655	562
Total interest and dividend income	<u>\$ 15,872</u>	<u>\$ 2,869</u>	<u>\$ 18,741</u>	<u>\$ 31,311</u>	<u>\$ 3,081</u>	<u>\$ 34,392</u>
Interest expense:						
Interest-bearing checking	\$ 55	\$ 723	\$ 778	\$ 177	\$ 339	\$ 516
Savings and money market	(411)	(973)	(1,384)	(756)	(2,507)	(3,263)
Certificates of deposit	(2)	245	243	(234)	(280)	(514)
FHLB advances	447	(277)	170	545	(534)	11
Other borrowings	104	217	321	246	127	373
Long-term debt	227	(66)	161	460	(168)	292
Total interest expense	<u>420</u>	<u>(131)</u>	<u>289</u>	<u>438</u>	<u>(3,023)</u>	<u>(2,585)</u>
Net interest income	<u>\$ 15,452</u>	<u>\$ 3,000</u>	<u>\$ 18,452</u>	<u>\$ 30,873</u>	<u>\$ 6,104</u>	<u>\$ 36,977</u>

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			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
(Reversal of) provision for loan losses	\$ (500)	\$ (31,342)	\$ (2,608)	\$ (31,842)	\$ (3,892)
(Reversal of) provision for credit losses - unfunded loan commitments	500	(200)	454	300	631
Total (reversal of) provision for credit losses	<u>\$ —</u>	<u>\$ (31,542)</u>	<u>\$ (2,154)</u>	<u>\$ (31,542)</u>	<u>\$ (3,261)</u>

Three Months Ended June 30, 2022 Compared to Three Months Ended March 31, 2022

There was no provision for credit losses for the second quarter, compared to a reversal of \$31.5 million for the first quarter. The first quarter reversal of credit losses included \$31.3 million related to a recovery from the settlement of a loan previously charged-off in 2019.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

There was no provision for credit losses for the second quarter of 2022, compared to a reversal of \$2.2 million for the same 2021 period. The second quarter reversal of credit losses in the second quarter of 2021 was due primarily to improvements in

key macro-economic forecast variables, such as employment and gross domestic product, and consideration of credit quality metric.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

During the six months ended June 30, 2022, the provision for credit losses was a reversal of \$31.5 million, compared to a reversal of \$3.3 million during 2021. The higher reversal of credit losses for the six months ended June 30, 2022 was due to the 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			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Customer service fees	\$ 2,578	\$ 2,434	\$ 1,990	\$ 5,012	\$ 3,748
Loan servicing income	109	212	38	321	306
Income from bank owned life insurance	810	796	690	1,606	1,362
Net gain on sale of securities available-for-sale	—	16	—	16	—
Other income	3,689	2,452	725	6,141	2,836
Total noninterest income	\$ 7,186	\$ 5,910	\$ 3,443	\$ 13,096	\$ 8,252

Three Months Ended June 30, 2022 Compared to Three Months Ended March 31, 2022

Noninterest income increased \$1.3 million to \$7.2 million for the second quarter of 2022 compared to the prior quarter due mostly to higher other income. All other income increased \$1.2 million due to higher income from equity investments of \$2.1 million, partially offset by a fair value write-down of \$455 thousand recorded on loans held for sale and the first quarter including a \$771 thousand gain related to a sale-leaseback transaction; there were no sale-leaseback transactions in the second quarter. Gains or losses from equity investments are recorded based on the most recent information available from the investee and fluctuate based on their underlying performance.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

Noninterest income for the second quarter of 2022 increased \$3.7 million to \$7.2 million compared to the same 2021 period. The increase in noninterest income was due mostly to an increase in customer services fees and other income and reflected a full quarter of activity from the acquisition of PMB. The \$588 thousand increase in customer services fees was due mostly to higher average deposit balances. The \$3.0 million increase in other income was due mostly to higher income from equity investments of \$2.9 million.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Noninterest income for the six months ended June 30, 2022 increased \$4.8 million to \$13.1 million compared to the same 2021 period. The increase in noninterest income reflected a full six months of activity from the acquisition of PMB and was mainly due to higher customer service fees, income from bank-owned life insurance, and all other income. Customer services fees increased \$1.3 million due mostly to higher deposit activity fees of \$1.8 million attributed to higher average deposit balances, offset by lower loan fees of \$594 thousand. Income from bank-owned life insurance increased \$244 thousand due to higher average balances from PMB. The \$3.3 million increase in all other income is due mostly to higher income from equity investments of \$2.4 million and a \$771 thousand gain related to a sale-leaseback transaction during the first quarter of 2022.

Noninterest Expense

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

(\$ in thousands)	Three Months Ended			Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	June 30, 2021	2022	2021
Salaries and employee benefits	\$ 28,264	\$ 28,987	\$ 25,042	\$ 57,251	\$ 50,761
Occupancy and equipment	7,876	7,855	7,277	15,731	14,473
Professional fees	4,107	2,907	1,749	7,014	5,771
Data processing	1,782	1,828	1,621	3,610	3,276
Regulatory assessments	1,021	775	769	1,796	1,543
Reversal of provision for loan repurchases	(490)	(471)	(99)	(961)	(231)
Amortization of intangible assets	313	441	282	754	564
Merger-related costs	—	—	700	—	1,400
All other expense	4,696	4,116	3,320	8,812	6,637
Noninterest expense before loss (gain) on investments in alternative energy partnerships	47,569	46,438	40,661	94,007	84,194
Loss (gain) on investments in alternative energy partnerships	1,043	158	(829)	1,201	2,801
Total noninterest expense	\$ 48,612	\$ 46,596	\$ 39,832	\$ 95,208	\$ 86,995

Three Months Ended June 30, 2022 Compared to Three Months Ended March 31, 2022

Noninterest expense increased \$2.0 million to \$48.6 million for the second quarter compared to the prior quarter. The increase was due mostly to (i) higher professional fees of \$1.2 million, related mainly to higher legal fees and (ii) higher net loss in alternative energy partnership investments of \$885 thousand. These increases were offset by a decrease in salaries and employee benefits of \$723 thousand attributed to higher payroll-related items typical of the first quarter. Professional fees included net indemnified legal expenses of \$455 thousand in the second quarter compared to net recoveries of \$106 thousand during the first quarter.

Total operating costs, defined as noninterest expense adjusted for certain expense items (refer to section *Non-GAAP Measures*), increased \$570 thousand to \$47.1 million for the second quarter compared to \$46.5 million for the prior quarter. This increase was due mostly to the combination of (i) higher professional fees of \$639 thousand related to business initiatives, (ii) higher all other expenses of \$580 thousand related mostly to loan-related expenses, and (iii) lower salaries and benefits of \$723 thousand due to the higher payroll-related items typical of the first quarter.

Three Months Ended June 30, 2022 Compared to Three Months Ended June 30, 2021

Noninterest expense was \$48.6 million for the second quarter of 2022, an increase of \$8.8 million from \$39.8 million for the comparable 2021 period due mostly to including PMB's operations since the date of acquisition. The increase included (i) higher salaries and employee benefits of \$3.2 million due to a higher number of employees, (ii) higher occupancy and equipment of \$599 thousand, due to additional facilities, (iii) higher professional fees of \$2.4 million, due mostly to higher legal fees, net of insurance recoveries (iv) higher loss on investments in alternative energy partnerships of \$1.9 million, and (iv) higher all other expense of \$1.4 million. These increases were offset by lower merger-related costs of \$700 thousand resulting from completion of the PMB acquisition and system conversion in the fourth quarter of 2021.

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Noninterest expense for the six months ended June 30, 2022 increased \$8.2 million to \$95.2 million compared to the prior year due mostly to including PMB's operations since the date of acquisition. The increase was primarily due to: (i) higher salaries and employee benefits of \$6.5 million, (ii) higher occupancy and equipment of \$1.3 million, (iii) higher professional fees of \$1.2 million, due mostly to a \$1.9 million increase in legal fees, net of insurance recoveries, offset by a \$619 thousand decrease in other professional fees and (iv) higher all other expenses of \$2.2 million. These increases were partially offset by: (i) higher reversal of loan repurchase reserves of \$730 thousand, (ii) lower merger-related costs of \$1.4 million and (iii) lower loss in alternative energy partnership investments of \$1.6 million.

Income Tax Expense

For the three months ended June 30, 2022, March 31, 2022 and June 30, 2021, income tax expense was \$10.2 million, \$18.8 million, and \$6.6 million, resulting in an effective tax rate of 27.6%, 27.9% and 25.6%, respectively. The effective tax rate for 2022 is expected to be similar to the effective income tax rate for the second quarter.

Income tax expense totaled \$28.9 million for the six months ended June 30, 2022, representing an effective tax rate of 27.8%, compared to \$8.9 million and an effective tax rate of 20.9% for 2021. The effective tax rate for the six months ended June 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, Federal Reserve Discount Window capacity, repurchase agreements, and certain public deposits.

Investment Securities Held-to-Maturity

Securities held-to-maturity totaled \$329.3 million at June 30, 2022 and included \$215.1 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 along with the related unrealized loss in accumulated other comprehensive income, is amortized into interest income as a yield adjustment over the remaining term of the securities. 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)	June 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	\$ 153,621	\$ 135,287	\$ (18,334)	\$ —	\$ —	\$ —
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,447	53,396	(8,051)	—	—	—
Municipal securities	114,204	96,989	(17,215)	—	—	—
Total securities held-to-maturity	\$ 329,272	\$ 285,672	\$ (43,600)	\$ —	\$ —	\$ —

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)	June 30, 2022			December 31, 2021		
	Amortized Cost	Fair Value	Unrealized Gain (Loss)	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Securities available-for-sale:						
SBA loan pool securities	\$ 13,085	\$ 13,062	\$ (23)	\$ 14,679	\$ 14,591	\$ (88)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	12,051	11,365	(686)	190,382	191,969	1,587
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	160,657	154,053	(6,604)	242,458	241,541	(917)
Municipal securities	—	—	—	117,913	119,015	1,102
Non-agency residential mortgage-backed securities	53,122	45,481	(7,641)	56,014	56,025	11
Collateralized loan obligations	492,775	478,203	(14,572)	521,275	518,964	(2,311)
Corporate debt securities	165,266	163,271	(1,995)	162,002	173,598	11,596
Total securities available-for-sale	\$ 896,956	\$ 865,435	\$ (31,521)	\$ 1,304,723	\$ 1,315,703	\$ 10,980

Securities available-for-sale were \$865.4 million at June 30, 2022, a decrease of \$450.3 million, or 34.2%, from \$1.32 billion at December 31, 2021. The decrease was mainly due to the aforementioned transfer of certain securities to the held-to-maturity portfolio, collateralized loan obligation (CLO) payoffs of \$28.5 million, principal payments of \$20.2 million, sales of \$17.6 million and higher unrealized net losses of \$42.5 million, offset by purchases of \$5.0 million.

Net unrealized losses on securities available-for-sale were \$31.5 million at June 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. 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 \$478.2 million and \$519.0 million and were all AAA and AA rated at June 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 six months ended June 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 June 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 June 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 June 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.

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The following table presents the fair values and weighted average yields using amortized cost of the securities held-to-maturity portfolio as of June 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	\$ —	— %	\$ —	— %	\$ —	— %	\$ 135,287	2.69 %	\$ 135,287	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	53,396	2.64 %	53,396	2.64 %
Municipal securities	—	— %	—	— %	17,134	2.19 %	79,855	2.71 %	96,989	2.62 %
Total securities held-to-maturity	\$ —	— %	\$ —	— %	\$ 17,134	2.19 %	\$ 268,538	2.68 %	\$ 285,672	2.66 %

The following table presents the fair values and weighted average yields using amortized cost of the securities available-for-sale portfolio as of June 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	\$ 13,062	1.06 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 13,062	1.06 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	11,365	2.23 %	—	— %	11,365	2.23 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	86,602	1.73 %	9,630	2.24 %	35,518	1.55 %	22,303	1.81 %	154,053	1.73 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	45,481	2.51 %	45,481	2.51 %
Collateralized loan obligations	478,203	2.70 %	—	— %	—	— %	—	— %	478,203	2.70 %
Corporate debt securities	—	— %	149,641	4.71 %	13,630	5.73 %	—	— %	163,271	4.80 %
Total securities available-for-sale	\$ 577,867	2.52 %	\$ 159,271	4.56 %	\$ 60,513	2.52 %	\$ 67,784	2.29 %	\$ 865,435	2.87 %

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>June 30, 2022</u>	<u>December 31, 2021</u>	<u>Amount Change</u>	<u>Percentage Change</u>
Commercial:				
Commercial and industrial ⁽¹⁾	\$ 2,433,464	\$ 2,668,984	\$ (235,520)	(8.8) %
Commercial real estate	1,204,414	1,311,105	(106,691)	(8.1) %
Multifamily	1,572,308	1,361,054	211,254	15.5 %
SBA ⁽²⁾	92,235	205,548	(113,313)	(55.1) %
Construction	228,341	181,841	46,500	25.6 %
Total commercial loans	<u>5,530,762</u>	<u>5,728,532</u>	<u>(197,770)</u>	<u>(3.5) %</u>
Consumer:				
Single family residential mortgage	1,832,279	1,420,023	412,256	29.0 %
Other consumer	88,223	102,925	(14,702)	(14.3) %
Total consumer loans	<u>1,920,502</u>	<u>1,522,948</u>	<u>397,554</u>	<u>26.1 %</u>
Total loans⁽³⁾	<u>7,451,264</u>	<u>7,251,480</u>	<u>199,784</u>	<u>2.8 %</u>
Allowance for loan losses	(93,793)	(92,584)	(1,209)	1.3 %
Total loans receivable, net	<u>\$ 7,357,471</u>	<u>\$ 7,158,896</u>	<u>\$ 198,575</u>	<u>2.8 %</u>

(1) Includes warehouse lending balances of \$1.16 billion and \$1.60 billion at June 30, 2022 and December 31, 2021.

(2) Includes 79 PPP loans totaling \$28.4 million, net of unamortized loan fees totaling \$10 thousand at June 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 \$14.4 million and \$5.5 million at June 30, 2022 and December 31, 2021.

Gross loans increased \$199.8 million to \$7.45 billion from December 31, 2021 due to loan fundings of \$2.18 billion, including single-family residential purchases of \$641.5 million. 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 \$113.3 million due mostly from the SBA processing forgiveness requests. At June 30, 2022, SBA loans included \$28.4 million of PPP loans, compared to \$123.1 million at December 31, 2021.

Total commercial loans, excluding PPP loans and warehouse lending, increased \$256.2 million, or 25.1% on an annualized basis during the second quarter.

We continue to focus the real estate loan portfolio toward relationship-based multifamily, bridge, light infill construction, and commercial real estate loans. As of June 30, 2022, loans secured by residential real estate (single-family, multifamily, single-family construction, warehouse lending credit facilities and commercial real estate) represent approximately 66% 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 June 30, 2022 and December 31, 2021:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2022					
Commercial:					
Commercial and industrial	\$ 2,316,651	\$ 45,405	\$ 71,408	\$ —	\$ 2,433,464
Commercial real estate	1,186,719	3,679	14,016	—	1,204,414
Multifamily	1,537,480	16,133	18,695	—	1,572,308
SBA	75,278	5,221	11,736	—	92,235
Construction	219,794	8,547	—	—	228,341
Consumer:					
Single family residential mortgage	1,817,068	6,218	8,993	—	1,832,279
Other consumer	87,727	145	351	—	88,223
Total	\$ 7,240,717	\$ 85,348	\$ 125,199	\$ —	\$ 7,451,264

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2021					
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
Total	\$ 7,006,598	\$ 143,483	\$ 101,399	\$ —	\$ 7,251,480

Loans risk rated special mention decreased \$58.1 million to \$85.3 million at June 30, 2022 compared to \$143.5 million at December 31, 2021 due mostly to activity within the commercial and industrial and multifamily loans that included payoffs of \$25.5 million and net migration out of special mention of \$27.7 million. Loans risk rated substandard increased \$23.8 million to \$125.2 million at June 30, 2022 compared to \$101.4 million at December 31, 2021 due mostly to the addition of one multifamily loan for \$17.5 million and three commercial and industrial relationships of \$19.6 million. There were no loans risk rated doubtful at June 30, 2022 and December 31, 2021.

The commercial and industrial ("C&I") portfolio has limited exposure to certain business sectors undergoing severe stress as a result of the pandemic. The C&I industry concentrations in dollars and as a percentage of total outstanding C&I loan balances are summarized below:

(\$ in thousands)	June 30, 2022	
	Amount	% of Portfolio
C&I Portfolio by Industry		
Finance and Insurance - Warehouse Lending	\$ 1,160,157	48 %
Real Estate and Rental Leasing	245,013	10 %
Finance and Insurance - Other	161,287	7 %
Manufacturing	120,619	5 %
Healthcare	92,321	4 %
Arts, Entertainment & Recreation	67,369	3 %
Television / Motion Pictures	65,522	3 %
Gas Stations	62,347	3 %
Other Retail Trade	56,132	2 %
Construction	46,795	2 %
Professional Services	45,217	2 %
Wholesale Trade	43,901	2 %
Management of Companies and Enterprises	37,561	2 %
Food Services	36,593	2 %
Educational Services	34,473	1 %
Transportation	18,551	1 %
Accommodations	8,922	— %
All Other	130,684	5 %
Total	\$ 2,433,464	100 %

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 June 30, 2022 and December 31, 2021, the NTM loans totaled \$841.1 million, or 11.3% 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 June 30, 2022 and December 31, 2021, interest only loans totaled \$833.6 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 June 30, 2022 and December 31, 2021, Green Loans totaled \$7.4 million and \$21.9 million.

The total NTM portfolio increased by \$205.8 million, or 32.4% during the six months ended June 30, 2022. The increase was primarily due to loan purchases, offset by principal paydowns and payoffs.

At June 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 regularly monitor market conditions for our geographic lending areas. We have determined that the most significant performance indicators for NTM loans are LTV ratios and FICO scores. At June 30, 2022, our NTM first lien portfolio had a weighted average LTV of approximately 60%. At June 30, 2022, \$3.5 million or 50% of our \$7.0 million Green Loans first lien portfolio had FICO scores of 700 or greater.

Nonperforming Assets

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

(\$ in thousands)	June 30, 2022	December 31, 2021	Amount Change	Percentage Change
Loans past due 90 days or more still on accrual	\$ —	\$ —	\$ —	— %
Nonaccrual loans	44,443	52,558	(8,115)	(15.4) %
Total nonperforming loans	44,443	52,558	(8,115)	(15.4) %
Other real estate owned	—	—	—	— %
Total nonperforming assets	\$ 44,443	\$ 52,558	\$ (8,115)	(15.4) %
Performing restructured loans ⁽¹⁾	\$ 10,946	\$ 12,538	\$ (1,592)	(12.7) %
Nonaccrual loans to total loans	0.60 %	0.72 %		
Nonperforming loans to total loans	0.60 %	0.72 %		
Total nonperforming assets to total assets	0.47 %	0.56 %		
ALL to nonperforming loans	211.04 %	176.16 %		
ACL to nonperforming loans	224.33 %	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 \$694 thousand and \$1.3 million would have been recorded during the three and six months ended June 30, 2022, had these loans been paid in accordance with their original terms throughout the periods indicated.

Non-performing loans decreased \$8.1 million to \$44.4 million as of June 30, 2022, of which \$18.4 million, or 41%, relates to loans in a current payment status. The decrease was due mostly to \$11.1 million in payoffs, paydowns, and charge-offs and \$6.7 million in loans returning to accrual status, offset by additions of \$9.7 million. Of the \$9.7 million of loans placed on non-accrual status, \$7.2 million, related to SFR loans.

At June 30, 2022, non-performing loans included (i) a \$12.4 million commercial and industrial loan acquired in the PMB acquisition, (ii) SBA loans totaling \$10.5 million, of which \$8.6 million is guaranteed, (iii) SFR loans totaling \$7.3 million, and (iv) other commercial loans of \$13.9 million.

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 June 30, 2022 and December 31, 2021, we had 18 loans classified as TDRs, with an aggregate balance of \$25.9 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 six months ended June 30, 2022 was due mostly to modifying the \$12.4 million non-performing commercial and industrial loan acquired in the PMB acquisition, offset by paydowns and payoffs.

At June 30, 2022, of the 18 loans classified as TDRs, 10 loans totaling \$10.9 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 June 2022. The published forecasts consider rising inflation, higher oil prices, ongoing supply chain issues 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 \$99.7 million, or 1.34% of total loans, at June 30, 2022, compared to \$98.2 million, or 1.35% of total loans, at December 31, 2021. The \$1.5 million increase in the ACL was due primarily to: (i) growth in the loan portfolio, including unfunded commitments, and (ii) higher specific reserves of \$1.2 million. Changes in portfolio mix and improved credit quality, in addition to net recoveries of \$1.8 million, 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 224% at June 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)	June 30, 2022	December 31, 2021
Allowance for credit losses:		
Allowance for loan losses (ALL)	\$ 93,793	\$ 92,584
Reserve for unfunded loan commitments	5,905	5,605
Total allowance for credit losses (ACL)	<u>\$ 99,698</u>	<u>\$ 98,189</u>
ALL to total loans	1.26 %	1.28 %
ACL to total loans	1.34 %	1.35 %
ACL to total loans, excluding PPP loans	1.34 %	1.39 %

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

(\$ in thousands)	Three Months Ended June 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	\$ 93,226	\$ 5,405	\$ 98,631	\$ 79,353	\$ 3,360	\$ 82,713
Loans charged off	(494)	—	(494)	(886)	—	(886)
Recoveries of loans previously charged off	1,561	—	1,561	26	—	26
Net recoveries (charge-offs)	1,067	—	1,067	(860)	—	(860)
(Reversal of) provision for credit losses	(500)	500	—	(2,608)	454	(2,154)
Balance at end of period	<u>\$ 93,793</u>	<u>\$ 5,905</u>	<u>\$ 99,698</u>	<u>\$ 75,885</u>	<u>\$ 3,814</u>	<u>\$ 79,699</u>

(\$ in thousands)	Six Months Ended June 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	(725)	—	(725)	(1,451)	—	(1,451)
Recoveries of loans previously charged off	33,776	—	33,776	198	—	198
Net charge-offs	33,051	—	33,051	(1,253)	—	(1,253)
(Reversal of) provision for credit losses	(31,842)	300	(31,542)	(3,892)	631	(3,261)
Balance at end of period	\$ 93,793	\$ 5,905	\$ 99,698	\$ 75,885	\$ 3,814	\$ 79,699

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 June 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
Commercial:						
Commercial and industrial	\$ 1,262	\$ 2,457,281	0.21 %	\$ (477)	\$ 1,884,793	(0.10) %
Commercial real estate	—	1,213,438	— %	—	878,252	— %
Multifamily	—	1,457,185	— %	—	1,272,841	— %
SBA	(136)	70,225	(0.77) %	(383)	269,718	(0.57) %
Construction	—	219,029	— %	—	162,391	— %
Consumer:						
Single family residential mortgage	154	1,755,719	0.04 %	—	1,277,552	— %
Other consumer	(213)	93,160	(0.91) %	—	23,881	— %
Total loans	\$ 1,067	\$ 7,266,037	0.06 %	\$ (860)	\$ 5,769,428	(0.06) %

Net recoveries were \$1.1 million during the second quarter of 2022, compared to net charge-offs of \$860 thousand during the comparable 2021 period. The increase in net recoveries between periods was mainly due to net recoveries within the commercial and industrial portfolio.

(\$ in thousands)	Six Months Ended June 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
Commercial:						
Commercial and industrial	\$ 32,497	\$ 2,544,351	2.55 %	\$ (997)	\$ 1,916,788	(0.10)%
Commercial real estate	—	1,267,891	— %	—	873,589	— %
Multifamily	—	1,398,452	— %	—	1,277,812	— %
SBA	609	93,062	1.31 %	(257)	271,029	(0.19)%
Construction	—	203,996	— %	—	166,571	— %
Lease financing	—	—	— %	—	—	— %
Consumer:						
Single family residential mortgage	182	1,659,633	0.02 %	—	1,244,015	— %
Other consumer	(237)	95,326	(0.50)%	1	26,188	0.01 %
Total loans	\$ 33,051	\$ 7,262,711	0.91 %	\$ (1,253)	\$ 5,775,992	(0.04)%

Net recoveries were \$33.1 million during the six months ended June 30, 2022, compared to net charge-offs of \$1.3 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)	June 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
	Commercial:					
Commercial and industrial	\$ 41,413	\$ 2,433,464	32.6 %	\$ 33,557	\$ 2,668,984	36.8 %
Commercial real estate	15,742	1,204,414	16.2 %	21,727	1,311,105	18.1 %
Multifamily	15,678	1,572,308	21.1 %	17,893	1,361,054	18.8 %
SBA	3,033	92,235	1.2 %	3,017	205,548	2.8 %
Construction	4,255	228,341	3.1 %	5,622	181,841	2.5 %
Consumer:						
Single family residential mortgage	12,805	1,832,279	24.6 %	9,608	1,420,023	19.6 %
Other consumer	867	88,223	1.2 %	1,160	102,925	1.4 %
Total	\$ 93,793	\$ 7,451,264	100.0 %	\$ 92,584	\$ 7,251,480	100.0 %

Servicing Rights

We have retained servicing rights from certain sales of SFR mortgage loans and SBA loans. In the second quarter of 2022, 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 subservicer to service the loans underlying the purchased mortgage servicing rights.

Mortgage servicing rights totaled \$24.0 million and \$1.3 million at June 30, 2022 and December 31, 2021. 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 \$1.73 billion at June 30, 2022 and these loans are not included in our consolidated statements of financial condition.

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 six months ended June 30, 2022 and 2021:

(\$ in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Balance at beginning of period	\$ 25,156	\$ 23,809	\$ 25,888	\$ 27,977
Cash distribution from investments	(582)	(570)	(1,156)	(1,108)
Gain (loss) on investments using HLBV method	(1,043)	829	(1,201)	(2,801)
Balance at end of period	\$ 23,531	\$ 24,068	\$ 23,531	\$ 24,068
Unfunded equity commitments at end of period	\$ —	\$ —	\$ —	\$ —

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

During the three months ended June 30, 2022 and 2021, we recognized net losses on investment of \$1.0 million and net gains of \$829 thousand. During the six months ended June 30, 2022 and 2021, we recognized net losses on investment of \$1.2 million and \$2.8 million. 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 \$(301) thousand and \$228 thousand for the three months ended June 30, 2022 and 2021 and \$(347) thousand and \$(770) thousand for the six months ended June 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)	June 30, 2022		December 31, 2021		Amount Change
	Amount	% of Total Deposits	Amount	% of Total Deposits	
Noninterest-bearing deposits	\$ 2,826,599	37.4 %	\$ 2,788,196	37.5 %	\$ 38,403
Interest-bearing demand deposits	2,359,857	31.2 %	2,393,386	32.2 %	(33,529)
Savings and money market accounts	1,622,922	21.4 %	1,751,135	23.5 %	(128,213)
Certificates of deposit of \$250,000 or less	374,117	4.9 %	285,768	3.8 %	88,349
Certificates of deposit of more than \$250,000	375,188	5.0 %	220,950	3.0 %	154,238
Total deposits	\$ 7,558,683	100.0 %	\$ 7,439,435	100.0 %	\$ 119,248

Total deposits were \$7.6 billion at June 30, 2022, an increase of \$119.2 million, or 1.6%, from \$7.4 billion at December 31, 2021 due mostly to higher certificates of deposits of \$242.6 million and noninterest-bearing checking balances of \$38.4 million, offset by lower savings and money market balances of \$128.2 million and interest-bearing demand deposits of \$33.5 million. Noninterest-bearing deposits totaled \$2.83 billion and represented 37.4% of total deposits at June 30, 2022 compared to \$2.79 billion and 37.5% at December 31, 2021.

Brokered deposits were \$133.6 million at June 30, 2022. There were no brokered deposits at December 31, 2021.

The following table presents the scheduled maturities of certificates of deposit as of June 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	\$ 138,342	\$ 63,080	\$ 49,114	\$ 123,581	\$ 374,117
Certificates of deposit of more than \$250,000	153,956	173,398	30,652	17,182	375,188
Total certificates of deposit	\$ 292,298	\$ 236,478	\$ 79,766	\$ 140,763	\$ 749,305

Borrowings

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. We also maintain additional borrowing availabilities from Federal Reserve Discount Window and unsecured federal funds lines of credit.

During the six months ended June 30, 2022, FHLB advances increased \$35.6 million, or 7.5%, to \$511.7 million, net of unamortized debt issuance costs of \$4.3 million, as of June 30, 2022, due to an increase in overnight borrowings of \$35.0 million.

At June 30, 2022, FHLB advances included \$105.0 million in overnight borrowings and \$411.0 million in term advances with a weighted average life of 3.5 years and weighted average interest rate of 2.53%.

We did not utilize repurchase agreements at June 30, 2022 or December 31, 2021.

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

The Bank also has the ability to perform unsecured overnight borrowing from various financial institutions through the American Financial Exchange platform ("AFX"). The availability of such unsecured borrowings fluctuates regularly, is subject to the counterparties discretion and totaled \$445.0 million at June 30, 2022 and December 31, 2021. Borrowings under the AFX totaled \$85.0 million and \$25.0 million at June 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 \$13.0 million and zero at June 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 June 30, 2022.

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	June 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	\$ (910)	\$ 175,000	\$ (1,014)
Subordinated notes	4.375%	10/30/2030	85,000	(2,030)	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	—
Total			\$ 277,527	\$ (2,940)	\$ 277,527	\$ (3,141)

At June 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.

As a result of current economic conditions, including government stimulus in response to the pandemic, we have participated in the elevated levels of liquidity in the marketplace. A portion of the additional liquidity is viewed as short-term as it is expected to be used by clients in the near term and, accordingly, we have maintained higher levels of liquid assets. We have observed reductions in average line usage due to the levels of liquidity in the marketplace. We expect to see higher line utilization as liquidity moderates to historical levels.

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 from the amortization of loans and investment securities and maturing investment securities and 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 its lending and investment activities and to enhance its interest rate risk and liquidity risk management. At June 30, 2022, we had available unused secured borrowing capacities of \$985.4 million from the FHLB and \$789.0 million through the Federal Reserve Bank's Discount Window and Borrower-in-Custody ("BIC") programs. At June 30, 2022 and December 31, 2021, FHLB advances totaled \$511.7 million and \$476.1 million, net of unamortized debt issuance costs of \$4.3 million and \$4.9 million. At June 30, 2022, the Bank had pledged certain qualifying loans with an unpaid principal balance of \$2.38 billion and securities with a carrying value of \$205.5 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 June 30, 2022 and December 31, 2021. At June 30, 2022, the Bank had pledged certain qualifying loans with an unpaid principal balance of \$1.01 billion and securities with a carrying value of \$123.2 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 June 30, 2022 and December 31, 2021. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and our pledging additional investment securities. The Bank had unpledged securities available-for-sale aggregating \$846.5 million at June 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 our ability to obtain brokered deposits. The availability of unsecured borrowings through the AFX platform fluctuates regularly and is subject to the counterparties' discretion and totaled \$445.0 million at June 30, 2022. Borrowings under the AFX platform totaled \$85.0 million and \$25.0 million at June 30, 2022 and December 31, 2021. At June 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 June 30, 2022 and December 31, 2021.

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 six months ended June 30, 2022, there were \$66.0 million of dividends paid by the Bank to Banc of California, Inc. At June 30, 2022, Banc of California, Inc. had \$25.0 million in cash, all of which was on deposit at the Bank.

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 June 30, 2022, common stock repurchased under the program totaled 2,113,176 shares at a weighted average price of \$18.38. During the six months ended June 30, 2022, common stock repurchased under the program totaled 2,328,726 shares at a weighted average price of \$18.52. As of June 30, 2022, the Company had \$31.9 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 \$243.1 million, or 2.6% of total assets at June 30, 2022. This compared to \$228.1 million, or 2.4% of total assets, at December 31, 2021. The \$14.9 million increase was due mainly to (i) net income of \$75.2 million generated during the year, (ii) a \$108.0 million increase in FHLB advances and other borrowings, (iii) a \$119.2 million increase in deposits, and (iv) net investment securities inflows of \$61.6 million from repayments, net of securities purchases, offset by (v) net loan outflows of \$167.3 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 \$9.1 million, and (viii) repurchases of common stock of \$43.2 million.

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 June 30, 2022, there were \$13.0 million in borrowings under this line of credit.

We believe that our liquidity sources are stable and are adequate to meet our day-to-day cash flow requirements as of June 30, 2022. However, in light of the ongoing COVID-19 pandemic, we cannot predict at this time the extent to which the pandemic may negatively affect our business, financial condition, liquidity, capital and results of operations.

Commitments and Contractual Obligations

The following table presents our commitments and contractual obligations as of June 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	\$ 234,283	\$ 19,617	\$ 162,078	\$ 21,965	\$ 30,623
Unused lines of credit	2,000,345	1,720,837	195,198	45,945	38,365
Standby letters of credit	10,124	9,294	—	830	—
Total commitments	\$ 2,244,752	\$ 1,749,748	\$ 357,276	\$ 68,740	\$ 68,988
FHLB advances	\$ 516,000	\$ 105,000	\$ 291,000	\$ 120,000	\$ —
Other borrowings	98,000	98,000	—	—	—
Long-term debt	277,527	—	175,000	—	102,527
Operating and capital lease obligations	38,517	9,005	16,037	9,570	3,905
Certificates of deposit	749,305	608,542	138,261	2,502	—
Total contractual obligations	\$ 1,679,349	\$ 820,547	\$ 620,298	\$ 132,072	\$ 106,432

At June 30, 2022, we had unfunded commitments of \$14.9 million, \$9.4 million, and \$7.9 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	
June 30, 2022							
Banc of California, Inc.							
Total risk-based capital	\$ 1,080,107	13.69 %	\$ 631,119	8.00 %	N/A	N/A	
Tier 1 risk-based capital	890,341	11.29 %	473,339	6.00 %	N/A	N/A	
Common equity tier 1 capital	890,341	11.29 %	355,005	4.50 %	N/A	N/A	
Tier 1 leverage	890,341	9.58 %	371,732	4.00 %	N/A	N/A	
Banc of California, NA							
Total risk-based capital	\$ 1,225,571	15.54 %	\$ 630,958	8.00 %	\$ 788,697	10.00 %	
Tier 1 risk-based capital	1,136,569	14.41 %	473,218	6.00 %	630,958	8.00 %	
Common equity tier 1 capital	1,136,569	14.41 %	354,914	4.50 %	512,653	6.50 %	
Tier 1 leverage	1,136,569	12.27 %	370,667	4.00 %	463,334	5.00 %	
December 31, 2021							
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 six months ended June 30, 2022, the Bank paid \$50.0 million and \$66.0 million in dividends to Banc of California, Inc.

During both the three and six months ended June 30, 2022, we declared and paid dividends on our common stock of \$0.06 and \$0.12 per share totaling \$3.7 million and \$7.4 million in addition to dividends on our preferred stock totaling zero and \$1.7 million.

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 market value of assets minus the market value of liabilities. Asset liability management uses this value to measure the changes in the economic value of the Bank 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 June 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 Bank's economic value of equity at June 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) ⁽¹⁾					
	Economic Value of Equity			Net Interest Income		
	Amount	Amount Change	Percentage Change	Amount	Amount Change	Percentage Change
June 30, 2022						
+200 bps	\$ 1,724,973	\$ 53,059	3.2 %	\$ 355,783	\$ 7,186	2.1 %
+100 bps	1,702,549	30,635	1.8 %	352,079	3,482	1.0 %
0 bps	1,671,914			348,597		
-100 bps	1,592,289	(79,625)	(4.8)%	324,877	(23,720)	(6.8)%
-200 bps	1,478,120	(193,794)	(11.6)%	306,040	(42,557)	(12.2)%

(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 June 30, 2022, our one year gap ratio stood at 30%. 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 arise 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 June 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 June 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 June 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	
Common Stock:				
From April 1, 2022 to April 30, 2022	1,137,491	\$ 18.68	1,108,657	\$ 50,000
From May 1, 2022 to May 31, 2022	401,522	\$ 18.72	400,683	\$ 42,500
From June 1, 2022 to June 30, 2022	606,407	\$ 17.62	603,836	\$ 31,861
Total	2,145,420	\$ 18.39	2,113,176	

During the three and six months ended June 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 [Second Articles of Restatement of the charter of the Registrant \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 5, 2018 and incorporated herein by reference.\)](#)
- 3.2 [Fifth Amended and Restated Bylaws of the Registrant \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on June 30, 2017 and incorporated herein by reference.\)](#)
- 10.1 [Form of Supplemental Performance Unit Agreement under the 2018 Omnibus Plan](#)
- 31.1 [Rule 13a-14\(a\) Certification \(Principal Executive Officer\)](#)
- 31.2 [Rule 13a-14\(a\) Certification \(Principal Financial Officer\)](#)
- 32.0 [Rule 13a-14\(b\) and 18 U.S.C. 1350 Certification](#)
- 101.0 The following financial statements and footnotes from the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 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: August 8, 2022

/s/ Jared Wolff

Jared Wolff

President/Chief Executive Officer

(Principal Executive Officer)

Date: August 8, 2022

/s/ Lynn M. Hopkins

Lynn M. Hopkins

Executive Vice President/Chief Financial Officer

(Principal Financial Officer)

Date: August 8, 2022

/s/ Diana Hanson

Diana Hanson

Senior Vice President/Chief Accounting Officer

(Principal Accounting Officer)

**BANC OF CALIFORNIA, INC.
2018 OMNIBUS STOCK INCENTIVE PLAN
PERFORMANCE UNIT AGREEMENT**

PUA No. ###EMPLOYEE_GRANT_NUMBER###

A Performance Unit is hereby awarded pursuant to this Performance Unit Agreement (this "Agreement") on ###GRANT_DATE### (the "Grant Date") by Banc of California, Inc., a Maryland corporation (the "Company"), to ###PARTICIPANT_NAME### (the "Grantee"), in accordance with the following terms and conditions:

1. Award. Pursuant to the Banc of California, Inc. 2018 Omnibus Stock Incentive Plan, as the same may be amended from time to time (the "Plan"), and upon the terms and conditions and subject to the restrictions in the Plan and as hereinafter set forth, the Company hereby awards to the Grantee a Performance Unit (the "Performance Unit"). The Performance Unit represents the opportunity to earn an amount, payable by delivery of such property as the Committee shall determine, including, without limitation, cash, shares of the Company's common stock, par value \$0.01 per share ("Shares"), or a combination thereof, based on the level of achievement during the Performance Period of the Performance Goals as set forth in Annex A hereto. A copy of the Plan, as currently in effect, is incorporated herein by reference and is attached hereto. Capitalized terms used herein which are not defined in this Agreement shall have the meanings ascribed to such terms in the Plan.

2. Performance Period. For purposes of this Agreement, the "Performance Period" shall be the four-year period ending on the fourth (4th) anniversary of the Grant Date.

3. Performance Goals. The amount earned by the Grantee for the Performance Period will be determined following the end of the Performance Period based on the level of achievement of the Performance Goal in accordance with Annex A hereto. As soon as practicable following the end of the Performance Period, the Committee shall determine (a) whether, and to what extent, the Performance Goals for the Performance Period have been achieved, and (b) the amount earned by the Grantee under the Performance Unit. Such determination shall be final, conclusive and binding on the Grantee and on all other persons.

4. Restrictions on Transfer. Neither the Performance Unit, nor any interest therein, may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated by the Grantee, except upon the death of the Grantee, by will or by the laws of descent and distribution.

5. Vesting. The Performance Unit is subject to forfeiture until it vests. Except as otherwise provided herein, the Performance Unit will vest and become non-forfeitable on the date the Committee certifies the achievement of the Performance Goals in accordance with Section 3, subject to (a) determination by the Committee, pursuant to Section 3, of the achievement of the minimum threshold Performance Goals for payout set forth in Annex A hereto, and (b) the Grantee not experiencing a Termination of Employment prior to the last day of the Performance Period.

6. Termination of Employment. Upon the Grantee's Termination of Employment prior to the vesting of the Performance Unit for any reason other than due to death or Disability, the Performance Unit shall become forfeited. In the event that the Grantee's Termination of Employment prior to vesting is due to death or Disability, the Performance Unit will vest as and to the extent provided in Section 5 notwithstanding such Termination of Employment. The amount earned, if any, with respect the Performance Unit shall be paid at the time specified in Section 8.

7. Grantee's Rights as Stockholder. The Grantee shall have no voting rights or other rights of a stockholder with respect to any Shares that may be issuable to the Grantee upon payment of the Performance Unit unless and until such Shares are actually issued to the Grantee; provided, however, that subject to all limitations provided in this Agreement and the Plan, the Grantee shall have the right to receive an amount equal to all dividends and other distributions paid, prior to payment of the Performance Unit, on such number of shares of Common Stock, if any, underlying the Performance Unit corresponding to the actual level of performance during the Performance Period but not to exceed, solely for purposes of this Section 7, the number of Shares issuable at the level of performance as set forth in Annex A or Section 10 hereof, as applicable; provided, further, that such amount shall be accumulated and deferred but remain subject to payment of the Performance Unit at the time set forth in Section 8 below and shall only be paid at the time such Shares are actually issued to the Grantee.

8. Payment of Performance Unit. Payment in respect of the Performance Unit for the amount earned, if any, for the Performance Period shall be made to the Grantee in such property as the Committee shall determine, including, without limitation, cash, Shares or a combination thereof, as soon as practicable following the vesting date but no later than 30 days following the vesting date.

9. Adjustments. In the event of a Corporate Transaction or Share Change, the number of Shares, if any, issuable upon payment of the Performance Unit shall be adjusted as and to the extent provided in Section 3(d) of the Plan.

10. Effect of Change in Control. The treatment of the Performance Unit upon and following a Change in Control shall be as and to the extent provided in Section 10 of the Plan; provided, that, notwithstanding anything to the contrary in Section 10(b) of the Plan, the extent to which the Performance Unit is deemed to be earned for purposes of clause 10(b)(ii) of the Plan shall be (x) at 100% of the Award if the Performance Goal has been achieved as of the date of the Change in Control, and (y) a prorated portion of the Award based on the portion of the total Award that was expensed by the Company as of the date of the Change in Control if the Performance Goal has not yet been achieved as of the date of the Change in Control.

11. Delivery and Registration of Shares. To the extent the Company becomes obligated to deliver Shares hereunder, such obligation shall, if the Committee so requests, be conditioned upon the receipt of a representation that the Grantee, or any other person to whom such Shares are to be delivered, is acquiring such Shares without a view to the distribution thereof. In requesting any such representation, it may be provided that such representation requirement shall become inoperative upon a registration of such Shares or other action eliminating the necessity of such representation under the Securities Act of 1933, as amended, or other securities law or regulation. The Company shall not be required to deliver any Shares hereunder prior to (i) the listing or approval for listing upon notice of issuance of the Shares on the Applicable Exchange, (ii) any registration or other qualification of such Shares under any state or federal law, rule or regulation, or the maintaining in effect of any such registration or other qualification which the Committee shall, in its absolute discretion upon the advice of counsel, determine to be necessary or advisable and (iii) obtaining any other consent, approval, or permit from any state or federal government agency which the Committee shall, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

12. Plan and Plan Interpretations as Controlling. The Performance Unit hereby awarded and the terms and conditions herein set forth are subject in all respects to the terms and conditions of the Plan, which are controlling. All determinations and interpretations made in the discretion of the Committee shall be binding and conclusive upon the Grantee and all other persons with regard to any question arising hereunder or under the Plan.

13. Clawback. The Performance Unit granted pursuant to this Agreement and all amounts paid hereunder shall be subject to any clawback, recoupment or forfeiture provisions (i) required by law or regulation and applicable to the Company or its Subsidiaries or Affiliates as in effect from time to time or (ii) set forth in any policies adopted or maintained by the Company or any of its Subsidiaries or Affiliates as in effect from time to time, including, without limitation, the Company's Incentive Compensation Recoupment Policy, if applicable to the Grantee.

14. Grantee Service. Nothing in this Agreement shall interfere with or limit in any way the right of the Company or any Subsidiary or Affiliate to terminate the Grantee's employment or service at any time, nor confer upon the Grantee any right to continue in the employ or service of the Company or any Subsidiary or Affiliate.

15. Withholding Tax. The Company may withhold from any payment or distribution made hereunder cash and/or Shares (to the extent the Performance Unit is paid in Shares), sufficient to cover any applicable withholding and employment taxes, or require the Grantee to remit to the Company an amount sufficient to satisfy such taxes.

16. Notices. All notices hereunder to the Company shall be delivered or mailed to it addressed to the Secretary of Banc of California, Inc., 3 MacArthur Plan, Santa Ana, California 92707. Any notices hereunder to the Grantee shall be delivered personally or mailed to the Grantee's current address according to the Company's personnel files. Such addresses for the service of notices may be changed at any time, provided written notice of the change is furnished in advance to the Company or to the Grantee, as the case may be.

17. Severability. The various provisions of this Agreement are severable in their entirety. Any judicial or legal determination of invalidity or unenforceability of any one provision shall have no effect on the continuing force and effect of the remaining provisions.

18. Governing Law; Headings. This Agreement and actions taken hereunder shall be governed by and construed in accordance with the laws of the State of Maryland, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

19. Amendment. This Agreement may be amended or modified by the Committee at any time; provided, that, no amendment or modification that materially impairs the rights of the Grantee as provided by this Agreement shall be effective unless set forth in writing signed by the parties hereto, except such an amendment made to cause the terms of this Agreement or the Performance Unit granted hereunder to comply with applicable law (including tax law), Applicable Exchange listing standards or accounting rules. The waiver by either party of compliance with any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement.

20. Grantee Acceptance; Counterparts. The Grantee shall signify the Grantee's acceptance of the terms and conditions of this Agreement by signing in the space provided below and returning a signed copy hereof to the Company at the address set forth in Section 16 above. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The parties hereto agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

21. Section 409A. The Performance Unit is intended to comply with the short-term deferral exemption from Section 409A of the Code, and to the extent it does not so comply is intended to comply with Section 409A of the Code.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first above written.

BANC OF CALIFORNIA, INC.

By: _____

ACCEPTED

###ACCEPTANCE_DATE###

###PARTICIPANT_NAME###

###HOME_ADDRESS###

ANNEX A TO PERFORMANCE UNIT AGREEMENT

The following measure applies to the Performance Stock Units (PSUs):

Shares of the Company achieving a twenty-day Volume-Weighted Average Price of \$35 per Share at any time on or before June 6, 2026.

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: August 8, 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: August 8, 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 June 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: August 8, 2022

/s/ Jared Wolff

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

Date: August 8, 2022

/s/ Lynn M. Hopkins

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