

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

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2023
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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 November 6, 2023, the registrant had outstanding 56,966,910 shares of voting common stock and 477,321 shares of Class B non-voting common stock.

BANC OF CALIFORNIA, INC.
FORM 10-Q QUARTERLY REPORT
September 30, 2023
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Forward-Looking Statements

This document includes forward-looking statements within the meaning of the “Safe-Harbor” provisions of the Private Securities Litigation Reform Act of 1995. Words or phrases such as “believe,” “will,” “should,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “plans,” “strategy,” or similar expressions are intended to identify these forward-looking statements. You are cautioned not to place undue reliance on any forward-looking statements. These statements are necessarily subject to risk and uncertainty and actual results could differ materially from those anticipated due to various factors, including those set forth from time to time in the documents filed or furnished by Banc of California, Inc. (the Company) with the Securities and Exchange Commission (SEC). The Company undertakes no obligation to revise or publicly release any revision or update to these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made, except as required by law.

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

- i changes in general economic conditions, either nationally or in our market areas, including the impact of supply chain disruptions, and the risk of recession or an economic downturn;
- ii changes in the interest rate environment, including the recent and potential future increases in the FRB benchmark rate, which could adversely affect our revenue and expenses, the value of assets and obligations, the availability and cost of capital and liquidity, the impacts of continuing inflation;
- iii 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 the effectiveness of our underwriting practices and the risk of fraud, any of which may lead to increased loan delinquencies, losses, and non-performing assets, and may result in our allowance for credit losses not being adequate;
- iv fluctuations in the demand for loans, and fluctuations in commercial and residential real estate values in our market area;
- v the quality and composition of our securities portfolio;
- vi our ability to develop and maintain a strong core deposit base or other low cost funding sources necessary to fund our activities particularly in a rising or high interest rate environment;
- vii the rapid withdrawal of a significant amount of demand deposits over a short period of time;
- viii the costs and effects of litigation;
- ix risks related to the Company’s acquisitions, including disruption to current plans and operations; difficulties in customer and employee retention; fees, expenses and charges related to these transactions being significantly higher than anticipated; and our inability to achieve expected revenues, cost savings, synergies, and other benefits; and in the case of our recent acquisition of Deepstack Technologies, LLC (Deepstack), reputational risk, regulatory risk and potential adverse reactions of the Company’s or Deepstack’s customers, suppliers, vendors, employees or other business partners;
- x 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, restrict our ability to invest in certain assets, refrain from issuing an approval or non-objection to certain capital or other actions, increase our allowance for credit losses, result in write-downs of asset values, restrict our ability or that of our bank subsidiary to pay dividends, or impose fines, penalties or sanctions;
- xi legislative or regulatory changes that adversely affect our business, including changes in tax laws and policies, accounting policies and practices, privacy laws, and regulatory capital or other rules;
- xii the risk that our enterprise risk management framework may not be effective in mitigating risk and reducing the potential for losses;
- xiii errors in estimates of the fair values of certain of our assets and liabilities, which may result in significant changes in valuation;
- xiv failures or security breaches with respect to the network, applications, vendors and computer systems on which we depend, including due to cybersecurity threats;
- xv our ability to attract and retain key members of our senior management team;
- xvi 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;
- xvii the impact of bank failures or other adverse developments at other banks on general investor sentiment regarding the stability and liquidity of banks;
- xviii the possibility that our recorded goodwill could become impaired, which may have an adverse impact on our earnings and capital;
- xix the risks, uncertainties and assumptions set forth under the heading “Cautionary Statement Regarding Forward-Looking Statements” in the registration statement (as defined below); and
- xx other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services and the other risks described in this document and from time to time in other documents that we file with or furnish to the SEC.

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

	September 30, 2023	December 31, 2022
ASSETS		
Cash and due from banks	\$ 45,898	\$ 47,434
Interest-earning deposits in financial institutions	265,087	181,462
Total cash and cash equivalents	310,985	228,896
Securities held-to-maturity, at amortized cost (fair value of \$250,285 and \$262,460 at September 30, 2023 and December 31, 2022)	328,287	328,641
Securities available-for-sale, at fair value (amortized cost of \$968,009 and \$909,563 at September 30, 2023 and December 31, 2022; allowance for credit losses of \$1,036 and \$0 at September 30, 2023 and December 31, 2022)	915,054	868,297
Loans receivable	6,961,032	7,115,038
Allowance for loan losses	(74,390)	(85,960)
Loans receivable, net	6,886,642	7,029,078
Federal Home Loan Bank and other bank stock, at cost	60,336	57,092
Premises and equipment, net	109,141	107,345
Bank owned life insurance	129,939	127,122
Deferred income taxes, net	51,461	50,518
Goodwill	114,312	114,312
Other intangibles	6,142	7,526
Derivative assets	70,625	2,292
Other assets	264,148	275,897
Total assets	\$ 9,247,072	\$ 9,197,016
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing deposits	\$ 2,366,544	\$ 2,809,328
Interest-bearing deposits	4,274,086	4,311,593
Total deposits	6,640,630	7,120,921
Federal Home Loan Bank (FHLB) advances, net and Federal Reserve Bank (FRB) borrowings	1,008,293	727,348
Other borrowings	185,802	—
Long-term debt, net	274,279	274,906
Accrued expenses and other liabilities	136,348	114,223
Total liabilities	8,245,352	8,237,398
Commitments and contingent liabilities		
Common stock, \$0.01 par value per share, 446,863,844 shares authorized; 65,342,478 shares issued and 56,959,141 shares outstanding at September 30, 2023; 65,168,380 shares issued and 58,544,534 shares outstanding at December 31, 2022	653	651
Class B non-voting non-convertible common stock, \$0.01 par value per share, 3,136,156 shares authorized; 477,321 shares issued and outstanding at September 30, 2023 and December 31, 2022	5	5
Additional paid-in capital	869,565	866,478
Retained earnings	312,219	248,988
Treasury stock, at cost (8,383,337 and 6,623,846 shares at September 30, 2023 and December 31, 2022)	(137,269)	(115,907)
Accumulated other comprehensive loss, net	(43,453)	(40,597)
Total stockholders' equity	1,001,720	959,618
Total liabilities and stockholders' equity	\$ 9,247,072	\$ 9,197,016

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Interest and dividend income					
Loans, including fees	\$ 95,613	\$ 92,889	\$ 83,699	\$ 275,920	\$ 238,828
Securities	16,335	15,804	10,189	47,048	25,622
Other interest-earning assets	4,274	7,458	2,085	16,324	4,210
Total interest and dividend income	116,222	116,151	95,973	339,292	268,660
Interest expense					
Deposits	31,360	28,118	8,987	80,005	13,555
FHLB advances and FRB borrowings	7,773	14,703	3,558	32,124	9,625
Other interest-bearing liabilities	7,871	3,698	4,020	15,260	11,332
Total interest expense	47,004	46,519	16,565	127,389	34,512
Net interest income	69,218	69,632	79,408	211,903	234,148
Provision for (reversal of) credit losses	5,000	1,900	—	8,900	(31,542)
Net interest income after provision for (reversal of) credit losses	64,218	67,732	79,408	203,003	265,690
Noninterest income					
Customer service fees	2,114	2,022	2,462	6,115	7,474
Loan servicing income	563	574	636	1,684	957
Income from bank owned life insurance	966	951	873	2,817	2,479
Change in fair value of derivative instruments	46,186	10	39	46,172	224
Net gain on sale of securities available-for-sale	—	—	—	—	16
All other income	949	2,467	1,671	7,873	7,627
Total noninterest income	50,778	6,024	5,681	64,661	18,777
Noninterest expense					
Salaries and employee benefits	25,819	28,282	27,997	83,757	85,248
Occupancy and equipment	5,804	5,603	5,796	16,933	17,174
Professional fees	3,616	4,001	3,957	11,689	10,797
Data processing	1,657	1,686	1,699	4,906	5,309
Regulatory assessments	1,410	1,301	925	3,913	2,721
Software and technology	3,811	3,579	3,659	10,664	9,106
(Gain) loss on investments in alternative energy partnerships	(34)	(36)	504	1,548	1,705
Reversal of loan repurchase reserves	—	(808)	(26)	(819)	(987)
Amortization of other intangibles	461	462	396	1,384	1,150
Acquisition, integration and transaction costs	9,329	—	2,080	9,329	2,080
Other expense	4,291	5,062	3,975	13,231	11,867
Total noninterest expense	56,164	49,132	50,962	156,535	146,170
Income before income taxes	58,832	24,624	34,127	111,129	138,297
Income tax expense	16,258	6,745	9,931	30,398	38,877
Net income	42,574	17,879	24,196	80,731	99,420
Preferred stock dividends	—	—	—	—	1,420
Impact of preferred stock redemption	—	—	—	—	3,747
Net income available to common stockholders	\$ 42,574	\$ 17,879	\$ 24,196	\$ 80,731	\$ 94,253
Earnings per common share:					
Basic	\$ 0.74	\$ 0.31	\$ 0.40	\$ 1.39	\$ 1.54
Diluted	\$ 0.74	\$ 0.31	\$ 0.40	\$ 1.39	\$ 1.53
Earnings per class B common share:					
Basic	\$ 0.74	\$ 0.31	\$ 0.40	\$ 1.39	\$ 1.54
Diluted	\$ 0.74	\$ 0.31	\$ 0.40	\$ 1.39	\$ 1.54

See accompanying notes to consolidated financial statements (unaudited)

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

	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Net income	\$ 42,574	\$ 17,879	\$ 24,196	\$ 80,731	\$ 99,420
Other comprehensive income (loss), net of tax:					
Unrealized gain (loss) on available-for-sale securities:					
Unrealized gain (loss) arising during the period	1,568	(5,215)	(13,715)	(7,573)	(55,741)
Reclassification adjustment for gain included in net income	—	—	—	—	(11)
Total change in unrealized gain (loss) on available-for-sale securities	1,568	(5,215)	(13,715)	(7,573)	(55,752)
Unrealized gain on cash flow hedge:					
Unrealized gain arising during the period	4,558	5,764	—	4,176	—
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	179	182	195	541	430
Total other comprehensive income (loss)	6,305	731	(13,520)	(2,856)	(55,322)
Comprehensive income	\$ 48,879	\$ 18,610	\$ 10,676	\$ 77,875	\$ 44,098

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)

	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 September 30, 2023							
Balance at June 30, 2023	\$ 653	\$ 5	\$ 867,994	\$ 275,430	\$ (137,270)	\$ (49,758)	\$ 957,054
Comprehensive income:							
Net income	—	—	—	42,574	—	—	42,574
Other comprehensive loss, net	—	—	—	—	—	6,305	6,305
Excise tax on treasury stock repurchases	—	—	—	—	1	—	1
Exercise of stock options	—	—	20	—	—	—	20
Share-based compensation expense	—	—	1,581	—	—	—	1,581
Restricted stock surrendered due to employee tax liability	—	—	(30)	—	—	—	(30)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	(93)	—	—	(93)
Dividends declared (\$0.10 per common share)	—	—	—	(5,692)	—	—	(5,692)
Balance at September 30, 2023	\$ 653	\$ 5	\$ 869,565	\$ 312,219	\$ (137,269)	\$ (43,453)	\$ 1,001,720
Three Months Ended September 30, 2022							
Balance at June 30, 2022	\$ 647	\$ 5	\$ 856,079	\$ 210,471	\$ (84,013)	\$ (34,059)	\$ 949,130
Comprehensive income:							
Net income	—	—	—	24,196	—	—	24,196
Other comprehensive loss, net	—	—	—	—	—	(13,520)	(13,520)
Issuance of common stock	5	—	7,195	—	—	—	7,200
Repurchase of 740,332 shares of common stock	—	—	—	—	(12,965)	—	(12,965)
Share-based compensation expense	—	—	1,715	—	—	—	1,715
Restricted stock surrendered due to employee tax liability	—	—	(183)	—	—	—	(183)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	(20)	—	—	(20)
Dividends declared (\$0.06 per common share)	—	—	—	(3,563)	—	—	(3,563)
Balance at September 30, 2022	\$ 652	\$ 5	\$ 864,806	\$ 231,084	\$ (96,978)	\$ (47,579)	\$ 951,990

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					
Nine Months Ended September 30, 2023								
Balance at December 31, 2022	\$ —	\$ 651	\$ 5	\$ 866,478	\$ 248,988	\$ (115,907)	\$ (40,597)	\$ 959,618
Comprehensive income:								
Net income	—	—	—	—	80,731	—	—	80,731
Other comprehensive loss, net	—	—	—	—	—	—	(2,856)	(2,856)
Issuance of common stock	—	3	—	(3)	—	—	—	—
Repurchase of 1,759,491 shares of common stock	—	—	—	—	—	(21,362)	—	(21,362)
Exercise of stock options	—	—	—	20	—	—	—	20
Share-based compensation expense	—	—	—	4,762	—	—	—	4,762
Restricted stock surrendered due to employee tax liability	—	(1)	—	(1,692)	—	—	—	(1,693)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(282)	—	—	(282)
Dividends declared (\$0.30 per common share)	—	—	—	—	(17,218)	—	—	(17,218)
Balance at September 30, 2023	\$ —	\$ 653	\$ 5	\$ 869,565	\$ 312,219	\$ (137,269)	\$ (43,453)	\$ 1,001,720
Nine Months Ended September 30, 2022								
Balance at December 31, 2021	\$ 94,956	\$ 646	\$ 5	\$ 854,873	\$ 147,894	\$ (40,827)	\$ 7,743	\$ 1,065,290
Comprehensive loss:								
Net income	—	—	—	—	99,420	—	—	99,420
Other comprehensive loss, net	—	—	—	—	—	—	(55,322)	(55,322)
Issuance of common stock	—	6	—	7,194	—	—	—	7,200
Redemption of preferred stock	(94,956)	—	—	—	(3,747)	—	—	(98,703)
Repurchase of 3,069,058 shares of common stock	—	—	—	—	—	(56,151)	—	(56,151)
Share-based compensation expense	—	—	—	4,482	—	—	—	4,482
Restricted stock surrendered due to employee tax liability	—	—	—	(1,743)	—	—	—	(1,743)
Shares purchased under the Dividend Reinvestment Plan	—	—	—	—	(80)	—	—	(80)
Dividends declared (\$0.18 per common share)	—	—	—	—	(10,983)	—	—	(10,983)
Preferred stock dividends	—	—	—	—	(1,420)	—	—	(1,420)
Balance at September 30, 2022	\$ —	\$ 652	\$ 5	\$ 864,806	\$ 231,084	\$ (96,978)	\$ (47,579)	\$ 951,990

See accompanying notes to consolidated financial statements (unaudited)

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 80,731	\$ 99,420
Adjustments to reconcile net income to net cash provided by operating activities		
Provision for (reversal of) credit losses	8,900	(31,542)
Reversal of loan repurchase reserves	(819)	(987)
Depreciation on premises and equipment	11,386	11,883
Amortization of other intangibles	1,384	1,150
Amortization of debt issuance costs	1,354	1,322
Net amortization of premium on securities	166	834
Net (accretion) amortization of deferred loan costs (fees) and purchased premiums (discounts)	548	520
Deferred income tax expense	(2,075)	(1,547)
Bank owned life insurance income	(2,817)	(2,479)
Share-based compensation expense	4,762	4,482
Change in fair value of derivative instruments	(46,172)	(224)
Loss on investments in alternative energy partnerships and affordable housing investments	5,998	5,432
Net gain on sale of securities available-for-sale	—	(16)
Gain on sale-leaseback of branch	—	(771)
Repurchase of mortgage loans	(609)	(1,592)
Change in accrued interest receivable and other assets	6,223	29,662
Change in accrued interest payable and other liabilities	25,067	(5,040)
Net cash provided by operating activities	94,027	110,507
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	20,000	38,500
Purchases of securities available-for-sale	(101,740)	(27,500)
Proceeds from principal repayments of securities held-to-maturity and available-for-sale	24,244	32,119
Net cash used in acquisitions	—	(10,332)
Loan originations and principal collections, net	193,104	808,144
Purchases of loans	(61,430)	(814,302)
Redemption of FHLB stock	30,543	—
Purchases of FHLB and other bank stock	(33,787)	(9,796)
Purchase of derivative instruments	(15,739)	—
Purchase of mortgage servicing rights	—	(20,441)
Purchases of premises and equipment	(7,881)	(2,556)
Proceeds from sale-leaseback of branch	—	2,400
Funding of equity investments	(4,712)	(4,878)
Decrease in investments in alternative energy partnerships	1,059	1,782
Net cash provided by investing activities	43,661	10,785
Cash flows from financing activities:		
Net decrease in deposits	(480,193)	(159,050)
Net increase in short-term FHLB advances and FRB borrowings	179,964	50,000
Proceeds from FHLB long-term advances and FRB borrowings	100,000	200,000
Net increase (decrease) in other borrowings	185,802	(15,000)
Redemption of preferred stock	—	(98,703)
Redemption of long term debt	(920)	—
Purchase of treasury stock	(21,362)	(56,151)
Proceeds from exercise of stock options	20	—
Purchase of restricted stock surrendered due to employee tax liability	(1,692)	(1,743)
Dividends paid on preferred stock	—	(1,727)
Dividends paid on common stock	(17,218)	(10,983)
Net cash used in financing activities	(55,599)	(93,357)
Net change in cash and cash equivalents	82,089	27,935
Cash and cash equivalents at beginning of period	228,896	228,123
Cash and cash equivalents at end of period	\$ 310,985	\$ 256,058
Supplemental cash flow information		
Interest paid on deposits and borrowed funds	111,852	28,904
Income taxes paid	323	14,792
Supplemental disclosure of non-cash activities		
Transfer from loans to other real estate owned, net	882	—
Reclassification of securities available-for-sale to held-to-maturity	—	329,416
Operating lease right-of-use assets received in exchange for lease liabilities	1,633	1,253
Commitments to fund low income housing tax credit investments	—	12,000
Goodwill adjustments for purchase accounting	—	1,821

See accompanying notes to consolidated financial statements (unaudited)

BANC OF CALIFORNIA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
September 30, 2023

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Banc of California, Inc., a Maryland corporation, was incorporated in March 2002 and serves as the holding company for its wholly owned subsidiary, Banc of California, National Association (the “Bank”), a California-based bank. When we refer to the “parent” or the “holding company”, we are referring to Banc of California, Inc., the parent company, on a stand-alone basis. When we refer to “we,” “us,” “our,” or the “Company”, we are referring to Banc of California, Inc. and its consolidated subsidiaries including the Bank, collectively. We are regulated as a bank holding company by the FRB and 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 32 offices including 26 full-service branches located throughout Southern California as of September 30, 2023.

Update on Proposed Merger with PacWest: On July 25, 2023, the Company and PacWest announced the execution of an Agreement and Plan of Merger, pursuant to which (a) a newly formed merger subsidiary of the Company will merge with and into PacWest, with PacWest as the surviving entity (the “first-step merger”), (b) immediately following the first-step merger, PacWest will merge with and into the Company, with the Company surviving (the “second-step merger”), (c) promptly following the second-step merger, Pacific Western Bank, a California-chartered non-member bank and, as of immediately prior to the second-step merger, a wholly-owned subsidiary of PacWest (“PacWest Bank”), will become a member of the Federal Reserve System (the “FRS Membership”) and (d) promptly following the effectiveness of the FRS Membership, the Bank will merge with and into PacWest Bank, with PacWest Bank surviving as a wholly-owned subsidiary of the Company (the “bank merger” and together with the first-step merger and the second-step merger, the “merger”). Upon closing of the merger, the combined holding company and bank will operate under the Banc of California name and brand. At the closing of the merger, PacWest stockholders will be entitled to receive 0.6569 of a share of the Company’s common stock for each share held of PacWest common stock. In the second-step merger, each outstanding share of PacWest’s 7.75% series A fixed-rate reset noncumulative perpetual preferred stock will be converted into the right to receive one share of a newly created series of substantially identical preferred stock of the Company with the same terms and conditions.

In connection with the proposed transaction, the Company also entered into separate investment agreements (the “Investment Agreements”) with affiliates of funds managed by Warburg Pincus LLC (the “Warburg Investors”) and certain investment vehicles sponsored, managed or advised by Centerbridge Partners, L.P. and its affiliates (the “Centerbridge Investors” and, together with the Warburg Investors, the “Investors”), which together will invest a total of \$400 million for newly issued equity securities of the Company substantially concurrently with and subject to the closing of the transaction.

Subject to the terms and conditions of the Investment Agreements, at the closing of the transactions contemplated thereby, the Company expects to issue to the Warburg Investors and the Centerbridge Investors, in the aggregate, approximately 21.8 million shares of common stock at a purchase price of \$12.30 per share and 10.8 million shares of a new class of nonvoting, common-equivalent stock at a purchase price of \$12.30 per share.

Additionally, the Warburg Investors will receive warrants to purchase approximately 15.9 million of the Company’s nonvoting, common-equivalent shares, and the Centerbridge Investors will receive warrants to purchase approximately 3.0 million shares of the Company’s common stock, each with an exercise price of \$15.375 per share. The warrants carry a term of seven years but are subject to mandatory exercise when the market price of the Company’s common stock reaches or exceeds \$24.60 for twenty or more trading days during any thirty-consecutive trading day period.

On October 19, 2023, the Board of Governors of the Federal Reserve System granted its approval of the merger. In addition, on October 5, 2023, the California Department of Financial Protection and Innovation granted its approval of the bank merger. No further regulatory approvals are required to complete the proposed transaction. Banc of California and PacWest will each hold a special meeting of its respective stockholders in connection with the transaction on November 22, 2023. The consummation of the proposed transaction is expected to close on or about November 30, 2023, subject to the satisfaction of the remaining closing conditions set forth in the merger agreement, including receipt of the requisite stockholder approval and the concurrent closing of the \$400 million equity capital raise described above. (Refer to Note 19 - *Subsequent Events* for further discussion).

Concurrently with entering into the definitive merger agreement, the Bank entered into an aggregate of \$3.1 billion in interest rate swaptions to hedge interest rate risk for a total cost of \$15.7 million, and a contingent forward loan sale agreement on \$1.8 billion of the single family residential (“SFR”) loan portfolio. The contingent forward loan sale agreement is contingent upon receipt of approval to close the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment. During the third quarter of 2023, we recorded a \$46.2 million pre-tax mark-to-market gain on derivative instruments used to hedge the interest rate risk associated with various assets on our balance sheet in anticipation of the sale of such assets in connection with the proposed merger with PacWest. (Refer to Note 9 - *Derivative Instruments* for further discussion).

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, 2022 filed by us with the SEC. Certain prior period amounts have been reclassified to conform to current period presentation. These reclassifications are immaterial and have no effect on net income, comprehensive income (loss), total assets or total shareholders’ equity previously reported.

In the opinion of management of the Company, the accompanying unaudited interim consolidated financial statements reflect all of the adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated financial condition and consolidated results of operations as of the dates and for the periods presented. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

Principles of Consolidation: The accompanying unaudited consolidated financial statements include the accounts of the Company and its consolidated subsidiaries as of September 30, 2023 and December 31, 2022 and for the three and nine months ended September 30, 2023 and September 30, 2022. Significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its then wholly-owned subsidiaries.

Significant Accounting Policies: The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the banking industry. We have not made any changes in our significant accounting policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 filed with the SEC, except for those described below, which reflect an update to our accounting policy on derivative instruments and the impact of the adoption of ASU 2022-02:

Derivative Instruments: We record our derivative instruments at fair value as either assets or liabilities on the consolidated statements of financial condition in derivative assets and accrued expenses and other liabilities, respectively, and have elected to present all derivatives with counterparties on a gross basis. For fair value derivatives that qualify for hedge accounting, we record changes in the fair value in noninterest income. For derivatives that do not qualify for hedge accounting, the fair value impact is recorded in noninterest income in the income statement. For derivatives designated as cash flow hedges, the gain or loss on the derivatives is recorded in other comprehensive income and subsequently reclassified into earnings in the same period during which the hedged transaction affects earnings. Derivative instruments utilized by the Company included the following:

Interest Rate Swaps and Caps: We offer interest rate swap and cap products to certain loan clients to allow them to hedge the risk of rising interest rates on their variable rate loans. When such products are issued, we also enter into an offsetting swap with institutional counterparties to eliminate the interest rate risk. These back-to-back derivative agreements, which generate fee income for us, are intended to offset each other. We retain the credit risk of the original loan. 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. These swaps and caps are not designated as accounting hedges and are recorded at fair value in derivative assets and accrued expenses and other liabilities in the consolidated statements of financial condition. The changes in fair value are recorded in noninterest income in the consolidated statements of operations.

Foreign Exchange Contracts: We offer short-term foreign exchange contracts to our clients to purchase and/or sell foreign currencies at set rates in the future. These products allow clients 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 contracts with

institutional counterparties to hedge our foreign exchange rate risk. These back-to-back contracts allow us to offer our clients foreign exchange products while minimizing our exposure to foreign exchange rate fluctuations. These foreign exchange contracts are not designated as accounting hedges and are recorded at fair value in derivative assets and accrued expenses and other liabilities on the consolidated statements of financial condition.

Interest Rate Swaptions and Contingent Forward Loan Sale Agreement. Concurrently with the announcement of the proposed merger with PacWest, we entered into an aggregate of \$3.1 billion in interest rate swaptions to hedge the interest rate risk associated with various assets on our balance sheet in anticipation of the sale of such assets in connection with the proposed merger with PacWest and a contingent forward loan sale agreement on \$1.8 billion of the SFR loan portfolio. The contingent forward loan sale agreement is contingent upon receipt of approval to close the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment. These derivative instruments are not designated as accounting hedges and are recorded at fair value in derivative assets on the consolidated statements of financial condition. The fair values of these derivative instruments will rise and fall in response to changes in market interest rates and the change in fair value is recorded in noninterest income in the consolidated statements of operations.

Cash Flow Hedge. The Company applies hedge accounting for qualifying derivative instruments used to manage interest rate risk. A cash flow hedge is a derivative instrument used to manage the variability in future expected cash flows that would otherwise be impacted by movements in interest rates. To qualify for hedge accounting, the cash flow hedge must be highly effective at reducing the risk associated with the hedged exposure. The effectiveness of the hedging relationship is documented at inception and is monitored at least quarterly through the life of the transaction.

A cash flow hedge that is designated as highly effective is carried at fair value with the change in fair value recorded in other comprehensive income (loss) (“AOCI”) and subsequently recognized in earnings in the same period that the hedged forecasted transaction affects earnings. At that time, the amount reclassified from AOCI is presented in the same income statement line item in which the hedged transaction is reported (interest income or expense). If the cash flow hedge becomes ineffective, the change in fair value is reclassified from AOCI to earnings.

Cash flows from cash flow hedges are classified as operating activities in the statement of cash flows. We classify both the earnings and cash flow impact from these derivatives consistent with the underlying hedged item.

Loan Modifications to Borrowers Experiencing Financial Difficulty: Prior to the adoption of ASU 2022-02, we accounted for the modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as a troubled debt restructuring (“TDR”). Effective January 1, 2023, we adopted ASU 2022-02, which eliminated TDR accounting prospectively for all restructurings occurring on or after January 1, 2023. Loans that were considered a TDR prior to the adoption of ASU 2022-02 will continue to be accounted for under the superseded TDR accounting guidance until the loan is paid off, liquidated, or subsequently modified. Since adoption of ASU 2022-02 on January 1, 2023, we have evaluated all loan modifications under ASC 310-20 to determine whether a modification made to a borrower results in a new loan or is a continuation of the existing loan.

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 noncancellable loan commitments (“RUC”)), loan repurchase reserve, realization of deferred tax assets, the fair value of assets and liabilities acquired in business combinations and related purchase price allocation, the valuation of goodwill and other intangible assets, other derivatives, hypothetical liquidation at book value (“HLBV”) of investments in alternative energy partnerships, and the fair value measurement of financial instruments are particularly subject to change and such change could have a material effect on the consolidated financial statements.

Recently Adopted 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*, 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 TDRs by creditors that have adopted the CECL model and enhances 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 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. We adopted ASU 2022-02 on January 1, 2023 and the impact of adoption did not have a material effect on our consolidated financial statements.

Recently Issued Accounting Guidance Not Yet Adopted: In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a consensus of the Emerging Issues Task Force)* (“ASU 2023-02”), which permits reporting entities to

elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method, which was previously allowed only for low-income housing tax credit (“LIHTC”) investments, if certain conditions are met. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023, and including interim periods within those fiscal years. The amendment must be applied on either a modified retrospective or a retrospective basis, and early adoption is permitted. The Company is currently evaluating the impact of this update on its consolidated financial statements and related disclosures, including assessing eligibility to apply the updated guidance to our investments in alternative energy partnerships currently accounted for using the HLBV method of the equity method of accounting.

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 (“AFS”): The fair values of AFS securities 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:

Cash Flow Hedge. We have entered into pay-fixed, receive-variable interest rate swap contracts with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk caused by changes in interest rates on our deposits and borrowings. We estimate the fair value of these contracts based on inputs from a third-party pricing model, which incorporates such factors as the Treasury curve, SOFR rates, and the pay rate on the interest rate swaps. 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.

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.

Interest Rate Swaptions. In connection with our proposed merger with PacWest, we entered into pay-fixed, receive-variable interest rate swaption contracts with institutional counterparties to mitigate rising interest rate risk from the time the merger was announced through the closing date. We receive estimated fair value for these contracts from a third-party pricing which reflected mid-market values obtained from market pricing data sources available for comparable transactions in the over the counter ("OTC") interest rate derivative market. These sources are believed to be reliable. Due to the observable nature of the inputs used in deriving the fair value of these derivative contracts, the valuation of interest rate swaptions is classified as Level 2.

Contingent Forward Loan Sale Agreement. In connection with our proposed merger with PacWest, we entered into a contingent forward loan sale agreement for the sale of \$1.8 billion of our SFR loan portfolio. These commitments are valued using the terms of the agreement that includes available market pricing sources that reflect the commitments particular product, coupon, and settlement. These derivatives are 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)
September 30, 2023				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 8,699	\$ —	\$ 8,699	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	76,844	—	76,844	—
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	85,832	—	85,832	—
Non-agency residential mortgage-backed securities	104,960	—	104,960	—
Collateralized loan obligations	483,804	—	483,804	—
Corporate debt securities	154,915	—	154,915	—
Derivative assets:				
Contingent forward loan sale agreement	34,902	—	34,902	—
Interest rate swaptions	27,003	—	27,003	—
Cash flow hedges	5,874	—	5,874	—
Interest rate swaps and foreign exchange contracts	2,846	—	2,846	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and foreign exchange contracts ⁽¹⁾	2,799	—	2,799	—
December 31, 2022				
Assets				
Securities available-for-sale:				
SBA loan pools securities	\$ 11,187	\$ —	\$ 11,187	\$ —
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	40,206	—	40,206	—
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	93,191	—	93,191	—
Municipal securities	—	—	—	—
Non-agency residential mortgage-backed securities	80,492	—	80,492	—
Collateralized loan obligations	476,603	—	476,603	—
Corporate debt securities	166,618	—	166,618	—
Derivative assets:				
Interest rate swaps and foreign exchange contracts	2,292	—	2,292	—
Liabilities				
Derivative liabilities:				
Interest rate swaps and foreign exchange contracts ⁽¹⁾	2,251	—	2,251	—

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

There were no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2023 and 2022.

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 derived from 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.

Other Real Estate Owned (“OREO”): The fair value of OREO is generally based on recent real estate appraisals, less estimated costs to sell. 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)
September 30, 2023				
Assets				
Individually evaluated loans:				
Commercial and industrial	\$ 756	\$ —	\$ —	\$ 756
SBA	9	—	—	9
Other real estate owned:				
Single family residential	882	—	—	882
December 31, 2022				
Assets				
Individually evaluated loans:				
Single family residential mortgage	\$ 3,600	\$ —	\$ —	\$ 3,600
Commercial and industrial	7,115	—	—	7,115
SBA	3,704	—	—	3,704

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Individually evaluated loans:				
Single family residential mortgage	\$ —	\$ 135	\$ (43)	\$ (205)
Commercial and industrial	(9,994)	(441)	(22,294)	(1,639)
SBA	(154)	(35)	(229)	(207)
Other consumer	(95)	—	(265)	(243)
Commercial real estate	—	—	(300)	—
Other real estate owned:				
Single family residential	—	—	(165)	—

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	
September 30, 2023					
Financial assets					
Cash and cash equivalents	\$ 310,985	\$ 310,985	\$ —	\$ —	\$ 310,985
Securities held-to-maturity	328,287	—	250,285	—	250,285
Securities available-for-sale	915,054	—	915,054	—	915,054
Federal Home Loan Bank and other bank stock	60,336	—	60,336	—	60,336
Loans receivable, net of allowance for credit losses	6,886,642	—	—	6,261,148	6,261,148
Accrued interest receivable	39,494	39,494	—	—	39,494
Derivative assets	70,625	—	70,625	—	70,625
Financial liabilities					
Deposits	6,640,630	5,054,976	1,576,721	—	6,631,697
Advances from Federal Home Loan Bank and Federal Reserve Bank borrowings	1,008,293	—	974,319	—	974,319
Other borrowings	185,802	—	185,802	—	185,802
Long-term debt	274,279	—	261,313	—	261,313
Derivative liabilities ⁽¹⁾	2,799	—	2,799	—	2,799
Accrued interest payable	21,187	21,187	—	—	21,187
December 31, 2022					
Financial assets					
Cash and cash equivalents	\$ 228,896	\$ 228,896	\$ —	\$ —	\$ 228,896
Securities held-to-maturity	328,641	—	262,460	—	262,460
Securities available-for-sale	868,297	—	868,297	—	868,297
Federal Home Loan Bank and other bank stock	57,092	—	57,092	—	57,092
Loans receivable, net of allowance for credit losses	7,029,078	—	—	6,526,916	6,526,916
Accrued interest receivable	37,942	37,942	—	—	37,942
Derivative assets	2,292	—	2,292	—	2,292
Financial liabilities					
Deposits	7,120,921	5,931,500	1,175,857	—	7,107,357
Advances from Federal Home Loan Bank	727,348	—	699,730	—	699,730
Long-term debt	274,906	—	269,673	—	269,673
Derivative liabilities ⁽¹⁾	2,251	—	2,251	—	2,251
Accrued interest payable	7,004	7,004	—	—	7,004

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

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	Allowance for Credit Losses	Fair Value
September 30, 2023					
Securities held-to-maturity:					
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 152,748	\$ —	\$ (35,680)	\$ —	\$ 117,068
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,337	—	(15,688)	—	45,649
Municipal securities	114,202	—	(26,634)	—	87,568
Total securities held-to-maturity	\$ 328,287	\$ —	\$ (78,002)	\$ —	\$ 250,285
Securities available-for-sale:					
SBA loan pool securities	\$ 8,721	\$ 5	\$ (27)	\$ —	\$ 8,699
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	79,786	—	(2,942)	—	76,844
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	93,696	—	(7,864)	—	85,832
Non-agency residential mortgage-backed securities	120,062	—	(15,102)	—	104,960
Collateralized loan obligations	489,940	—	(6,136)	—	483,804
Corporate debt securities	175,804	—	(19,853)	(1,036)	154,915
Total securities available-for-sale	\$ 968,009	\$ 5	\$ (51,924)	\$ (1,036)	\$ 915,054
December 31, 2022					
Securities held-to-maturity:					
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 153,033	\$ —	\$ (29,807)	\$ —	\$ 123,226
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,404	—	(11,946)	—	49,458
Municipal securities	114,204	—	(24,428)	—	89,776
Total securities held-to-maturity	\$ 328,641	\$ —	\$ (66,181)	\$ —	\$ 262,460
Securities available-for-sale:					
SBA loan pool securities	\$ 11,241	\$ —	\$ (54)	\$ —	\$ 11,187
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	40,431	—	(225)	—	40,206
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	99,075	—	(5,884)	—	93,191
Non-agency residential mortgage-backed securities	90,832	—	(10,340)	—	80,492
Collateralized loan obligations	492,203	—	(15,600)	—	476,603
Corporate debt securities	175,781	32	(9,195)	—	166,618
Total securities available-for-sale	\$ 909,563	\$ 32	\$ (41,298)	\$ —	\$ 868,297

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 (“AFS”) portfolio to the held-to-maturity (“HTM”) portfolio. At the time of the transfer, the securities had an unrealized gross loss of \$16.6 million, which became part of the securities’ amortized cost basis. This amount, along with the unrealized loss included in accumulated other comprehensive income, is subsequently amortized over the remaining life of the security as an adjustment to its yield using the interest method. As a result, there is no impact on the consolidated statements of operations. At September 30, 2023, the gross unrealized loss included in accumulated other comprehensive income was \$15.0 million.

At September 30, 2023, our investment securities portfolio consisted of agency securities, municipal securities, mortgage-backed securities (“MBS”), 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.

Accrued interest receivable on AFS and HTM securities totaled \$11.8 million and \$9.2 million at September 30, 2023 and December 31, 2022, and is included within other assets in the accompanying consolidated statements of financial condition.

At September 30, 2023 and December 31, 2022, there were no holdings of any one issuer, other than U.S. government agency and sponsored enterprises, in an amount greater than 10 percent of our stockholders' equity.

Pledged Securities

Investment securities with carrying values of \$525.7 million and \$356.5 million as of September 30, 2023 and December 31, 2022 were pledged to secure FHLB advances, FRB borrowings, public deposits and for other deposits as required or permitted by law.

Securities Available-for-Sale

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Gross realized gains	\$ —	\$ —	\$ —	\$ 209
Gross realized losses	—	—	—	(193)
Net realized gains on sales and calls	\$ —	\$ —	\$ —	\$ 16
Proceeds from sales and calls	\$ —	\$ —	\$ 20,000	\$ 56,145

The following table summarizes the AFS investment securities 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
September 30, 2023						
Securities available-for-sale:						
SBA loan pool securities	\$ —	\$ —	\$ 7,060	\$ (27)	\$ 7,060	\$ (27)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	76,844	(2,942)	—	—	76,844	(2,942)
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	50,151	(1,131)	35,690	(6,733)	85,841	(7,864)
Non-agency residential mortgage-backed securities	67,769	(3,112)	37,191	(11,990)	104,960	(15,102)
Collateralized loan obligations	24,859	(141)	441,944	(5,995)	466,803	(6,136)
Corporate debt securities	14,774	(1,430)	140,140	(18,423)	154,914	(19,853)
Total securities available-for-sale	\$ 234,397	\$ (8,756)	\$ 662,025	\$ (43,168)	\$ 896,422	\$ (51,924)
December 31, 2022						
Securities available-for-sale:						
SBA loan pool securities	\$ 2,260	\$ (3)	\$ 8,927	\$ (51)	\$ 11,187	\$ (54)
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	40,206	(225)	—	—	40,206	(225)
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	76,441	(2,533)	16,750	(3,351)	93,191	(5,884)
Non-agency residential mortgage-backed securities	80,492	(10,340)	—	—	80,492	(10,340)
Collateralized loan obligations	235,936	(7,492)	240,667	(8,108)	476,603	(15,600)
Corporate debt securities	159,492	(8,374)	4,180	(821)	163,672	(9,195)
Total securities available-for-sale	\$ 594,827	\$ (28,967)	\$ 270,524	\$ (12,331)	\$ 865,351	\$ (41,298)

At September 30, 2023, our AFS securities portfolio consisted of 86 securities, of which 84 securities were in an unrealized loss position. At December 31, 2022, our AFS securities portfolio consisted of 77 securities, of which 76 securities were in an unrealized loss position.

We monitor our securities portfolio for identification of potential credit impairment. During the three and nine months ended September 30, 2023, we recognized zero and \$1.0 million in provision for credit losses on three corporate debt securities of other financial institutions that were downgraded to below investment grade by external credit agencies. During the three and nine months ended September 30, 2022, there was no provision for credit losses related to AFS or HTM securities.

Except for the corporate debt securities noted above, we believe there was no credit impairment and the decline in fair value of our securities since acquisition was attributable to a combination of changes in interest rates and general volatility in market conditions. As of September 30, 2023, we did not have the intent to sell securities in an unrealized loss position and further believe, it is more likely than not, that we will not be required to sell these securities before their anticipated recovery. As of September 30, 2023, 81 of our 84 AFS securities in an unrealized loss position received an investment grade credit rating, and all of our HTM securities in an unrealized loss position received an investment grade credit rating.

The following table presents the amortized cost and fair value of the investment securities portfolio as of September 30, 2023, based on the earlier of contractual maturity dates or next repricing date:

(\$ in thousands)	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Earlier of maturity or next repricing date:				
Within one year	\$ —	\$ —	\$ 503,799	\$ 497,569
One to five years	—	—	171,294	150,580
Five to ten years	37,305	30,544	41,786	34,950
Greater than ten years	290,982	219,741	251,130	231,955
Total	\$ 328,287	\$ 250,285	\$ 968,009	\$ 915,054

Contractual maturities may not reflect the actual maturities of the investments. The average lives for MBS and collateralized mortgage obligations (“CMOs”) will likely be shorter than their contractual maturities due to prepayments and amortization.

The following table presents the fair value and weighted average yields using amortized cost of the AFS securities portfolio as of September 30, 2023, 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	\$ 8,699	5.79 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 8,699	5.79 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	—	— %	76,844	5.52 %	76,844	5.52 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	5,066	5.98 %	7,528	3.72 %	23,087	3.25 %	50,151	5.21 %	85,832	4.52 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	104,960	4.02 %	104,960	4.02 %
Collateralized loan obligations	483,804	7.20 %	—	— %	—	— %	—	— %	483,804	7.20 %
Corporate debt securities	—	— %	143,052	4.82 %	11,863	5.73 %	—	— %	154,915	4.89 %
Total securities available-for-sale	\$ 497,569	7.16 %	\$ 150,580	4.76 %	\$ 34,950	4.04 %	\$ 231,955	4.74 %	\$ 915,054	5.97 %

The following table presents the amortized cost and weighted average yields using amortized cost of the HTM securities portfolio as of September 30, 2023, 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	
	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield	Amortized Cost	Weighted-Average Yield
Securities held-to-maturity:										
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 9,334	2.52 %	\$ 143,414	2.70 %	\$ 152,748	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	61,337	2.64 %	61,337	2.64 %
Municipal securities	—	— %	—	— %	27,971	2.32 %	86,231	2.72 %	114,202	2.62 %
Total securities held-to-maturity	\$ —	— %	\$ —	— %	\$ 37,305	2.37 %	\$ 290,982	2.69 %	\$ 328,287	2.65 %

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

(\$ in thousands)	September 30, 2023	December 31, 2022
Commercial:		
Commercial and industrial ⁽¹⁾⁽²⁾	\$ 1,942,964	\$ 1,845,960
Commercial real estate ⁽²⁾	1,173,332	1,259,651
Multifamily	1,654,272	1,689,943
SBA	56,600	68,137
Construction	262,715	243,553
Consumer:		
Single family residential mortgage	1,782,655	1,920,806
Other consumer	88,494	86,988
Total loans	\$ 6,961,032	\$ 7,115,038
Allowance for loan losses	(74,390)	(85,960)
Loans receivable, net	\$ 6,886,642	\$ 7,029,078

(1) Includes warehouse lending balances of \$647.7 million and \$602.5 million at September 30, 2023 and December 31, 2022.

(2) \$102.3 million of owner-occupied CRE loans were moved to the C&I category from the CRE category during the third quarter of 2023.

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

(\$ in thousands)	September 30, 2023	December 31, 2022
Unpaid principal balance	\$ 6,953,895	\$ 7,107,897
Unamortized net premiums	16,571	18,319
Unamortized net deferred (fees) costs	(1,331)	(1,880)
Fair value adjustment ⁽¹⁾	(8,103)	(9,298)
Total loans	\$ 6,961,032	\$ 7,115,038

(1) At September 30, 2023, balance includes \$7.1 million related to the acquisition of Pacific Mercantile Bancorp (“PMB”), of which \$3.6 million related to purchased credit deteriorated (“PCD”) loans. At December 31, 2022, includes \$8.0 million related to the PMB acquisition, of which \$4.1 million related to PCD loans.

In connection with our proposed merger with PacWest, we entered into a contingent forward loan sale agreement on our SFR loan portfolio of \$1.8 billion. The contingent forward loan sale agreement was executed to reduce volatility related to the potential sale proceeds by determining a fixed price to be settled on a future date contingent upon completion of the proposed merger. At September 30, 2023, we continue to classify the SFR loan portfolio as held-for-investment as the sale agreement is contingent upon receipt of approval to close the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment.

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 analyze the associated risks in the current loan portfolio and individually 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 (“CRE”) loans. We use the following definitions for risk ratings:

Pass: Loans risk rated “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 “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 “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 the Bank will sustain some loss if the deficiencies are not corrected.

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

The following table presents the risk categories for total loans by class of loans and origination year as of September 30, 2023:

(\$ in thousands)	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Cost Basis Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
September 30, 2023									
Commercial:									
Commercial and industrial									
Pass	\$ 102,946	\$ 269,069	\$ 206,543	\$ 65,557	\$ 37,272	\$ 229,611	\$ 935,283	\$ 34,257	\$ 1,880,538
Special mention	—	5,368	4,499	—	10,370	10,231	2,252	1,354	34,074
Substandard	—	3,560	32	14	200	12,843	5,009	1,978	23,636
Doubtful ⁽¹⁾	3,910	—	—	—	—	—	806	—	4,716
Commercial and industrial ⁽¹⁾	106,856	277,997	211,074	65,571	47,842	252,685	943,350	37,589	1,942,964
Commercial real estate									
Pass	58,551	352,908	297,564	46,183	80,265	316,530	1,575	54	1,153,630
Special mention	—	1,953	8,549	—	—	—	—	—	10,502
Substandard	—	540	—	—	7,175	648	—	837	9,200
Doubtful	—	—	—	—	—	—	—	—	—
Commercial real estate ⁽¹⁾	58,551	355,401	306,113	46,183	87,440	317,178	1,575	891	1,173,332
Multifamily									
Pass	23,474	623,794	396,291	152,985	223,079	205,461	1,087	9,169	1,635,340
Special mention	—	—	—	3,000	—	—	—	—	3,000
Substandard	—	—	—	—	1,117	14,815	—	—	15,932
Doubtful	—	—	—	—	—	—	—	—	—
Multifamily	23,474	623,794	396,291	155,985	224,196	220,276	1,087	9,169	1,654,272
SBA									
Pass	—	9,231	10,456	3,472	5,197	17,814	63	420	46,653
Special mention	—	—	672	—	—	555	—	1	1,228
Substandard	—	—	—	295	860	6,422	351	489	8,417
Doubtful	—	—	—	—	—	—	—	302	302
SBA	—	9,231	11,128	3,767	6,057	24,791	414	1,212	56,600

Construction									
Pass	3,303	104,244	102,157	27,825	—	24,971	215	—	262,715
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Construction	3,303	104,244	102,157	27,825	—	24,971	215	—	262,715
Consumer:									
Single family residential mortgage									
Pass	—	582,049	757,366	69,361	41,601	277,965	2,029	—	1,730,371
Special mention	—	6,128	1,741	—	—	3,910	—	—	11,779
Substandard	—	10,745	10,152	2,162	—	15,582	1,864	—	40,505
Doubtful	—	—	—	—	—	—	—	—	—
Single family residential mortgage	—	598,922	769,259	71,523	41,601	297,457	3,893	—	1,782,655
Other consumer									
Pass	22,449	17,239	12,888	7,119	3,768	13,176	9,645	1,404	87,688
Special mention	—	—	—	—	—	1	349	—	350
Substandard	—	—	—	167	117	41	81	50	456
Doubtful	—	—	—	—	—	—	—	—	—
Other consumer	22,449	17,239	12,888	7,286	3,885	13,218	10,075	1,454	88,494
Total loans	\$ 214,633	\$ 1,986,828	\$ 1,808,910	\$ 378,140	\$ 411,021	\$ 1,150,576	\$ 960,609	\$ 50,315	\$ 6,961,032
Total loans									
Pass	\$ 210,723	\$ 1,958,534	\$ 1,783,265	\$ 372,502	\$ 391,182	\$ 1,085,528	\$ 949,897	\$ 45,304	\$ 6,796,935
Special mention	—	13,449	15,461	3,000	10,370	14,697	2,601	1,355	60,933
Substandard	—	14,845	10,184	2,638	9,469	50,351	7,305	3,354	98,146
Doubtful ⁽²⁾	3,910	—	—	—	—	—	806	302	5,018
Total loans	\$ 214,633	\$ 1,986,828	\$ 1,808,910	\$ 378,140	\$ 411,021	\$ 1,150,576	\$ 960,609	\$ 50,315	\$ 6,961,032

(1) \$102.3 million of owner-occupied CRE loans were moved to the C&I category from the CRE category during the third quarter of 2023.

(2) Doubtful loans in origination year 2023 included one commercial and industrial ("C&I") loan that was modified and accounted for as a new loan.

The following table presents the risk categories for total loans by class of loans and origination year as of December 31, 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
December 31, 2022									
Commercial:									
Commercial and industrial									
Pass	\$ 269,367	\$ 170,513	\$ 62,931	\$ 53,001	\$ 76,811	\$ 164,394	\$ 932,464	\$ 19,803	\$ 1,749,284
Special mention	—	19,203	1,042	—	1	11,528	17,142	483	49,399
Substandard	3,833	64	3,002	502	3,630	2,729	23,012	6,501	43,273
Doubtful	—	—	—	4,004	—	—	—	—	4,004
Commercial and industrial	273,200	189,780	66,975	57,507	80,442	178,651	972,618	26,787	1,845,960
Commercial real estate									
Pass	348,298	363,335	60,564	94,772	155,790	224,213	1,163	61	1,248,196
Special mention	—	—	—	—	—	1,745	—	—	1,745
Substandard	—	—	—	—	1	8,799	910	—	9,710
Doubtful	—	—	—	—	—	—	—	—	—
Commercial real estate	348,298	363,335	60,564	94,772	155,791	234,757	2,073	61	1,259,651
Multifamily									
Pass	626,186	390,928	154,636	229,511	109,887	138,063	3	9,307	1,658,521
Special mention	—	—	2,997	—	—	—	—	—	2,997
Substandard	—	—	—	—	11,069	17,356	—	—	28,425
Doubtful	—	—	—	—	—	—	—	—	—
Multifamily	626,186	390,928	157,633	229,511	120,956	155,419	3	9,307	1,689,943
SBA									
Pass	9,421	15,468	4,009	5,899	1,176	19,090	603	123	55,789
Special mention	—	—	—	—	201	598	—	1	800
Substandard	—	—	320	339	385	9,097	628	779	11,548
Doubtful	—	—	—	—	—	—	—	—	—
SBA	9,421	15,468	4,329	6,238	1,762	28,785	1,231	903	68,137

Construction									
Pass	85,430	98,572	27,704	6,495	—	25,352	—	—	243,553
Special mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Construction	85,430	98,572	27,704	6,495	—	25,352	—	—	243,553
Consumer:									
Single family residential mortgage									
Pass	627,213	797,744	72,658	47,284	89,492	255,520	—	—	1,889,911
Special mention	1,716	218	—	1,537	3,378	2,252	—	—	9,101
Substandard	3,571	—	2,171	—	8,573	7,479	—	—	21,794
Doubtful	—	—	—	—	—	—	—	—	—
Single family residential mortgage	632,500	797,962	74,829	48,821	101,443	265,251	—	—	1,920,806
Other consumer									
Pass	23,340	15,986	8,805	5,524	3,363	15,920	10,914	2,747	86,599
Special mention	—	—	—	3	—	19	62	54	138
Substandard	—	—	56	—	83	31	81	—	251
Doubtful	—	—	—	—	—	—	—	—	—
Other consumer	23,340	15,986	8,861	5,527	3,446	15,970	11,057	2,801	86,988
Total loans	\$ 1,998,375	\$ 1,872,031	\$ 400,895	\$ 448,871	\$ 463,840	\$ 904,185	\$ 986,982	\$ 39,859	\$ 7,115,038
Total loans									
Pass	\$ 1,989,255	\$ 1,852,546	\$ 391,307	\$ 442,486	\$ 436,519	\$ 842,552	\$ 945,147	\$ 32,041	\$ 6,931,853
Special mention	1,716	19,421	4,039	1,540	3,580	16,142	17,204	538	64,180
Substandard	7,404	64	5,549	841	23,741	45,491	24,631	7,280	115,001
Doubtful	—	—	—	4,004	—	—	—	—	4,004
Total loans	\$ 1,998,375	\$ 1,872,031	\$ 400,895	\$ 448,871	\$ 463,840	\$ 904,185	\$ 986,982	\$ 39,859	\$ 7,115,038

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
September 30, 2023						
Commercial:						
Commercial and industrial	\$ 452	\$ 2,452	\$ 9,210	\$ 12,114	\$ 1,930,850	\$ 1,942,964
Commercial real estate	1,326	3,569	1,324	6,219	1,167,113	1,173,332
Multifamily	—	—	1,118	1,118	1,653,154	1,654,272
SBA	273	481	7,193	7,947	48,653	56,600
Construction	—	—	—	—	262,715	262,715
Consumer:						
Single family residential mortgage	25,437	16,064	20,702	62,203	1,720,452	1,782,655
Other consumer	454	50	145	649	87,845	88,494
Total	\$ 27,942	\$ 22,616	\$ 39,692	\$ 90,250	\$ 6,870,782	\$ 6,961,032
December 31, 2022						
Commercial:						
Commercial and industrial	\$ 4,002	\$ 481	\$ 13,833	\$ 18,316	\$ 1,827,644	\$ 1,845,960
Commercial real estate	311	—	910	1,221	1,258,430	1,259,651
Multifamily	—	—	—	—	1,689,943	1,689,943
SBA	287	—	10,299	10,586	57,551	68,137
Construction	—	—	—	—	243,553	243,553
Consumer:						
Single family residential mortgage	36,338	5,068	19,431	60,837	1,859,969	1,920,806
Other consumer	163	16	81	260	86,728	86,988
Total	\$ 41,101	\$ 5,565	\$ 44,554	\$ 91,220	\$ 7,023,818	\$ 7,115,038

Nonaccrual Loans

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

(\$ in thousands)	September 30, 2023		December 31, 2022	
	Total Nonaccrual Loans	Nonaccrual Loans with no ACL	Total Nonaccrual Loans	Nonaccrual Loans with no ACL
Nonaccrual loans				
Commercial:				
Commercial and industrial	\$ 9,713	\$ 4,218	\$ 22,613	\$ 10,959
Commercial real estate	1,864	1,864	910	910
Multi-family	1,118	1,118	—	—
SBA	7,569	7,481	10,417	5,613
Consumer:				
Single family residential mortgage	39,836	39,836	21,116	17,187
Other consumer	456	457	195	195
Total nonaccrual loans	\$ 60,556	\$ 54,974	\$ 55,251	\$ 34,864

At September 30, 2023 and December 31, 2022, there were no loans that were past due 90 days or more and still accruing.

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

At September 30, 2023, other real estate owned totaled \$0.9 million and consisted of one single-family residence acquired as a result of foreclosure in the second quarter. There was no other real estate owned at December 31, 2022.

At September 30, 2023, there were 8 single-family residential mortgage loans totaling \$7.7 million in process of foreclosure. There were 9 single-family residential mortgage loans totaling \$11.7 million in process of foreclosure at December 31, 2022.

Allowance for Credit Losses - Loans

The ACL methodology uses a nationally recognized, third-party model that includes many assumptions based on historical and peer loss data, current loan portfolio risk profile including risk ratings, and economic forecasts including macroeconomic variables released by the model provider during September 2023. The published forecasts consider the Federal Reserve's monetary policy, labor market constraints, inflation levels, global oil prices and changes in real estate values, 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 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 RUC is established to cover the current expected credit losses for the estimated level of funding of these loan commitments, except for unconditionally cancellable commitments for which no reserve is required under ASC 326. At September 30, 2023 and December 31, 2022, the reserve for unfunded loan commitments was \$4.0 million and \$5.3 million and was included in accrued expenses and other liabilities on the consolidated statements of financial condition.

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

(\$ in thousands)	Three Months Ended September 30,					
	2023			2022		
	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	\$ 80,883	\$ 4,005	\$ 84,888	\$ 93,793	\$ 5,905	\$ 99,698
Charge-offs	(11,644)	—	(11,644)	(912)	—	(912)
Recoveries	151	—	151	63	—	63
Net (charge-offs) recoveries	(11,493)	—	(11,493)	(849)	—	(849)
Provision for (reversal of) credit losses	5,000	—	5,000	(500)	500	—
Balance at end of period	\$ 74,390	\$ 4,005	\$ 78,395	\$ 92,444	\$ 6,405	\$ 98,849

(\$ in thousands)	Nine Months Ended September 30,					
	2023			2022		
	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	\$ 85,960	\$ 5,305	\$ 91,265	\$ 92,584	\$ 5,605	\$ 98,189
Charge-offs	(21,260)	—	(21,260)	(1,637)	—	(1,637)
Recoveries	526	—	526	33,839	—	33,839
Net (charge-offs) recoveries	(20,734)	—	(20,734)	32,202	—	32,202
Provision for (reversal of) credit losses	9,164	(1,300)	7,864	(32,342)	800	(31,542)
Balance at end of period	\$ 74,390	\$ 4,005	\$ 78,395	\$ 92,444	\$ 6,405	\$ 98,849

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

Accrued interest receivable on loans receivable, net totaled \$26.6 million and \$28.6 million at September 30, 2023 and December 31, 2022, and is included within other assets in the accompanying consolidated statements of financial condition. Accrued interest receivable is excluded from the allowance of credit losses.

The following table presents the activity and balance in the ALL as of or for the three and nine months ended September 30, 2023:

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate	Multifamily	SBA	Construction	Single Family Residential Mortgage	Other Consumer	Total
ALL:								
Three Months Ended September 30, 2023:								
Balance at June 30, 2023	\$ 32,823	\$ 15,767	\$ 14,697	\$ 1,387	\$ 6,053	\$ 9,518	\$ 638	\$ 80,883
Charge-offs	(11,363)	—	—	(169)	—	—	(112)	(11,644)
Recoveries	22	—	—	6	—	1	122	151
Net (charge-offs) recoveries	(11,341)	—	—	(163)	—	1	10	(11,493)
Provision for (reversal of) credit losses - loans	8,160	(2,594)	(734)	(142)	116	267	(73)	5,000
Balance at September 30, 2023	\$ 29,642	\$ 13,173	\$ 13,963	\$ 1,082	\$ 6,169	\$ 9,786	\$ 575	\$ 74,390
Nine Months Ended September 30, 2023:								
Balance at December 31, 2022	\$ 34,156	\$ 15,977	\$ 14,696	\$ 2,648	\$ 5,850	\$ 12,050	\$ 583	\$ 85,960
Charge-offs	(19,074)	(300)	—	(1,250)	—	(372)	(264)	(21,260)
Recoveries	61	—	—	316	—	3	146	526
Net (charge-offs) recoveries	(19,013)	(300)	—	(934)	—	(369)	(118)	(20,734)
Provision for (reversal of) credit losses - loans	14,499	(2,504)	(733)	(632)	319	(1,895)	110	9,164
Balance at September 30, 2023	\$ 29,642	\$ 13,173	\$ 13,963	\$ 1,082	\$ 6,169	\$ 9,786	\$ 575	\$ 74,390

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

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

The following table presents the gross charge-offs by class of loans and origination year as of September 30, 2023:

(\$ in thousands)	Gross Charge-offs						Total
	2023	2022	2021	2020	2019	Prior	
Three Months Ended September 30, 2023							
Commercial:							
Commercial and industrial	\$ —	\$ (1,828)	\$ (368)	\$ (5,997)	\$ —	\$ (3,170)	\$ (11,363)
SBA	—	—	—	—	—	(169)	(169)
Consumer:							
Other consumer	—	—	(112)	—	—	—	(112)
Total loans	\$ —	\$ (1,828)	\$ (480)	\$ (5,997)	\$ —	\$ (3,339)	\$ (11,644)
Nine Months Ended September 30, 2023							
Commercial:							
Commercial and industrial	\$ —	\$ (7,545)	\$ (1,453)	\$ (5,997)	\$ —	\$ (4,079)	\$ (19,074)
Commercial real estate	—	—	—	—	—	(300)	(300)
SBA	—	—	(64)	—	—	(1,186)	(1,250)
Consumer:							
Single family residential mortgage	—	—	—	(372)	—	—	(372)
Other consumer	—	(16)	(112)	(59)	—	(77)	(264)
Total loans	\$ —	\$ (7,561)	\$ (1,629)	\$ (6,428)	\$ —	\$ (5,642)	\$ (21,260)

Collateral Dependent Loans

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

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

September 30, 2023					
(\$ in thousands)	Real Estate		Business Assets	Automobile	Total
	Commercial	Residential			
Commercial:					
Commercial and industrial	\$ —	\$ —	\$ 6,661	\$ —	\$ 6,661
Commercial real estate	1,324	540	—	—	1,864
Multifamily	1,118	—	—	—	1,118
SBA	15	796	6,758	—	7,569
Consumer:					
Single family residential mortgage	—	39,836	—	—	39,836
Other consumer	—	130	—	326	456
Total loans	\$ 2,457	\$ 41,302	\$ 13,419	\$ 326	\$ 57,504

December 31, 2022					
(\$ in thousands)	Real Estate		Business Assets	Automobile	Total
	Commercial	Residential			
Commercial:					
Commercial and industrial	\$ —	\$ —	\$ 18,392	\$ —	\$ 18,392
Commercial real estate	910	—	—	—	910
SBA	23	4,702	5,691	—	10,416
Consumer:					
Single family residential mortgage	—	21,262	—	—	21,262
Other consumer	—	81	—	113	194
Total loans	\$ 933	\$ 26,045	\$ 24,083	\$ 113	\$ 51,174

Loan Modifications to Borrowers Experiencing Financial Difficulty

Loans modified for borrowers experiencing financial difficulty consisted of the following as of the dates indicated:

(\$ in thousands)	Commercial and industrial		Single family residential mortgage		Total
September 30, 2023					
Interest rate reduction:					
Amortized cost basis	\$	—	\$	2,492	\$ 2,492
% of total class of loans		— %		0.1 %	— %
Term extension:					
Amortized cost basis	\$	—	\$	595	\$ 595
% of total class of loans		— %		— %	— %
Combination - principal reduction and payment delays:					
Amortized cost basis	\$	3,910	\$	—	\$ 3,910
% of total class of loans		0.2 %		— %	0.1 %
Combination - term extension and interest rate reduction					
Amortized cost basis	\$	654	\$	—	\$ 654
% of total class of loans		— %		— %	— %
Total amortized cost basis	\$	4,564	\$	3,087	\$ 7,651
Percentage of total class of loans		0.2 %		0.2 %	0.1 %

The following table presents the aging of loans modified to borrowers experiencing financial difficulty at September 30, 2023:

(\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total
September 30, 2023						
Commercial:						
Commercial and industrial	\$ —	\$ —	\$ 3,910	\$ 3,910	\$ 654	\$ 4,564
Consumer:						
Single family residential mortgage	309	—	—	309	2,778	3,087
	\$ 309	\$ —	\$ 3,910	\$ 4,219	\$ 3,432	\$ 7,651

There were no loan modifications made to borrowers experiencing financial difficulty during the quarter ended September 30, 2023 that subsequently defaulted.

Troubled Debt Restructurings (for modifications to borrowers experiencing financial difficulty prior to January 1, 2023)

At September 30, 2023 and December 31, 2022, we had 7 and 15 loans classified as TDRs, with an aggregate balance of \$3.5 million and \$16.1 million. During the nine months ended September 30, 2023, a \$3.9 million C&I loan that was restructured during 2022 was modified and accounted for as a new loan. Additionally, \$7.8 million relating to three commercial relationships were paid down and \$1.2 million was charged off during this same period.

Accruing TDRs were \$0.1 million and nonaccrual TDRs were \$3.4 million at September 30, 2023, compared to accruing TDRs of \$2.7 million and nonaccrual TDRs of \$13.4 million at December 31, 2022.

Purchases, Sales, and Transfers

From time to time, we purchase and sell loans in the secondary market. There were no loans purchased during the three months ended September 30, 2023. During the nine months ended September 30, 2023, we purchased loans aggregating \$61.4 million. During the three and nine months ended September 30, 2022, we purchased loans aggregating \$172.7 million and \$814.3 million.

There were no loans transferred from held for investment to loans held-for-sale, and there were no sales of loans for the three and nine months ended September 30, 2023 and 2022.

Non-Traditional Mortgage (“NTM”) Loans

We no longer originate SFR loans, however we have purchased 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.

NTM loans are included in our SFR loan portfolio and are comprised primarily of interest only loans. As of September 30, 2023 and December 31, 2022, the NTM loans totaled \$792.0 million, or 11.4% of total loans, and \$862.3 million, or 12.1% of total loans. The total NTM portfolio decreased by \$70.4 million, or 8.2% during the nine months ended September 30, 2023. The decrease was due to principal paydowns and payoffs.

At September 30, 2023 and December 31, 2022, nonperforming NTM loans totaled \$15.3 million and \$3.0 million.

NTM loans are considered to have an increased risk of delinquency and default than conforming loans. In the case of interest only loans, the borrower’s monthly payment may increase by a substantial amount as market interest rates increase and as loans are converted to fully-amortizing status.

Non-Traditional Mortgage Performance Indicators

Our risk management policy and credit monitoring include reviewing delinquency, FICO scores, and LTV ratios on the NTM loan portfolio. We also continually monitor market conditions for our geographic lending areas. We have determined that the most significant performance indicators for NTM loans are LTV ratios. At September 30, 2023, our NTM portfolio had a weighted average LTV of approximately 60%.

NOTE 5 – GOODWILL AND OTHER INTANGIBLES
Goodwill

Goodwill represents the excess consideration paid for net assets acquired in a business combination over their fair values. At September 30, 2023 and December 31, 2022, we had goodwill of \$114.3 million.

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Goodwill, beginning of period	\$ 114,312	\$ 95,127	\$ 114,312	\$ 94,301
Goodwill from business combination	—	18,190	—	18,190
Goodwill adjustments for purchase accounting	—	995	—	1,821
Goodwill, end of period	\$ 114,312	\$ 114,312	\$ 114,312	\$ 114,312

The acquisition of Deepstack in the third quarter of 2022 resulted in the recognition of \$18.2 million in goodwill. We also adjusted goodwill during the three and nine months ended September 30, 2022 as a result of updates to the initial fair value of core deposit intangibles and finalization of income tax returns related to the acquisition of PMB.

We evaluate goodwill for impairment as of October 1 each year, and more frequently if events or circumstances indicate that there may be impairment. We completed our most recent annual goodwill impairment test as of October 1, 2022 and determined that no goodwill impairment existed. For the three and nine months ended September 30, 2023, we analyzed indicators related to potential goodwill impairment due to volatility in the financial markets and recent events in the banking sector. Based on this analysis, we did not identify any impairment to goodwill.

Other Intangibles

Other intangibles are comprised of the following at September 30, 2023 and December 31, 2022:

(\$ in thousands)	September 30, 2023	December 31, 2022
Core deposit intangibles	\$ 3,078	\$ 3,932
Developed technology	2,216	2,637
Other intangibles	848	957
Total other intangibles	\$ 6,142	\$ 7,526

Other intangibles are amortized over their estimated useful lives and reviewed for impairment at least quarterly. As of September 30, 2023, the weighted average remaining amortization period for core deposit intangibles was approximately 6.2 years. Amortization periods for developed technology and other intangibles acquired in the acquisition of Deepstack have useful lives ranging from 3 to 10 years.

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Other intangibles:				
Balance, beginning of period	\$ 38,778	\$ 34,978	\$ 38,778	\$ 35,958
Other intangibles from business combination	—	3,800	—	3,800
Purchase accounting adjustments	—	—	—	(980)
Balance, end of period	38,778	38,778	38,778	38,778
Accumulated amortization:				
Balance, beginning of period	32,175	30,301	31,252	29,547
Amortization of other intangibles	461	396	1,384	1,150
Balance, end of period	32,636	30,697	32,636	30,697
Other intangibles	\$ 6,142	\$ 8,081	\$ 6,142	\$ 8,081

The following table presents estimated future amortization expense of other intangibles as of September 30, 2023:

(\$ in thousands)	Remainder of 2023	2024	2025	2026	2027	2028 and After	Total
Estimated future amortization expense	\$ 415	\$ 1,425	\$ 1,107	\$ 1,013	\$ 811	\$ 1,371	\$ 6,142

NOTE 6 – FEDERAL HOME LOAN BANK ADVANCES, FEDERAL RESERVE BANK BORROWINGS AND OTHER BORROWINGS

Federal Home Loan Bank (FHLB) Advances

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

(\$ in thousands)	September 30, 2023	December 31, 2022
Fixed rate:		
Outstanding balance ⁽¹⁾	\$ 811,000	\$ 711,000
Interest rates ranging from	0.64 %	0.64 %
Interest rates ranging to	3.70 %	3.70 %
Weighted average interest rate	3.04 %	2.97 %
Variable rate:		
Outstanding balance	\$ —	\$ 20,000
Weighted average interest rate	— %	4.59 %

(1) Excludes \$2.7 million and \$3.7 million of unamortized debt issuance costs at September 30, 2023 and December 31, 2022.

As of September 30, 2023, FHLB advances consisted of \$611 million in term advances with a weighted average life of 2.75 years and a weighted average interest rate of 2.91% and \$200 million in putable advances with a weighted average life of 4.25 years and a weighted average interest rate of 3.44%. Term advances are payable at maturity date, and advances paid early are subject to a prepayment penalty. The putable advances can be called quarterly until maturity at the option of the FHLB beginning in December 2023.

FHLB advances are collateralized by a blanket lien on all real estate loans. As of September 30, 2023, our secured borrowing capacity with the FHLB totaled \$2.42 billion, of which the Bank was eligible to borrow an additional \$1.19 billion based on qualifying loans with an aggregate unpaid principal balance of \$3.63 billion as of that date.

The Bank's investment in the capital stock of the FHLB of San Francisco totaled \$25.7 million and \$22.6 million at September 30, 2023 and December 31, 2022.

Federal Reserve Bank (FRB) Borrowings

At September 30, 2023, the Bank had borrowing capacity with the Federal Reserve Bank of San Francisco (the "Federal Reserve") of \$1.38 billion, including the secured borrowing capacity through the FRB Discount Window, Borrower-in-Custody ("BIC"), and Bank Term Funding ("BTFP") programs. Borrowings under the BIC program are overnight advances with interest chargeable at the primary credit borrowing rate. Borrowings under the BTFP, which was established in March 2023, are for periods up to one year in length, with interest rates based on the one-year overnight index swap ("OIS") rate plus a spread of 10 basis points. BTFP borrowings are collateralized by eligible investment securities valued at par and provide an additional source of liquidity leveraging high-quality securities.

At September 30, 2023, the Bank pledged certain qualifying loans with an unpaid principal balance of \$1.28 billion and securities with a carrying value of \$505.8 million as collateral for the FRB credit programs.

Borrowings from the Federal Reserve through the FRB Discount Window and BIC programs were \$200.0 million and zero at September 30, 2023 and December 31, 2022. There were no borrowings under the BTFP at September 30, 2023.

The Bank's investment in capital stock of the Federal Reserve totaled \$34.6 million and \$34.5 million at September 30, 2023 and December 31, 2022.

Other Borrowings

The Bank maintains available unsecured federal funds lines with six correspondent banks totaling \$290.0 million and \$210.0 million, with no outstanding borrowings at September 30, 2023 and December 31, 2022.

We mainly utilize FHLB and FRB borrowings and the unsecured federal funds lines as our secondary source of funds. From time to time, the Bank may also utilize alternate sources of funds, including unsecured overnight borrowings through the American Financial Exchange platform ("AFX") and other financial institutions. The availability of such unsecured borrowings fluctuates regularly and are subject to the counterparties discretion. Other borrowings from these alternate sources totaled \$185.8 million and zero at September 30, 2023 and December 31, 2022.

In December 2022, the holding company renewed its \$50.0 million revolving line of credit with another financial institution. The line of credit matures on December 18, 2023 and is subject to certain operational and financial covenants. There were no borrowings under this line of credit at September 30, 2023 and December 31, 2022, and we were in compliance with all covenants.

The Bank also maintained repurchase agreements and had no outstanding securities sold under these agreements at September 30, 2023 and December 31, 2022. Availabilities and terms on repurchase agreements are subject to the counterparties' discretion and the pledging of additional investment securities.

NOTE 7 – LONG-TERM DEBT

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

(\$ in thousands)	Interest Rate	Maturity Date	September 30, 2023		December 31, 2022	
			Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Senior notes ⁽¹⁾	5.25%	4/15/2025	\$ 174,000	\$ (520)	\$ 175,000	\$ (722)
Subordinated notes ⁽²⁾	4.375%	10/30/2030	85,000	(1,728)	85,000	(1,899)
PMB Statutory Trust III, junior subordinated debentures	SOFR + 3.40%	9/26/2032	7,217	—	7,217	—
PMB Capital Trust III, junior subordinated debentures	SOFR + 2.00%	10/8/2034	10,310	—	10,310	—
Total long-term debt, net			\$ 276,527	\$ (2,248)	\$ 277,527	\$ (2,621)

(1) The Senior notes bear interest at a fixed rate of 5.25% per annum, payable semi-annually in arrears.

(2) The Subordinated notes bear interest at an initial fixed rate of 4.375% per annum, payable semi-annually in arrears. From and including October 30, 2025 to, but excluding, the maturity date or the date of earlier redemption, the Subordinated Notes bear interest at a floating rate per annum equal to a benchmark rate, which is expected to be 3-Month Term SOFR, plus a spread of 419.5 basis points, payable quarterly in arrears.

During the three months ended September 30, 2023, there were no repurchases of senior notes. During the nine months ended September 30, 2023, we repurchased senior notes with an outstanding balance of \$1.0 million at a discount and recognized an \$80 thousand gain. There were no repurchases of senior notes during the three and nine months ended September 30, 2022.

At September 30, 2023, we were in compliance with all covenants under our long-term debt agreements.

NOTE 8 – INCOME TAXES

For the three and nine months ended September 30, 2023, income tax expense was \$16.3 million and \$30.4 million, resulting in an effective tax rate of 27.6% and 27.4%. For the three and nine months ended September 30, 2022, income tax expense was \$9.9 million and \$38.9 million, resulting in an effective tax rate of 29.1% and 28.1%. The effective tax rate for the three and nine months ended September 30, 2023 and 2022, 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.

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 \$51.5 million and \$50.5 million at September 30, 2023 and December 31, 2022.

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 \$0.8 million at both September 30, 2023 and December 31, 2022. We do not believe that the unrecognized tax benefits will change materially in the next twelve months. As of September 30, 2023, the total unrecognized tax benefit that, if recognized, would impact the effective tax rate was \$0.6 million.

At September 30, 2023 and December 31, 2022, 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 2019. The statute of limitations for the assessment of California franchise taxes has expired for tax years before 2018 (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 for certain loan clients to allow them to hedge the risk of rising interest rates on their variable rate loans.

The Company recognizes all derivatives on the consolidated balance sheet at fair value in derivative assets and accrued expenses and other liabilities. On the date we enter into a derivative contract, the derivative is designated as either a fair value hedge, cash flow hedge, or a hedge designation is not made as it is a customer-related transaction. When a derivative is designated as a fair value hedge or cash flow hedge, the Company performs an assessment at inception, and, at least quarterly thereafter, to determine the effectiveness of the derivative in offsetting changes in the fair value or cash flows of the hedged items.

Cash flow hedge

In March 2023, the Company entered into pay-fixed, receive-variable interest-rate swap contracts classified as cash flow hedges with notional amounts aggregating \$300.0 million, five year terms and varying maturity dates through 2028. These swap contracts were entered into with institutional counterparties to hedge against variability in cash flows attributable to interest rate risk related to changes in the SOFR benchmark interest rate on a portion of the Company's variable rate deposits and borrowings. The cash flow hedges were deemed highly effective at inception and quarterly thereafter.

The portion of changes in the fair value of the cash flow hedges considered highly effective are recognized in other comprehensive income (loss) until the related cash flows from the hedged item are recognized in earnings.

At September 30, 2023, the fair value of the cash flow hedges represent an asset of \$5.9 million, of which \$4.2 million (net of tax) was included in AOCI on the consolidated statements of financial condition. As of September 30, 2023, we estimated that \$4.1 million of unrealized net pre-tax gains in AOCI is expected to be reclassified into earnings within the next twelve months.

Interest Rate Swaptions and Contingent Forward Loan Sale Agreement not designated for hedge accounting

Concurrently with the announcement of the proposed merger with PacWest, we entered into an aggregate of \$3.1 billion in interest rate swaptions to hedge the interest rate risk associated with various assets on our balance sheet in anticipation of the sale of such assets in connection with the proposed merger with PacWest and a contingent forward loan sale agreement on \$1.8 billion of the SFR loan portfolio.

Interest Rate Swaptions. We executed interest rate swaptions, with an aggregate notional amount of \$3.1 billion, where, if executed, we would pay a fixed rate and receive a floating rate based on 2-year, 7-year and 10-year SOFR. In connection with executing these agreements, we paid \$15.7 million. During the three and nine months ended September 30, 2023, changes in the fair value of the interest rate swaptions resulted in gains of \$11.3 million and were included in noninterest income on the consolidated statements of operations.

Contingent Forward Loan Sale Agreement. Under the terms of the contingent forward loan sale agreement, we have committed to selling \$1.8 billion of first lien SFR loans at a price of 87.25% plus or minus certain adjustments for accrued interest and payoffs, contingent upon receipt of approval for the closing of the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment. The contingent forward loan sale agreement contains customary terms and conditions associated with a whole loan sale and we expect to close the forward loan sale shortly after

closing of the merger. Pursuant to the terms of the agreement, the purchase price is subject to adjustment reflecting at-market fees based on the additional time for settlement from November 8, 2023. During the three and nine months ended September 30, 2023, changes in the estimated fair value of the contingent forward loan sale agreement were gains of \$34.9 million and were included in noninterest income on the consolidated statements of operations.

Other interest rate swaps and foreign exchange contracts not designated for hedge accounting

During the three and nine months ended September 30, 2023, changes in fair value of other interest rate swaps on loans and foreign exchange contracts were gains of \$19 thousand and \$7 thousand and were included in noninterest income on the consolidated statements of operations. During the three and nine months ended September 30, 2022, changes in fair value of other interest rate swaps on loans and foreign exchange contracts were gains of \$38 thousand and \$0.2 million.

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

(\$ in thousands)	September 30, 2023		December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivative assets:				
Contingent forward loan sale agreement	\$ 1,803,869	\$ 34,902	\$ —	\$ —
Interest rate swaptions	3,093,000	27,003	—	—
Cash flow hedges	300,000	5,874	—	—
Interest rate swaps on loans	32,166	2,708	33,694	2,134
Foreign exchange contracts	4,597	138	5,885	158
Total	\$ 5,233,632	\$ 70,625	\$ 39,579	\$ 2,292
Derivative liabilities:				
Interest rate swaps on loans	\$ 32,166	\$ 2,669	\$ 33,694	\$ 2,107
Foreign exchange contracts	4,597	130	5,885	144
Total	\$ 36,763	\$ 2,799	\$ 39,579	\$ 2,251

NOTE 10 – EMPLOYEE STOCK COMPENSATION

On May 31, 2018, our stockholders approved the Company’s 2018 Omnibus Stock Incentive Plan (“2018 Omnibus Plan”). The 2018 Omnibus Plan provides that the maximum number of shares available for awards is 4,417,882. As of September 30, 2023, there were 1,904,116 shares available for future awards.

Stock-based Compensation Expense

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Restricted stock awards and units	\$ 1,581	\$ 1,715	\$ 4,762	\$ 4,482
Related tax benefits	\$ 457	\$ 495	\$ 1,377	\$ 1,295

Total stock-based compensation expense represents the cost of service-based restricted stock units, performance-based restricted stock units and performance-based restricted stock units with market conditions. At September 30, 2023, unrecognized compensation expense totaled \$11.6 million and will be recognized over a weighted average remaining period of 2.4 years.

Restricted Stock Awards and Restricted Stock Units

We have granted restricted stock awards and restricted stock units to certain employees, officers, and directors. The restricted stock awards and units are measured based on grant-date fair value, which generally reflect the closing price of our stock on the date of grant. For awards containing market conditions, we engage a third party to perform a valuation analysis using a Monte Carlo simulation model to determine grant-date fair value. The restricted stock awards and units fully vest after a specified period (generally ranging from one to five years) of continued service from the date of grant plus, in some cases, the satisfaction of performance and/or market conditions. Such targets include conditions relating to our profitability, our total shareholder return (TSR), stock price and regulatory standing. The actual amounts of stock released upon vesting will be determined by the Compensation, Nominating and Corporate Governance Committee of our Board of Directors (the “CNG Committee”) upon its certification of the satisfaction of the target level of performance. We recognize an income tax deduction in an amount equal to the taxable income reported by the holders of the restricted stock, generally upon vesting or, in the case of restricted stock units, when settled.

The following table presents unvested restricted stock awards and restricted stock units activity for the three and nine months ended September 30, 2023:

	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Outstanding at beginning of period	1,350,210	\$ 14.61	1,403,245	\$ 14.68
Granted ⁽¹⁾	41,015	\$ 14.02	415,215	\$ 15.87
Vested ⁽²⁾	(6,624)	\$ 14.10	(289,701)	\$ 17.39
Forfeited ⁽³⁾	(44,092)	\$ 17.74	(188,250)	\$ 13.68
Outstanding at end of period ⁽⁴⁾	1,340,509	\$ 14.60	1,340,509	\$ 14.60

(1) There were zero and 79,784 performance-based shares/units included in shares granted for the three and nine months ended September 30, 2023.

(2) There were zero and 66,699 performance-based shares/units included in vested shares for the three and nine months ended September 30, 2023.

(3) The number of forfeited shares included aggregate performance-based shares/units of 26,076 and 150,958 for the three and nine months ended September 30, 2023.

(4) Includes 780,514 performance-based shares/units at September 30, 2023.

As a result of the pending merger with PacWest, the CNG Committee approved the cancellation of performance-based restricted stock unit (“PSU”) awards granted with stock price targets, subject to the closing of the merger with PacWest. As of September 30, 2023, we have 590,162 shares of stock-price based PSU awards subject to cancellation upon closing of the merger.

The merger agreement also provides that, at the merger closing date, outstanding PSU awards, other than stock-price based PSUs, will vest and be settled within five business days from the merger close date, with performance deemed achieved at the target level of performance. As of September 30, 2023, we have 190,352 shares of PSU awards granted with performance conditions other than stock-price subject to immediate vesting upon closing of the merger. The expense associated with the immediate vesting of these awards will be recognized at the legal close of the merger.

Additionally, any restricted stock unit awards granted to a non-employee member of the Company’s Board of Directors will vest and will be settled within five business days after the merger closing date. All other time-based restricted stock unit awards outstanding immediately prior to the merger close date will remain outstanding and subject to the same terms and conditions prior to the merger.

Stock Options

We have issued stock options to certain employees, officers, and directors. Stock options are issued at the closing market price immediately before the grant date and generally have a three to five year vesting period and contractual terms of seven to ten years. We recognize an income tax deduction upon exercise of a stock option to the extent taxable income is recognized by the option holder. In the case of a non-qualified stock option, the option holder recognizes taxable income based on the fair market value of the shares acquired at the time of exercise less the exercise price. There were no stock options granted and no unvested stock options as of September 30, 2023 and December 31, 2022. The following tables represents stock option activity for the three and nine months ended September 30, 2023:

(\$ in thousands, except per share data)	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023		Weighted-Average Remaining Contract Term	Aggregate Intrinsic Value
	Number of Shares	Weighted- Average Exercise Price Per Share	Number of Shares	Weighted- Average Exercise Price Per Share		
Outstanding at beginning of period	14,904	\$ 13.05	14,904	\$ 13.05		
Exercised	(1,836)	\$ 10.90	(1,836)	\$ 10.90		
Outstanding at end of period	13,068	\$ 13.35	13,068	\$ 13.35	1.6 years	\$ 3
Exercisable at end of period	13,068	\$ 13.35	13,068	\$ 13.35	1.6 years	\$ 3

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 shares of preferred stock had a \$1,000 per share liquidation preference and there were no preferred shares outstanding since March 2022.

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
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 Depository Shares, resulting in an after-tax charge of \$3.7 million in the accompanying consolidated statements of operations.

Common Share Repurchase Program

On February 13, 2023, we announced our Board of Directors authorized the repurchase of up to \$35 million of our common stock. The repurchase authorization expires in February 2024. 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.

There were no shares repurchased under the program during the three months ended September 30, 2023. During the nine months ended September 30, 2023, there were 1,759,491 shares of common stock repurchased under the program at a weighted average price of \$12.02. As of September 30, 2023, the Company had \$13.9 million remaining under the current stock repurchase authorization.

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

Our AOCI includes unrealized gain (loss) on AFS securities and cash flow hedges. Changes to AOCI are presented net of the tax effect as a component of stockholders' equity. For AFS securities, 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 first quarter of 2022, we transferred certain AFS 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 effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges are recorded in AOCI and are subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. If a

cash flow hedge is terminated or is no longer deemed highly effective, the hedge accounting is ceased and any gain or loss included in AOCI is reclassified into earnings.

The following table presents changes to AOCI for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ (49,758)	\$ (34,059)	\$ (40,597)	\$ 7,743
Unrealized gain (loss) on securities available-for-sale:				
Unrealized gain (loss) arising during the period	2,205	(19,289)	(10,652)	(78,392)
Reclassification adjustment from other comprehensive income	—	—	—	(16)
Total unrealized gain (loss) on securities available-for-sale	2,205	(19,289)	(10,652)	(78,408)
Amortization of unrealized loss of available-for-sale securities transferred to held-to-maturity	254	275	759	608
Unrealized gain on cash flow hedges:				
Unrealized gain arising during the period	6,328	—	5,874	—
Tax effect of current period changes	(2,482)	5,494	1,163	22,478
Total changes, net of taxes	6,305	(13,520)	(2,856)	(55,322)
Balance at end of period	\$ (43,453)	\$ (47,579)	\$ (43,453)	\$ (47,579)

NOTE 12 – VARIABLE INTEREST ENTITIES

We hold ownership interests in alternative energy partnerships, qualified affordable housing partnerships and other CRA investments 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

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 HLBV method to account for our investments in alternative energy partnerships as an equity investment. 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 \$18.8 million and \$21.4 million at September 30, 2023 and December 31, 2022.

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Return of capital	\$ 342	\$ 626	\$ 1,059	\$ 1,782
Gain (loss) on investments in alternative energy partnerships	34	(504)	(1,548)	(1,705)
Tax expense (benefit) recognized from HLBV application	10	(146)	(448)	(493)

There were no fundings of alternative energy partnerships or related income tax credits recognized for the three and nine months ended September 30, 2023 and 2022.

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

(\$ in thousands)	September 30, 2023	December 31, 2022
Cash	\$ 2,902	\$ 4,110
Equipment, net of depreciation	230,987	237,641
Other assets	10,590	9,838
Total unconsolidated assets	\$ 244,479	\$ 251,589
Total unconsolidated liabilities	\$ 11,451	\$ 11,679
Maximum loss exposure	\$ 18,803	\$ 21,410

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 \$18.8 million, which is our recorded investment amount at September 30, 2023.

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 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.).

Qualified Affordable Housing Partnerships - Low Income Housing Tax Credits

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

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

(\$ in thousands)	September 30, 2023	December 31, 2022
Ending balance ⁽¹⁾	\$ 41,138	\$ 45,726
Aggregate funding commitment	72,767	72,967
Total amount funded	57,417	55,487
Unfunded commitment	15,350	17,480
Maximum loss exposure	41,138	45,726

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

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Fundings	\$ 127	\$ 1,128	\$ 1,930	\$ 3,152
Proportional amortization recognized	1,512	1,350	4,450	3,727
Income tax credits recognized	1,673	1,298	5,048	3,834

Other CRA Investments

We invest in other CRA investments that are accounted for using the equity method of accounting or the measurement alternative to fair value for equity investments without a readily determinable fair value. Other CRA investments totaled \$88.6 million and \$85.0 million at September 30, 2023 and December 31, 2022.

CRA investments that are accounted for under the equity method consist primarily of investments in small business investment companies (“SBICs”) and limited partnerships which provide affordable housing where our ownership percentage exceeds 3%. Under the equity method of accounting, we record our proportionate share of the profits or losses of the investment entity as an adjustment to the carrying value of the investment and as a component of noninterest income. Equity investments that do not meet the criteria to be accounted for under the equity method and do not have a readily determinable fair value are accounted for at cost under the measurement alternative to fair value with adjustments for impairment and observable price changes as applicable. These investments consist primarily of investments in limited partnerships which provide affordable housing where our partnership percentage is less than 3% and other qualifying investments such as Community Development Financial Institutions (“CDFI”) stock.

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 Freddie Mac and the FHLB.

The maximum loss exposure that would be absorbed by us in the event that all of the assets in the securitization trust are deemed worthless is \$68.8 million, which represents the aforementioned obligation to guarantee credit losses up to 12%. We believe that the loss exposure on the multifamily securitization is reduced by both loan-to-value ratios of the underlying collateral balances and the overcollateralization that exists within the securitization trust. At September 30, 2023, the remaining unpaid principal balance on the securitization totaled \$82.1 million, and we have a \$1.2 million repurchase reserve related to this VIE.

Capital Trusts - Trust Preferred Securities

In connection with our acquisition of PMB, we acquired investments in two grantor trusts. These grantor trusts were originally formed to sell and issue trust preferred securities to institutional investors (Refer to Note 7 - *Long-term Debt*). We are not the primary beneficiary, and consequently, these grantor trusts are not consolidated in the consolidated financial statements. At September 30, 2023 and December 31, 2022, our investment in these grantor trusts, which is included in other assets in the consolidated statements of financial condition, totaled \$0.5 million.

NOTE 13 – EARNINGS PER COMMON SHARE

The following table presents computations of basic and diluted earnings per common share (“EPS”) for the three and nine months ended September 30, 2023:

(\$ in thousands except per share data)	Three Months Ended September 30, 2023		Nine Months Ended September 30, 2023	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Net income	\$ 42,220	\$ 354	\$ 80,068	\$ 663
Weighted average common shares outstanding	56,957,053	477,321	57,659,924	477,321
Dilutive effects of restricted shares/units	87,109	—	92,269	—
Dilutive effects of stock options	353	—	623	—
Average shares and dilutive common shares	57,044,515	477,321	57,752,816	477,321
Basic earnings per common share	\$ 0.74	\$ 0.74	\$ 1.39	\$ 1.39
Diluted earnings per common share	\$ 0.74	\$ 0.74	\$ 1.39	\$ 1.39

For the three and nine months ended September 30, 2023, there were 500,943 and 484,850 anti-dilutive restricted shares/units and 11,232 and 11,232 anti-dilutive stock options that were excluded from computing diluted earnings per common share.

The following table presents computations of basic and diluted EPS for the three and nine months ended September 30, 2022:

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

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

NOTE 14 – LOAN COMMITMENTS AND OTHER RELATED ACTIVITIES

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

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

(\$ in thousands)	September 30, 2023		December 31, 2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Commitments to extend credit	\$ 65,639	\$ 164,455	\$ 50,193	\$ 180,696
Unused lines of credit	46,747	1,365,588	8,392	1,505,122
Letters of credit	1,673	8,886	2,461	7,016

Other Commitments

At September 30, 2023, we had unfunded commitments of \$15.4 million, \$7.4 million, and \$20.5 million for LIHTC investments, SBIC investments, and other investments. At December 31, 2022, we had unfunded commitments of \$17.5 million, \$8.6 million, and \$9.8 million for LIHTC investments, SBIC investments, and other investments. Unfunded commitments for LIHTC investments were included in accrued expenses and other liabilities on the consolidated balance sheet.

Contingent Forward Loan Sale Agreement

Concurrently with the announcement of the proposed merger with PacWest, we entered into a contingent forward loan sale commitment with affiliates of J.P. Morgan with respect to the SFR loan portfolio. The sale is contingent upon receipt of approval for the closing of the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment. The contingent forward loan sale agreement contains customary terms and conditions associated with a whole loan sale and we expect to close the forward loan sale shortly after closing of the merger. Pursuant to the terms of the agreement, the purchase price is subject to adjustment reflecting at-market fees based on the additional time for settlement after November 8, 2023. It is anticipated that the Company will transfer such mortgage portfolio as soon as possible after the closing of the merger, which may take up to a week post-closing due to operational considerations.

NOTE 15 – OTHER ASSETS AND OTHER LIABILITIES

The following table presents the components of other assets as of the dates indicated:

(\$ in thousands)	September 30, 2023	December 31, 2022
Accrued interest receivable	\$ 39,494	\$ 37,942
Prepaid expenses	10,934	8,068
Operating lease right-of-use assets	23,104	28,780
Servicing assets	20,443	22,484
Other real estate owned	882	—
Income taxes receivable	—	7,679
Investments:		
CRA and other equity investments ⁽¹⁾	94,273	90,295
LIHTC investments ⁽¹⁾	41,138	45,726
Alternative energy partnerships ⁽¹⁾	18,803	21,410
Other assets	15,077	13,513
Total other assets	<u>\$ 264,148</u>	<u>\$ 275,897</u>

(1) See Note 12 - Variable Interest Entities regarding alternative energy partnerships, LIHTC and other CRA investments

The following table presents the components of accrued expenses and other liabilities as of the dates indicated:

(\$ in thousands)	September 30, 2023	December 31, 2022
Accrued interest payable	\$ 21,187	\$ 7,004
Accounts payable and accrued expenses	41,741	37,560
Income taxes payable	19,062	—
Derivative liabilities ⁽¹⁾	2,799	2,251
Lease liability	25,654	33,122
Commitments to fund LIHTC investments ⁽²⁾	15,350	17,480
Reserve for unfunded noncancellable loan commitments	4,005	5,305
Reserve for loss on repurchased loans	1,971	2,989
Other liabilities	4,579	8,512
Total accrued expenses and other liabilities	<u>\$ 136,348</u>	<u>\$ 114,223</u>

(1) See Note 9 - Derivative Instruments for information regarding derivative instruments

(2) See Note 14 - Loan Commitments and Other Related Activities regarding commitments to fund LIHTC

NOTE 16 – REVENUE RECOGNITION

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

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Noninterest income				
<i>In scope of Topic 606</i>				
Deposit service fees	\$ 1,508	\$ 1,486	\$ 4,148	\$ 4,767
Debit card fees	417	472	1,217	1,467
Other	214	240	913	536
Noninterest income (in-scope of Topic 606)	2,139	2,198	6,278	6,770
Noninterest income (out-of-scope of Topic 606)	48,639	3,483	58,383	12,007
Total noninterest income	<u>\$ 50,778</u>	<u>\$ 5,681</u>	<u>\$ 64,661</u>	<u>\$ 18,777</u>

We do not typically enter into long-term revenue contracts with clients and as of September 30, 2023 and December 31, 2022, we did not have any significant contract balances within the scope of Topic 606 and we did not capitalize any revenue contract acquisition costs.

Sale-leaseback Transactions

In January 2022, we completed a sale-leaseback transaction for \$2.4 million and recognized a gain of \$0.8 million. Gains related to sale-leaseback are included in other income in the accompanying consolidated statements of operations.

NOTE 17 – RELATED-PARTY TRANSACTIONS

Certain of our executive officers and directors, and their related interests, are customers of, or have had transactions with the Bank in the ordinary course of business, including deposits, loans and other financial services related transactions. From time to time, the Bank may make loans to executive officers and directors, and their related interests, in the ordinary course of business and on substantially the same terms and conditions, including interest rates and collateral, as those of comparable transactions with non-insiders prevailing at the time, in accordance with the Bank's underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features. As of September 30, 2023, 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 \$159 thousand for each of the three and nine months ended September 30, 2023. Indemnification costs were paid or reimbursed by the Company or its insurance carriers on behalf of certain current directors in connection with the Indemnified Matters, in an aggregate amount less than \$120 thousand and \$244 thousand for each of the three and nine months ended September 30, 2022.

NOTE 18 – 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 19 – SUBSEQUENT EVENTS

We have evaluated events from the date of the consolidated financial statements on September 30, 2023 through the issuance of these consolidated financial statements included in this Quarterly Report on Form 10-Q.

On October 19, 2023, the Board of Governors of the Federal Reserve System granted its approval of the merger. In addition, on October 5, 2023, the California Department of Financial Protection and Innovation granted its approval of the bank merger. No further regulatory approvals are required to complete the proposed transaction. Banc of California and PacWest will each hold a special meeting of its respective stockholders in connection with the transaction on November 22, 2023. The consummation of the proposed transaction is expected to close on or about November 30, 2023, subject to the satisfaction of the remaining closing conditions set forth in the merger agreement, including receipt of the requisite stockholder approvals, and the concurrent closing of a \$400 million equity capital raise.

Except as noted, there have been no other subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in the consolidated financial statements as of September 30, 2023.

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

The following is management’s discussion and analysis of the major factors that influenced our results of operations and financial condition as of and for the three and nine months ended September 30, 2023. This analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2022 and with the unaudited consolidated financial statements and notes thereto set forth in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023.

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 26 full service branches in California, extending from San Diego to Santa Barbara. Through our 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 to serve the banking and financial needs of our target clients. We also acquired Deepstack Technologies in 2022 to be able to offer full stack payment processing solutions and further our ability to serve as the hub of our clients’ financial services ecosystem.

Economy and Banking Industry Impact

Economic uncertainty and concerns regarding the stability of the U.S. banking system following recent bank failures earlier in the year contributed to a challenging operating environment for our Company in the first half of 2023. Additionally, the Federal Reserve continued to raise the short-term federal funds rate, which increased 100 basis points since the start of the year through September 2023, as inflation persists. Since the beginning of 2022 through September 2023, the Federal Reserve has increased the federal funds target rate 525 basis points. As our assets and liabilities are primarily monetary in nature, the effect of changes in interest rates has a significant impact on our performance.

The rising interest rate environment may lead to lower demand for loans, higher credit losses, and decreased values for our investment securities, among other negative effects. Additionally, it may create more intense competition for low-cost deposits, potential for deposit outflows as rate-sensitive depositors seek higher yielding products or investment alternatives, and increased deposit rates and borrowing costs. The recent industry events could further accelerate the deposit outflows experienced by some mid-sized banks.

During the first quarter of 2023, in response to volatility in the financial markets, we proactively performed liquidity-enhancing measures, including additional advances from the FHLB and draws on available FRB facilities. While these actions had a negative impact on our level of profitability and net interest margin, we believe it was prudent from a risk management perspective. As the markets stabilized, we used cash to pay down borrowings and other liabilities reducing the excess liquidity that we carried in the first half of 2023. As of September 30, 2023, we had primary and secondary liquidity availability of just over \$3.67 billion, or 2.1 times our uninsured and uncollateralized deposits.

Proposed Merger with PacWest

On July 25, 2023, the Company and PacWest announced the execution of a definitive merger agreement pursuant to which the companies will combine in an all-stock merger transaction. Pursuant to the terms and conditions of the agreement, PacWest will merge into the Company, with the Company surviving, and the Bank will merge into PacWest Bank, with PacWest Bank surviving as wholly-owned subsidiary of the Company. The combined holding company and bank will operate under the Banc of California name and brand following closing of the transaction. At the closing of the merger, PacWest stockholders will be entitled to receive 0.6569 of a share of the Company’s common stock for each share held of PacWest common stock.

In connection with entering into the definitive merger agreement, the Company also entered into the Investment Agreements with the Warburg Investors and the Centerbridge Investors. Subject to the terms and conditions of the Investment Agreements, at closing, the Investors will invest an aggregate of \$400 million for newly issued equity securities substantially concurrently with, and subject to, closing of the merger. The proceeds from this capital raise are expected to be utilized in conjunction with other planned actions to reposition the combined company’s balance sheet. It is expected that, after closing the transaction, the combined company will repay approximately \$13 billion in wholesale borrowings and high-cost deposits using proceeds from the sale of certain loan and investment securities assets. The Bank has also entered into an aggregate of \$3.1 billion notional amount in interest rate swaptions to hedge interest rate risk and a contingent forward loan sale agreement to lock in proceeds for certain asset sales contemplated in connection with the closing of the transaction.

Upon completion of the proposed transaction, (a) the shares issued to PacWest stockholders in the merger are expected to represent approximately 47% of the outstanding shares of the combined company, (b) the shares issued to the Investors in the equity capital raise transaction discussed above are expected to represent approximately 19% of the outstanding shares of the

combined company and (c) the shares of Banc of California common stock that are outstanding immediately prior to completion of the merger are expected to represent approximately 34% of the outstanding shares of the combined company.

On October 19, 2023, the Board of Governors of the Federal Reserve System granted its approval of the merger. In addition, on October 5, 2023, the California Department of Financial Protection and Innovation granted its approval of the bank merger. No further regulatory approvals are required to complete the proposed transaction. Banc of California and PacWest will each hold a special meeting of its respective stockholders in connection with the transaction on November 22, 2023. The consummation of the proposed transaction is expected to close on or about November 30, 2023, subject to the satisfaction of the remaining closing conditions set forth in the merger agreement, including receipt of the requisite stockholder approvals, and the concurrent closing of a \$400 million equity capital raise.

We are monitoring the economic environment and its impact on the projected combined company's opening day and post-restructuring balance sheets and the combined company's projected performance in future periods as compared to the estimates and projections set forth in the Investor Presentation dated July 25, 2023 (the "Investor Presentation").

After considering developments occurring subsequent to the issuance of the Investor Presentation, including the volatility and changes in the interest rate environment, the relative performance of the two companies, the potential impacts on the opening day and post-restructuring balance sheets, and refinements to many of the assumptions and estimates used in the creation of projections included in the Investor Presentation, we are not aware of any material changes to the projected 2024 EPS range or CET1 regulatory capital levels for the combined company as stated in the Investor Presentation.

The recent volatility and resulting increase in longer term (7 and 10-year) interest rates decreased the current valuation of PacWest's portfolio of AFS securities which, with the corresponding increase in unrealized losses included in accumulated other comprehensive income (AOCI), reduced PacWest's tangible book value. If these conditions persist through the closing date of the merger, there would be a corresponding decrease in the opening day tangible book value of the combined company as compared to the projections included in the Investor Presentation. In addition, PacWest's third quarter 2023 net income was lower than forecasted in the estimates set forth in the Investor Presentation, which could also negatively impact the opening day tangible book value of the combined company. The non-interest bearing deposit percentage at PacWest has decreased from the projections used in the Investor Presentation, which could impact the percentage of non-interest bearing deposits forecasted in the opening day and the post-restructuring balance sheets.

The economic environment remains dynamic with heightened levels of volatility in interest rates, market levels and potentially other economic impacts. Accordingly, we will continue to monitor the effects of these and other potential impacts on the financial projections and estimates included in the Investor Presentation.

Balance Sheet Repositioning in Connection with the Proposed Merger

While it is not a condition to consummate the proposed merger with PacWest, contingent upon the merger closing, the Company and PacWest plan to sell an aggregate of \$7.0 billion of the assets, collectively, at or shortly following closing. The Company has identified the following Banc of California assets, with each portfolio having been hedged for interest rate risk:

- **\$1.8 billion SFR loan portfolio:** The Company entered into a contingent forward sale agreement with affiliates of J.P. Morgan with respect to the SFR loan portfolio, which is comprised of \$1.8 billion in assets. The forward sale agreement is contingent upon receipt of approval for the closing of the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR loan portfolio for investment. The contingent forward loan sale agreement contains customary terms and conditions associated with a whole loan sale and we expect to close the forward loan sale shortly after closing of the merger. Pursuant to the terms of the agreement, the purchase price is subject to adjustment reflecting at-market fees based on the additional time for settlement from November 8, 2023. It is anticipated that the Company will transfer such mortgage portfolio as soon as possible after the closing of the merger, which may take up to a week post-closing due to operational considerations. If the forward loan sale agreement terminates before the completion of the merger, then it is possible that the Company will be unable to sell such assets on the terms that are at least as favorable to us as the terms set forth in the forward loan sale agreement.
- **\$1.6 billion multi-family residential loan portfolio:** The \$1.6 billion multi-family residential loan portfolio is currently being marketed to several potential counterparties for sale, pending closing of the merger. The Company has received multiple external bids for such assets and plans to implement the structure of the SFR sale agreement and target a date in mid to late November for close. The Company anticipates that the sale and transfer of this portfolio would be consummated approximately one week following the closing of the merger. Completion of this multi-family forward sale transaction is contingent upon (a) the finalization of a forward sale agreement to sell the portfolio, and (b) the closing of the merger occurring prior to the expiration of the term of such forward sale agreement, as it may be extended.
- **\$1.2 billion of AFS and HTM securities** (the "Company bond portfolio"), which may include, among others, collateralized mortgage obligations ("CMO"), mortgage-backed securities ("MBS"), taxable municipal bonds and collateralized loan obligations ("CLO"): The Company bond portfolio is comprised of liquid instruments with CUSIPs

for which there are currently active and liquid markets. The plan is to sell the Company bond portfolio over a one to two week period immediately post-closing of the merger. Sale of the Company bond portfolio is dependent on (a) market liquidity and (b) market pricing (other than decreases caused by market base interest rates). For example, if the market value for certain securities in the Company bond portfolio were to decrease substantially due to the widening of credit spreads, then such decrease could have an adverse effect on the sale due to the un-hedged impact on equity.

Additionally, PacWest has identified for potential sale \$2.3 billion of its AFS securities, which may include, among others, commercial and residential MBS, CMO, treasury bonds and municipal bonds. Proceeds of the asset sales along with excess cash are expected to be utilized in the repayment of the merged company's wholesale borrowings.

Financial Highlights

For the third quarter of 2023, net income was \$42.6 million, or \$0.74 per diluted common share. This compares to net income of \$17.9 million, or \$0.31 per diluted common share, for the second quarter of 2023 and net income of \$24.2 million, or \$0.40 per diluted common share, for the third quarter of 2022.

On an adjusted basis, net income was \$17.1 million for the quarter, or \$0.30 per diluted common share, for the third quarter of 2023.⁽¹⁾ This compares to adjusted net income of \$18.4 million, or \$0.32 per diluted common share, for the second quarter of 2023, and \$26.7 million, or \$0.44 per diluted common share for the third quarter of 2022.⁽¹⁾

The third quarter of 2023 included a \$46.2 million pre-tax mark-to-market gain on derivative instruments used to hedge the interest rate risk associated with various assets on the Company's balance sheet, in anticipation of the sale of such assets in connection with the proposed merger with PacWest. The gain was partly offset by \$9.3 million of acquisition, integration and transaction costs.

Third quarter of 2023 highlights:

- **Net income of \$42.6 million**, or \$0.74 per diluted common share, up 138% from the prior quarter as the bank strategically positioned the balance sheet ahead of the merger, which included a \$46.2 million pre-tax gain from derivative instruments, partly offset by \$9.3 million of transaction costs.
- **Stable overall deposit mix**, with the period-end noninterest-bearing deposit percentage consistent with the prior quarter at 36% of total deposits.
- **Addition of new clients with noninterest-bearing deposits**, which contributed inflows of \$52.2 million in the quarter and \$201.5 million year-to-date.
- **Net interest margin improvement** of 8 basis points from 3.11% to 3.19% in comparison to the prior quarter, as the increase in the yield on loans and securities exceeded the increase in the cost of funds.
- **Disciplined noninterest expense management**, with total noninterest expense of \$56.2 million reflecting an increase of \$7.0 million over the prior quarter. Excluding the impact of \$9.3 million of acquisition, integration and transaction costs, adjusted noninterest expense⁽¹⁾ decreased \$2.2 million to \$46.2 million for the third quarter.
- **High liquidity levels**, with immediately available on-balance sheet liquidity and unused borrowing capacity of \$3.67 billion. Available liquidity was 2.1 times the level of uninsured and uncollateralized deposits, which was consistent with the prior quarter.
- **Strong capital ratios** well above the regulatory thresholds for "well capitalized" banks, including a 14.83% Total risk-based capital ratio, 12.53% Tier 1 capital ratio, 12.53% CET1 capital ratio and 10.13% Tier 1 leverage ratio.
- **Low unrealized losses relative to capital**, with AFS unrealized pre-tax losses of \$51.9 million on securities of \$915.1 million, representing 3.9% of CET1 capital. Total AFS and HTM unrealized pre-tax losses of \$129.9 million on total securities of \$1.24 billion represented 9.8% of CET1 capital.
- **Continued growth in book value and tangible book value**, with book value per share of \$17.44, up from \$16.67, and tangible book value per share of \$15.34, up from \$14.56.⁽¹⁾

⁽¹⁾ Non-GAAP measures; refer to section 'Non-GAAP Measures'

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, 2022 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.

¹ Non-GAAP measures; refer to section "Non-GAAP Measures"

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: ACL, business combinations, value 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.

ACL - Loans. The ACL on loans is estimated on a quarterly basis and represents management's estimate of 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 ALL 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 ALL and the RUC.

ACL - AFS Securities. For AFS securities which are in an unrealized loss position, we assess whether we intend to sell, or it is more likely than not, that we will be required to sell the security before recovery of the amortized cost basis. If either of the criteria is met, the amortized cost basis of the security is written down to fair value through income. For AFS securities that do not meet the aforementioned criteria, we evaluate whether the decline in fair value has resulted from an actual or estimated credit loss event or other factors. In making this assessment, we consider the extent to which fair value is less than amortized cost, changes to the rating of the security, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss is likely, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, an ACL is recorded as a valuation allowance for the estimated credit loss, reducing the carrying value of the securities on the balance sheet and limited by the amount that the fair value is less than the amortized cost basis. Changes in the ACL are recorded as a provision for credit loss. Losses are charged against the allowance when we believe the uncollectability of an AFS security has been confirmed or if either of the criteria regarding intent or requirement to sell is met.

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

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

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

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

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

Acquired Loans. At acquisition date, loans are evaluated to determine whether they meet the criteria of a PCD loan. PCD loans are loans that in management's judgment 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 our application of the CECL method.

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, we establish an initial ACL for acquired non-PCD loans through a charge to the provision for credit losses. This initial ACL is determined using our application of the CECL method.

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 in our portfolio.

The estimates used to determine the fair values of PCD and non-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.

Recently Issued Accounting Pronouncements Not Yet Adopted

See Note 1 - *Summary of Significant Accounting Policies*.

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 common equity to tangible assets, tangible common equity per common share, average tangible common equity, return on average tangible common equity, adjusted noninterest income, adjusted noninterest expense, adjusted noninterest income to adjusted total revenue, adjusted noninterest expense to average total assets, pre-tax pre-provision (PTPP) income, adjusted total revenue, adjusted noninterest expense, adjusted PTPP income, PTPP income ROAA, adjusted PTPP income ROAA, efficiency ratio, adjusted efficiency ratio, adjusted net income, adjusted net income available to common stockholders, net income available to common stockholders after adjustments for intangible assets, adjusted diluted earnings per share (EPS), adjusted return on average assets (ROAA) and adjusted common equity tier 1 (CET 1) 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, as applicable, from tangible equity. Return on average tangible common equity is calculated by dividing net income 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 net interest income and adjusted noninterest income (adjusted total revenue) and subtracting adjusted noninterest expense. PTPP income ROAA is calculated by dividing annualized PTPP income by average assets. Adjusted PTPP income ROAA is calculated by dividing annualized adjusted PTPP income by average assets. Efficiency ratio is calculated by dividing noninterest expense by total revenue. Adjusted efficiency ratio is calculated by dividing adjusted noninterest expense by adjusted total revenue.

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

Common equity tier 1 and the common equity tier 1 ratio are defined by regulatory capital rules. Adjusted CET 1 is calculated by subtracting net unrealized losses (net of tax) on securities from CET 1 capital and provided to reflect management's assessment of capital impacts from net unrealized losses on securities.

Management believes the presentation of these financial measures adjusting the impact of these items provides 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.

(\$ in thousands, except per share data)
(Unaudited)

	September 30, 2023	December 31, 2022
Tangible common equity, and tangible common equity to tangible assets ratio		
Total assets	\$ 9,247,072	\$ 9,197,016
Less goodwill	(114,312)	(114,312)
Less other intangible assets	(6,142)	(7,526)
Tangible assets ⁽¹⁾	<u>\$ 9,126,618</u>	<u>\$ 9,075,178</u>
Total stockholders' equity	\$ 1,001,720	\$ 959,618
Less goodwill	(114,312)	(114,312)
Less other intangible assets	(6,142)	(7,526)
Tangible common equity ⁽¹⁾	<u>\$ 881,266</u>	<u>\$ 837,780</u>
Total stockholders' equity to total assets	10.83 %	10.43 %
Tangible common equity to tangible assets ⁽¹⁾	9.66 %	9.23 %
Common shares outstanding	56,959,141	58,544,534
Class B non-voting non-convertible common shares outstanding	477,321	477,321
Total common shares outstanding	<u>57,436,462</u>	<u>59,021,855</u>
Book value per common share	\$ 17.44	\$ 16.26
Tangible common equity per common share ⁽¹⁾	\$ 15.34	\$ 14.19

(1) Non-GAAP measure.

(\$ in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Return on tangible common equity					
Average total stockholders' equity	\$ 977,410	\$ 997,049	\$ 960,806	\$ 992,984	\$ 993,208
Less average preferred stock	—	—	—	—	(25,043)
Average total common stockholders' equity	977,410	997,049	960,806	992,984	968,165
Less average goodwill	(114,312)	(114,312)	(98,916)	(114,312)	(96,133)
Less average other intangibles	(6,430)	(6,885)	(4,570)	(6,887)	(5,216)
Average tangible common equity ⁽¹⁾	<u>\$ 856,668</u>	<u>\$ 875,852</u>	<u>\$ 857,320</u>	<u>\$ 871,785</u>	<u>\$ 866,816</u>
Net income available to common stockholders	\$ 42,574	\$ 17,879	\$ 24,196	\$ 80,731	\$ 94,253
Add amortization of other intangibles	461	462	396	1,384	1,150
Less tax effect on amortization of other intangibles ⁽²⁾	(136)	(137)	(117)	(409)	(340)
Net income available to common stockholders ⁽¹⁾	<u>\$ 42,899</u>	<u>\$ 18,204</u>	<u>\$ 24,475</u>	<u>\$ 81,706</u>	<u>\$ 95,063</u>
Return on average equity	17.28 %	7.19 %	9.99 %	10.87 %	13.38 %
Return on average tangible common equity ⁽¹⁾	19.87 %	8.34 %	11.33 %	12.53 %	14.66 %

(1) Non-GAAP measure.

(2) Adjustments shown net of a statutory tax rate of 29.6%.

(\$ in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Adjusted noninterest income					
Total noninterest income	\$ 50,778	\$ 6,024	\$ 5,681	\$ 64,661	\$ 18,777
Noninterest income adjustments:					
Net loss (gain) on securities available-for-sale	—	—	—	—	(16)
Gain on merger-related derivatives ⁽¹⁾	(46,165)	—	—	(46,165)	—
Total noninterest income adjustments	(46,165)	—	—	(46,165)	(16)
Adjusted noninterest income ⁽²⁾	\$ 4,613	\$ 6,024	\$ 5,681	\$ 18,496	\$ 18,761
Adjusted noninterest expense					
Total noninterest expense	\$ 56,164	\$ 49,132	\$ 50,962	\$ 156,535	\$ 146,170
Noninterest expense adjustments:					
Indemnified legal (fees) recoveries	(634)	(752)	(1,017)	(1,766)	(1,366)
Acquisition, integration and transaction costs	(9,329)	—	(2,080)	(9,329)	(2,080)
Noninterest expense adjustments before gain (loss) in alternative energy partnership investments	(9,963)	(752)	(3,097)	(11,095)	(3,446)
Gain (loss) in alternative energy partnership investments	34	36	(504)	(1,548)	(1,705)
Total noninterest expense adjustments	(9,929)	(716)	(3,601)	(12,643)	(5,151)
Adjusted noninterest expense ⁽²⁾	\$ 46,235	\$ 48,416	\$ 47,361	\$ 143,892	\$ 141,019
Average assets	\$ 9,261,273	\$ 9,611,239	\$ 9,408,740	\$ 9,396,368	\$ 9,381,307
Noninterest income to total revenue	42.32 %	7.96 %	6.68 %	23.38 %	7.42 %
Adjusted noninterest income to adjusted total revenue ⁽²⁾	6.25 %	7.96 %	6.68 %	8.03 %	7.42 %
Noninterest expense to average total assets ⁽³⁾	2.41 %	2.05 %	2.15 %	2.23 %	2.08 %
Adjusted noninterest expense to average total assets ⁽²⁾⁽³⁾	1.98 %	2.02 %	2.00 %	2.05 %	2.01 %

(1) Represents the mark-to-market gain on derivative instruments, including interest rate swaptions and the contingent forward loan sale agreement on the SFR loan portfolio executed concurrently with the announcement of the proposed merger with PacWest.

(2) Non-GAAP measure.

(3) Ratio presented on an annualized basis.

(\$ in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Adjusted pre-tax pre-provision income					
Net interest income	\$ 69,218	\$ 69,632	\$ 79,408	\$ 211,903	\$ 234,148
Noninterest income	50,778	6,024	5,681	64,661	18,777
Total revenue	119,996	75,656	85,089	276,564	252,925
Noninterest expense	56,164	49,132	50,962	156,535	146,170
Pre-tax pre-provision income ⁽¹⁾	\$ 63,832	\$ 26,524	\$ 34,127	\$ 120,029	\$ 106,755
Total revenue	\$ 119,996	\$ 75,656	\$ 85,089	\$ 276,564	\$ 252,925
Total noninterest income adjustments	(46,165)	—	—	(46,165)	(16)
Adjusted total revenue ⁽¹⁾	73,831	75,656	85,089	230,399	252,909
Noninterest expense	56,164	49,132	50,962	156,535	146,170
Total noninterest expense adjustments	(9,929)	(716)	(3,601)	(12,643)	(5,151)
Adjusted noninterest expense ⁽¹⁾	46,235	48,416	47,361	143,892	141,019
Adjusted pre-tax pre-provision income ⁽¹⁾	\$ 27,596	\$ 27,240	\$ 37,728	\$ 86,507	\$ 111,890
Average assets	\$ 9,261,273	\$ 9,611,239	\$ 9,408,740	\$ 9,396,368	\$ 9,381,307
Pre-tax pre-provision income ROAA ⁽¹⁾⁽²⁾	2.73 %	1.11 %	1.44 %	1.71 %	1.52 %
Adjusted pre-tax pre-provision income ROAA ⁽¹⁾⁽²⁾	1.18 %	1.14 %	1.59 %	1.23 %	1.59 %
Efficiency ratio ⁽¹⁾⁽²⁾	46.80 %	64.94 %	59.89 %	56.60 %	57.79 %
Adjusted efficiency ratio ⁽¹⁾⁽²⁾	62.62 %	63.99 %	55.66 %	62.45 %	55.76 %

(1) Non-GAAP measure.

(2) Ratio presented on an annualized basis.

(\$ in thousands) (Unaudited)	Three Months Ended			Nine Months Ended September 3	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Adjusted net income					
Net income ⁽¹⁾⁽²⁾	\$ 42,574	\$ 17,879	\$ 24,196	\$ 80,731	\$ 9,365
Adjustments:					
Noninterest income	(46,165)	—	—	(46,165)	—
Noninterest expense adjustments	9,929	716	3,601	12,643	—
Tax impact of adjustments above ⁽³⁾	10,713	(212)	(1,065)	9,910	(1,065)
Adjustments to net income	(25,523)	504	2,536	(23,612)	—
Adjusted net income ⁽¹⁾⁽²⁾⁽⁴⁾	\$ 17,051	\$ 18,383	\$ 26,732	\$ 57,119	\$ 10,290
Average assets					
Average assets	\$ 9,261,273	\$ 9,611,239	\$ 9,408,740	\$ 9,396,368	\$ 9,365,000
ROAA ⁽⁵⁾	1.82 %	0.75 %	1.02 %	1.15 %	0.98 %
Adjusted ROAA ⁽⁴⁾⁽⁵⁾	0.73 %	0.77 %	1.13 %	0.81 %	0.98 %
Adjusted net income available to common stockholders					
Net income available to common stockholders	\$ 42,574	\$ 17,879	\$ 24,196	\$ 80,731	\$ 9,365
Adjustments to net income	(25,523)	504	2,536	(23,612)	—
Adjustments for impact of preferred stock redemption	—	—	—	—	—
Adjusted net income available to common stockholders ⁽⁴⁾	\$ 17,051	\$ 18,383	\$ 26,732	\$ 57,119	\$ 10,290
Average diluted common shares					
Average diluted common shares	57,521,836	58,026,007	60,492,460	58,230,137	61,650,000
Diluted EPS	\$ 0.74	\$ 0.31	\$ 0.40	\$ 1.39	\$ 0.98
Adjusted diluted EPS ⁽⁴⁾⁽⁶⁾	\$ 0.30	\$ 0.32	\$ 0.44	\$ 0.98	\$ 0.98

- (1) Net income for the three and nine months ended September 30, 2023 includes a \$46.2 million pre-tax mark-to-market gain on derivative instruments partially offset by acquisition costs of \$9.3 million.
- (2) Net income and adjusted net income for the nine months ended September 30, 2022 includes a \$31.3 million pre-tax reversal of credit losses due to the recovery from the settlement of a previously charged-off loan; there is no similar recovery in any of the other periods presented. The Bank previously recognized a \$35.1 million charge-off for this loan during the third quarter of 2019.
- (3) Tax impact of adjustments shown at a statutory tax rate of 29.6%.
- (4) Non-GAAP measure.
- (5) Ratio presented on an annualized basis.
- (6) Represents adjusted net income available to common stockholders divided by average diluted common shares.

(\$ in thousands) (Unaudited)	September 30, 2023
Adjusted Common Equity Tier 1 (CET 1) capital⁽¹⁾	
CET 1 capital	\$ 931,909
Less unrealized loss on AFS securities, net of tax	(36,551)
Less unrealized loss on HTM securities, net of tax	(54,913)
Adjusted CET 1 capital ⁽²⁾	\$ 840,445
Unrealized loss on AFS securities, net of tax, to CET 1 capital	3.92 %
Total unrealized loss on AFS and HTM securities, net of tax, to CET 1 capital	9.81 %

- (1) September 30, 2023 presented to reflect management's assessment of capital impact from net unrealized losses on securities. Statutory tax rate of 29.6% used for calculation purposes.
- (2) Non-GAAP measure.

RESULTS OF OPERATIONS

Net Interest Income

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their corresponding yields and costs expressed both in dollars and rates for the three months ended September 30, 2023, June 30, 2023 and September 30, 2022:

(\$ in thousands)	Three Months Ended								
	September 30, 2023			June 30, 2023			September 30, 2022		
	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⁾	\$ 7,045,692	\$ 95,613	5.38 %	\$ 7,061,016	\$ 92,889	5.28 %	\$ 7,313,519	\$ 83,699	4.54 %
Securities	1,252,361	16,335	5.17 %	1,311,362	15,804	4.83 %	1,194,942	10,189	3.38 %
Other interest-earning assets ⁽³⁾	309,159	4,274	5.48 %	595,234	7,458	5.03 %	292,819	2,085	2.82 %
Total interest-earning assets	8,607,212	116,222	5.36 %	8,967,612	116,151	5.20 %	8,801,280	95,973	4.33 %
Allowance for loan losses	(79,883)			(82,282)			(93,517)		
BOLI and noninterest-earning assets ⁽⁴⁾	733,944			725,909			700,977		
Total assets	\$ 9,261,273			\$ 9,611,239			\$ 9,408,740		
Interest-bearing liabilities:									
Interest-bearing checking	\$ 1,663,803	10,240	2.44 %	\$ 1,761,341	9,751	2.22 %	\$ 2,285,071	3,880	0.67 %
Savings and money market	1,024,127	3,075	1.19 %	1,015,181	2,609	1.03 %	1,536,438	2,236	0.58 %
Certificates of deposit	1,652,445	18,045	4.33 %	1,566,636	15,758	4.03 %	832,506	2,871	1.37 %
Total interest-bearing deposits	4,340,375	31,360	2.87 %	4,343,158	28,118	2.60 %	4,654,015	8,987	0.77 %
FHLB advances and FRB borrowings	897,020	7,773	3.44 %	1,441,244	14,703	4.09 %	482,842	3,558	2.92 %
Other borrowings	304,138	4,136	5.40 %	358	3	3.36 %	70,431	412	2.32 %
Long-term debt	274,199	3,735	5.40 %	275,012	3,695	5.39 %	274,665	3,608	5.21 %
Total interest-bearing liabilities	5,815,732	47,004	3.21 %	6,059,772	46,519	3.08 %	5,481,953	16,565	1.20 %
Noninterest-bearing deposits	2,345,262			2,425,719			2,855,220		
Noninterest-bearing liabilities	122,869			128,699			110,761		
Total liabilities	8,283,863			8,614,190			8,447,934		
Total stockholders' equity	977,410			997,049			960,806		
Total liabilities and stockholders' equity	\$ 9,261,273			\$ 9,611,239			\$ 9,408,740		
Net interest income/spread		\$ 69,218	2.15 %		\$ 69,632	2.12 %		\$ 79,408	3.13 %
Net interest margin ⁽⁵⁾			3.19 %			3.11 %			3.58 %
Ratio of interest-earning assets to interest-bearing liabilities									
	148 %			148 %			161 %		
Total deposits⁽⁶⁾	6,685,637	31,360	1.86 %	6,768,877	28,118	1.67 %	7,509,235	8,987	0.47 %
Total funding ⁽⁷⁾	8,160,994	47,004	2.29 %	8,485,491	46,519	2.20 %	8,337,173	16,565	0.79 %

(1) Includes average loans held for sale of \$4.1 million, \$4.4 million and \$4.2 million for the three months ended September 30, 2023, June 30, 2023 and September 30, 2022, 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 ACL. Nonaccrual loans are included in the average balance. Interest income includes net (amortization) accretion of deferred loan (costs) fees and purchased (premiums) discounts of \$0.1 million, \$(1.0) million and \$0.1 million for the three months ended September 30, 2023, June 30, 2023 and September 30, 2022.*
- (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 \$129.3 million, \$128.4 million and \$125.6 million for the three months ended September 30, 2023, June 30, 2023 and September 30, 2022.*
- (5) *Annualized net interest income divided by average interest-earning assets.*
- (6) *Total deposits is the sum of interest-bearing deposits and noninterest-bearing deposits. The cost of total deposits is calculated as annualized total interest expense on deposits divided by average total deposits.*
- (7) *Total funding is the sum of interest-bearing liabilities and noninterest-bearing deposits. The cost of total funding is calculated as annualized total interest expense divided by average total funding.*

Three Months Ended September 30, 2023 Compared to Three Months Ended June 30, 2023

Net interest income decreased \$0.4 million, or 0.6%, to \$69.2 million for the third quarter primarily due to lower average interest-earning assets partially offset by net interest margin expansion.

Average interest-earning assets of \$8.61 billion decreased \$360.4 million from the prior quarter as the Company used cash to pay down FHLB borrowings and other liabilities reducing the excess liquidity that was carried in the prior quarter. The net interest margin increased 8 basis points to 3.19% for the third quarter as average interest-earning assets yield increased 16 basis points while the average cost of funds increased 9 basis points.

The yield on average interest-earning assets increased 16 basis points to 5.36% for the third quarter from 5.20% in the second quarter mainly due to higher yields on loans, securities and other interest-earning assets. The yield on average loans increased 10 basis points to 5.38% during the third quarter as a result of higher market interest rates and changes in portfolio mix from originations and payoffs. The yield on average investment securities increased 34 basis points to 5.17% due mainly to rate resets in the collateralized loan obligations (CLO) portfolio.

The average cost of funds increased 9 basis points to 2.29% for the third quarter from 2.20% in the second quarter due mainly to higher market interest rates and changes in the balance sheet mix. The average cost of total deposits increased 19 basis points to 1.86% for the third quarter compared to 1.67% in the second quarter. The average cost of interest-bearing liabilities increased 13 basis points to 3.21% for the third quarter from 3.08% in the second quarter. Average noninterest-bearing deposits decreased \$80.5 million for the third quarter compared to the second quarter and average total deposits decreased \$83.2 million.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Net interest income for the third quarter of 2023 decreased \$10.2 million, or 12.8%, to \$69.2 million compared to \$79.4 million for the same 2022 period. Net interest income for the third quarter of 2023 was impacted by higher market interest rates and changes in the balance sheet mix, which was partially offset by higher average yields on interest-earning assets.

The net interest margin decreased 39 basis points to 3.19% for the third quarter of 2023 as average cost of total funding increased 150 basis points while the average interest-earning assets yield increased 103 basis points.

The yield on average interest-earning assets increased 103 basis points to 5.36% for the third quarter of 2023 from 4.33% for the same 2022 period mainly due to higher market interest rates offset by changes in the mix of interest-earning assets. The yield on average loans increased 84 basis points to 5.38% compared to the same 2022 period as a result of the impact of higher market interest rates offset by changes in portfolio mix. The yield on average investment securities increased 179 basis points to 5.17% for the third quarter of 2023, compared to 3.38% for the same 2022 period. Average loans represented 82% of average earnings assets for the three months ended September 30,

2023 compared to 83% for the three months ended September 30, 2022. Average loans decreased by \$267.8 million due mainly to lower average warehouse balances and all other loan categories as loan demand slowed amid the high interest rate environment and uncertain economic outlook.

The average cost of funds increased 150 basis points to 2.29% for the third quarter of 2023, from 0.79% for the same 2022 period, due mostly to higher market interest rates as the average effective Federal Funds rate increased 308 basis points to 5.26% for the third quarter of 2023 from 2.18% in the same 2022 period and changes in the balance sheet mix. The average cost of total deposits increased 139 basis points to 1.86% for the third quarter of 2023 compared to the same 2022 period. The cost of average interest-bearing liabilities increased 201 basis points to 3.21% for the third quarter of 2023 from 1.20% for the same 2022 period and included a 210 basis point increase in the cost of average interest-bearing deposits to 2.87%. Average noninterest-bearing deposits decreased \$510.0 million for the third quarter of 2023 compared to the same 2022 period and average deposits decreased \$823.6 million. Average noninterest-bearing deposits represented 35% of total average deposits for the third quarter of 2023 and 38% for the third quarter of 2022.

The following table presents interest income, average interest-earning assets, interest expense, average interest-bearing liabilities, and their corresponding yields and costs expressed both in dollars and rates, on a consolidated operations basis, for the nine months ended September 30, 2023 and 2022:

(\$ in thousands)	Nine Months Ended September 30,					
	2023			2022		
	Average Balance	Interest and Dividends	Yield/Cost	Average Balance	Interest and Dividends	Yield/Cost
Interest-earning assets:						
Total loans ⁽¹⁾⁽²⁾	\$ 7,034,074	\$ 275,920	5.24 %	\$ 7,282,169	\$ 238,828	4.38 %
Securities	1,286,955	47,048	4.89 %	1,234,188	25,622	2.78 %
Other interest-earning assets ⁽³⁾	430,855	16,324	5.07 %	284,725	4,210	1.98 %
Total interest-earning assets	8,751,884	339,292	5.18 %	8,801,082	268,660	4.08 %
Allowance for loan losses	(82,124)			(93,454)		
BOLI and noninterest-earning assets ⁽⁴⁾	726,608			673,679		
Total assets	\$ 9,396,368			\$ 9,381,307		
Interest-bearing liabilities:						
Interest-bearing checking	\$ 1,791,200	28,505	2.13 %	\$ 2,352,067	5,978	0.34 %
Savings and money market	1,036,568	7,685	0.99 %	1,602,280	3,606	0.30 %
Certificates of deposit	1,471,275	43,815	3.98 %	658,576	3,971	0.81 %
Total interest-bearing deposits	4,299,043	80,005	2.49 %	4,612,923	13,555	0.39 %
FHLB advances	1,134,507	32,124	3.79 %	476,158	9,625	2.70 %
Other borrowings	104,186	4,195	5.38 %	101,369	792	1.04 %
Long-term debt	274,714	11,065	5.39 %	274,533	10,540	5.13 %
Total interest-bearing liabilities	5,812,450	127,389	2.93 %	5,464,983	34,512	0.84 %
Noninterest-bearing deposits	2,461,985			2,818,795		
Noninterest-bearing liabilities	128,949			104,321		
Total liabilities	8,403,384			8,388,099		
Total stockholders' equity	992,984			993,208		
Total liabilities and stockholders' equity	\$ 9,396,368			\$ 9,381,307		
Net interest income/spread		\$ 211,903	2.25 %		\$ 234,148	3.24 %
Net interest margin ⁽⁵⁾			3.24 %			3.56 %
Ratio of interest-earning assets to interest-bearing liabilities	151 %			161 %		
Total deposits ⁽⁶⁾	6,761,028	80,005	1.58 %	7,431,718	13,555	0.24 %
Total funding ⁽⁷⁾	8,274,435	127,389	2.06 %	8,283,778	34,512	0.56 %

(1) Includes average loans held for sale of \$4.3 million and \$3.8 million for the nine months ended September 30, 2023 and 2022, 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 ACL. Nonaccrual loans are included in the average balance. Interest income includes net (amortization) accretion of deferred loan (costs) fees and purchased (premiums) discounts of \$(0.5) million and \$(0.5) million for the nine months ended September 30, 2023 and 2022 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 \$128.4 million and \$124.8 million for the nine months ended September 30, 2023 and 2022.

(5) Annualized net interest income divided by average interest-earning assets.

(6) Total deposits is the sum of interest-bearing deposits and noninterest-bearing deposits. The cost of total deposits is calculated as annualized total interest expense on deposits divided by average total deposits.

(7) Total funding is the sum of interest-bearing liabilities and noninterest-bearing deposits. The cost of total funding is calculated as annualized total interest expense divided by average total funding.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Net interest income decreased \$22.2 million, or 9.5%, to \$211.9 million for the nine months ended September 30, 2023 from the same period in 2022 due primarily to higher funding costs from higher market interest rates, changes in the balance sheet mix, and the enhanced liquidity management strategies in the first half of 2023 due to the operating environment.

The net interest margin decreased 32 basis points to 3.24% as the average cost of funds increased 150 basis points while the average interest-earning assets yield increased 110 basis points.

The yield on average interest-earning assets increased 110 basis points to 5.18% for the nine months ended September 30, 2023 from 4.08% for the same period in 2022 due mainly to higher market interest rates and changes in the mix of interest-earning assets. The yield on average loans increased 86 basis points to 5.24% for the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The yield on average investment securities increased 211 basis points to 4.89% for the same period. Average loans represented 80% of average earnings assets for the nine months ended September 30, 2023 compared to 83% for the nine months ended September 30, 2022. Average loans decreased by \$248.1 million due mainly to lower average warehouse balances, partially offset by organic loan growth in other loan categories.

The average cost of funds increased 150 basis points to 2.06% for the nine months ended September 30, 2023 from 0.56% for the nine months ended September 30, 2022 due mainly to higher market interest rates and changes in the balance sheet mix. The average cost of total deposits increased 134 basis points to 1.58% for the nine months ended September 30, 2023 compared to the same period in 2022. The average cost of interest-bearing liabilities increased 209 basis points to 2.93% for the nine months ended September 30, 2023 compared to 0.84% for the same period in 2022 driven primarily by a 210 basis point increase in the cost of average interest-bearing deposits to 2.49% from 0.39% for the same period in 2022. The increase in the cost of these funding sources was mainly due to the impact of higher market interest rates as the average effective Federal Funds rate increased 389 basis points to 4.92% for the nine months ended September 30, 2023 from 1.03% in the same period in 2022. Average noninterest-bearing deposits decreased \$356.8 million for the nine months ended September 30, 2023 compared to the same period in 2022 and average total deposits decreased \$670.7 million. Average noninterest-bearing deposits represented 36% of total average deposits for the nine months ended September 30, 2023 compared to 38% for the same period in 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 September 30, 2023 vs. September 30, 2022			Nine Months Ended September 30, 2023 vs. 2022		
	Increase (Decrease) Due to		Net Increase (Decrease)	Increase (Decrease) Due to		Net Increase (Decrease)
	Volume	Rate		Volume	Rate	
Interest and dividend income:						
Total loans	\$ (3,160)	\$ 15,074	\$ 11,914	\$ (8,373)	\$ 45,465	\$ 37,092
Securities	510	5,636	6,146	1,139	20,287	21,426
Other interest-earning assets	123	2,066	2,189	2,996	9,118	12,114
Total interest and dividend income	\$ (2,527)	\$ 22,776	\$ 20,249	\$ (4,238)	\$ 74,870	\$ 70,632
Interest expense:						
Interest-bearing checking	\$ (1,310)	\$ 7,670	\$ 6,360	\$ (1,750)	\$ 24,277	\$ 22,527
Savings and money market	(825)	1,664	839	(1,493)	5,572	4,079
Certificates of deposit	4,748	10,426	15,174	9,504	30,340	39,844
FHLB advances and FRB borrowings	3,493	722	4,215	17,442	5,057	22,499
Other borrowings	2,661	1,063	3,724	23	3,380	3,403
Long-term debt	(6)	133	127	7	518	525
Total interest expense	8,761	21,678	30,439	23,733	69,144	92,877
Net interest income	\$ (11,288)	\$ 1,098	\$ (10,190)	\$ (27,971)	\$ 5,726	\$ (22,245)

Provision for Credit Losses

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

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Provision for (reversal of) credit losses - loans	\$ 5,000	\$ 1,664	\$ (500)	\$ 9,164	\$ (32,342)
(Reversal of) provision for credit losses - unfunded noncancellable loan commitments	—	(800)	500	(1,300)	800
Provision for credit losses - securities	—	1,036	—	1,036	—
Total provision for (reversal of) credit losses	\$ 5,000	\$ 1,900	\$ —	\$ 8,900	\$ (31,542)

Three Months Ended September 30, 2023 Compared to Three Months Ended June 30, 2023

The provision for credit losses was \$5.0 million for the third quarter and related entirely to the provision for loan losses, which was driven primarily by net charge-offs of legacy loans from the acquisition of Pacific Mercantile Bank. The provision for credit losses was \$1.9 million for the second quarter and included a \$1.7 million provision for loan losses and a \$1.0 million provision for credit loss for AFS securities, partially offset by an \$0.8 million reversal of the provision for credit losses related to lower unfunded commitments.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

The provision for credit losses was \$5.0 million for the third quarter and related entirely to the provision for loan losses, which was driven primarily by net charge-offs of legacy loans from the acquisition of Pacific Mercantile Bank. There was no provision for credit losses for the same 2022 period as the \$0.5 million provision for loan losses was offset by a \$0.5 million reversal of the provision for credit losses related to lower unfunded commitments.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

During the nine months ended September 30, 2023, the provision for credit losses was \$8.9 million and included a \$9.2 million provision for loan losses and a \$1.0 million provision for credit loss for AFS securities, partially offset by a \$1.3 million reversal of the provision for credit losses related to lower unfunded commitments. The provision for credit losses was a reversal of \$31.5 million during the nine months ended September 30, 2022, and included a \$31.3 million recovery from the settlement of a loan previously charged-off in 2019.

See further discussion in "Allowance for Credit Losses."

Noninterest Income

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

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Customer service fees	\$ 2,114	\$ 2,022	\$ 2,462	\$ 6,115	\$ 7,474
Loan servicing income	563	574	636	1,684	957
Income from bank owned life insurance	966	951	873	2,817	2,479
Net gain on sale of securities available-for-sale	—	—	—	—	16
Change in fair value of derivative instruments	46,186	10	39	46,172	224
Other income	949	2,467	1,671	7,873	7,627
Total noninterest income	\$ 50,778	\$ 6,024	\$ 5,681	\$ 64,661	\$ 18,777

Three Months Ended September 30, 2023 Compared to Three Months Ended June 30, 2023

Noninterest income increased \$44.8 million to \$50.8 million for the third quarter primarily due to a \$46.2 million mark-to-market gain recognized on derivative instruments, partially offset by a \$1.7 million decrease in income from equity investments. Concurrently with the announcement of the proposed merger with PacWest, we entered into an aggregate of \$3.1 billion in interest rate swaptions and a contingent loan forward sale agreement on \$1.8 billion of the SFR loan portfolio to hedge the interest rate risk component of the change in fair value of our balance sheet in anticipation of the application of purchase accounting upon the closing of the proposed merger transaction with PacWest. These derivatives were marked to market at the end of the period and reflected an increase in value from the changes in market interest rates.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Noninterest income for the third quarter of 2023 increased \$45.1 million to \$50.8 million compared to the same quarter in 2022 mainly due to a \$46.2 million mark-to-market gain recognized on derivative instruments, partially offset by lower income from equity investments of \$0.7 million and lower customer service fees of \$0.3 million.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Noninterest income for the nine months ended September 30, 2023 increased \$45.9 million to \$64.7 million compared to the same period in 2022 mainly due to the \$46.2 million mark-to-market gain recognized on derivative instruments, higher rental income due to an increase in subleased facilities of \$0.9 million, and higher loan servicing income of \$0.7 million from higher purchased mortgage servicing asset balances, partially offset by lower customer service fees of \$1.4 million and lower income from equity investments of \$0.2 million.

Noninterest Expense

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

(\$ in thousands)	Three Months Ended			Nine Months Ended September 30,	
	September 30, 2023	June 30, 2023	September 30, 2022	2023	2022
Salaries and employee benefits	\$ 25,819	\$ 28,282	\$ 27,997	\$ 83,757	\$ 85,248
Occupancy and equipment	5,804	5,603	5,796	16,933	17,174
Professional fees	3,616	4,001	3,957	11,689	10,797
Data processing	1,657	1,686	1,699	4,906	5,309
Regulatory assessments	1,410	1,301	925	3,913	2,721
Software and technology	3,811	3,579	3,659	10,664	9,106
Reversal of loan repurchase reserves	—	(808)	(26)	(819)	(987)
Amortization of other intangibles	461	462	396	1,384	1,150
Acquisition, integration and transaction costs	9,329	—	2,080	9,329	2,080
Other expense	4,291	5,062	3,975	13,231	11,867
Noninterest expense before (gain) loss on investments in alternative energy partnerships	56,198	49,168	50,458	154,987	144,465
(Gain) loss on investments in alternative energy partnerships	(34)	(36)	504	1,548	1,705
Total noninterest expense	\$ 56,164	\$ 49,132	\$ 50,962	\$ 156,535	\$ 146,170

Three Months Ended September 30, 2023 Compared to Three Months Ended June 30, 2023

Noninterest expense increased \$7.0 million to \$56.2 million for the third quarter compared to the second quarter. The increase was due mainly to acquisition, integration and transaction costs of \$9.3 million incurred related to our proposed merger with PacWest, partially offset by lower salaries and employee benefits of \$2.5 million.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

Noninterest expense increased \$5.2 million to \$56.2 million for the third quarter of 2023 from \$51.0 million for the comparable 2022 period due mainly to higher acquisition, integration and transaction costs of \$7.2 million, partially offset by lower salaries and employee benefits of \$2.2 million. Acquisition, integration and transactions costs related to the proposed merger with PacWest were \$9.3 million for the three months ended September 30, 2023, compared to \$2.1 million related to the acquisition of Deepstack for the three months ended September 30, 2022.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

Noninterest expense for the nine months ended September 30, 2023 increased \$10.4 million to \$156.5 million compared to the same period in 2022. The increase was mainly due to higher (i) acquisition, integration and transaction costs of \$7.2 million, (ii) software and technology expense of \$1.6 million related to investments in technology infrastructure, (iii) regulatory assessments of \$1.2 million as the FDIC increased assessment rates in 2023, (iv) marketing and other expenses of \$1.0 million, and (v) professional fees of \$0.9 million, including a \$0.4 million increase in indemnified legal fees (net of insurance recoveries), partially offset by lower salaries and employee benefits of \$1.5 million. Acquisition, integration and transactions costs related to the proposed merger with PacWest were \$9.3 million for the nine months ended September 30, 2023, compared to \$2.1 million related to the acquisition of Deepstack for the nine months ended September 30, 2022.

Income Tax Expense

For the three months ended September 30, 2023, June 30, 2023 and September 30, 2022, income tax expense was \$16.3 million, \$6.7 million, and \$9.9 million resulting in an effective tax rate of 27.6%, 27.4% and 29.1%.

Income tax expense totaled \$30.4 million for the nine months ended September 30, 2023, representing an effective tax rate of 27.4%, compared to \$38.9 million and an effective tax rate of 28.1% for the nine months ended September 30, 2022.

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 can be pledged as collateral to obtain public deposits or to provide a secondary source of liquidity in the form of secured borrowings from the FHLB, the FRB, or other financial institutions for repurchase agreements.

Investment Securities Available-for-Sale

The following table presents the amortized cost and fair value of the AFS securities portfolio and the corresponding amounts of unrealized gains and losses recognized in AOCI as of the dates indicated:

(\$ in thousands)	September 30, 2023				December 31, 2022 ⁽¹⁾		
	Amortized Cost	Unrealized Gain (Loss)	Allowance for Credit Losses	Fair Value	Amortized Cost	Unrealized Gain (Loss)	Fair Value
Securities available-for-sale:							
SBA loan pool securities	\$ 8,721	\$ (22)	\$ —	\$ 8,699	\$ 11,241	\$ (54)	\$ 11,187
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	79,786	(2,942)	—	76,844	40,431	(225)	40,206
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	93,696	(7,864)	—	85,832	99,075	(5,884)	93,191
Non-agency residential mortgage-backed securities	120,062	(15,102)	—	104,960	90,832	(10,340)	80,492
Collateralized loan obligations	489,940	(6,136)	—	483,804	492,203	(15,600)	476,603
Corporate debt securities	175,804	(19,853)	(1,036)	154,915	175,781	(9,163)	166,618
Total securities available-for-sale	\$ 968,009	\$ (51,919)	\$ (1,036)	\$ 915,054	\$ 909,563	\$ (41,266)	\$ 868,297

(1) There was no ACL related to AFS securities at December 31, 2022.

AFS securities were \$915.1 million at September 30, 2023, an increase of \$46.8 million, or 5.4%, from \$868.3 million at December 31, 2022. The increase was mainly due to purchases of \$101.7 million, partly offset by principal payments of \$23.5 million, calls of \$20.0 million, an increase in net unrealized losses of \$10.7 million, and a \$1.0 million provision for credit losses for corporate debt securities of other financial institutions due to downgrades in their ratings.

Net unrealized losses on AFS securities were \$51.9 million at September 30, 2023, compared to \$41.3 million at December 31, 2022. The net unrealized losses on AFS securities, net of tax, are reflected in accumulated other comprehensive income (loss). The increases in net unrealized losses during the nine months ended September 30, 2023 were due to wider credit spreads within corporate debt securities and the impact of higher market interest rates on agency CMOs and non-agency residential MBS, which was partly offset by improvement in the valuation of CLOs.

CLOs totaled \$483.8 million and \$476.6 million and were all AAA and AA-rated at September 30, 2023 and December 31, 2022. 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.

During the three and nine months ended September 30, 2023, we recorded zero and \$1.0 million provision for credit losses on three corporate debt securities of other financial institutions that were downgraded to below investment grade by external credit agencies. ACL on investment securities was \$1.0 million at September 30, 2023 and there was no ACL required on investment securities at December 31, 2022.

We monitor our securities portfolio to ensure it has adequate credit support and consider the lowest credit rating for identification of potential credit impairment. Except for the corporate debt securities noted above, we believe there was no other credit impairment, and the decline in fair value of our securities since acquisition was attributable to a combination of changes in interest rates and general volatility in market conditions. As of September 30, 2023, we did not have the intent to sell 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. Except for the corporate debt securities noted above, as of September 30, 2023, all of our investment securities in an unrealized loss position received an investment grade credit rating.

Investment Securities Held-to-Maturity

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

(\$ in thousands)	September 30, 2023			December 31, 2022		
	Amortized Cost	Unrealized Gain (Loss)	Fair Value	Amortized Cost	Unrealized Gain (Loss)	Fair Value
Securities held-to-maturity:						
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ 152,748	\$ (35,680)	\$ 117,068	\$ 153,033	\$ (29,807)	\$ 123,226
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	61,337	(15,688)	45,649	61,404	(11,946)	49,458
Municipal securities	114,202	(26,634)	87,568	114,204	(24,428)	89,776
Total securities held-to-maturity	\$ 328,287	\$ (78,002)	\$ 250,285	\$ 328,641	\$ (66,181)	\$ 262,460

HTM securities totaled \$328.3 million at September 30, 2023, compared to \$328.6 million at December 31, 2022. At September 30, 2023, HTM securities included \$214.1 million in agency securities and \$114.2 million in municipal securities.

During the first quarter of 2022, certain longer-duration fixed-rate MBS and municipal securities with an amortized cost basis of \$346.0 million were transferred from the AFS portfolio to the HTM portfolio. At the time of the transfer, the securities had an unrealized gross loss of \$16.6 million, which became part of the securities' amortized cost basis. This amount, along with the unrealized loss included in AOCI, is subsequently amortized over the remaining life of the security as an adjustment to its yield using the interest method. As a result, there is no impact on the consolidated statements of operations.

As of September 30, 2023 and December 31, 2022, HTM securities had aggregate unrealized net losses of \$78.0 million and \$66.2 million, of which \$15.0 million and \$15.8 million related to unrealized losses from the transfer of certain fixed-rate MBS and municipal securities from the AFS portfolio to the HTM portfolio in the prior year. These unrealized losses related primarily to changes in overall interest rates.

The following table presents the fair values and weighted average yields using amortized cost of the AFS securities portfolio as of September 30, 2023, 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	\$ 8,699	5.79 %	\$ —	— %	\$ —	— %	\$ —	— %	\$ 8,699	5.79 %
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	—	— %	—	— %	—	— %	76,844	5.52 %	76,844	5.52 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	5,066	5.98 %	7,528	3.72 %	23,087	3.25 %	50,151	5.21 %	85,832	4.52 %
Non-agency residential mortgage-backed securities	—	— %	—	— %	—	— %	104,960	4.02 %	104,960	4.02 %
Collateralized loan obligations	483,804	7.20 %	—	— %	—	— %	—	— %	483,804	7.20 %
Corporate debt securities	—	— %	143,052	4.82 %	11,863	5.73 %	—	— %	154,915	4.89 %
Total securities available-for-sale	\$ 497,569	7.16 %	\$ 150,580	4.76 %	\$ 34,950	4.04 %	\$ 231,955	4.74 %	\$ 915,054	5.97 %

The following table presents the amortized cost and weighted average yields using amortized cost of the HTM securities portfolio as of September 30, 2023, 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	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
Securities held-to-maturity:										
U.S. government agency and U.S. government sponsored enterprise residential mortgage-backed securities	\$ —	— %	\$ —	— %	\$ 9,334	2.52 %	\$ 143,414	2.70 %	\$ 152,748	2.69 %
U.S. government agency and U.S. government sponsored enterprise collateralized mortgage obligations	—	— %	—	— %	—	— %	61,337	2.64 %	61,337	2.64 %
Municipal securities	—	— %	—	— %	27,971	2.32 %	86,231	2.72 %	114,202	2.62 %
Total securities held-to-maturity	\$ —	— %	\$ —	— %	\$ 37,305	2.37 %	\$ 290,982	2.69 %	\$ 328,287	2.65 %

Loans Receivable, Net

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

(\$ in thousands)	September 30, 2023	December 31, 2022	Amount Change	Percentage Change
Commercial:				
Commercial and industrial ⁽¹⁾⁽²⁾	\$ 1,942,964	\$ 1,845,960	\$ 97,004	5.3 %
Commercial real estate ⁽²⁾	1,173,332	1,259,651	(86,319)	(6.9) %
Multifamily	1,654,272	1,689,943	(35,671)	(2.1) %
SBA	56,600	68,137	(11,537)	(16.9) %
Construction	262,715	243,553	19,162	7.9 %
Total commercial loans	<u>5,089,883</u>	<u>5,107,244</u>	<u>(17,361)</u>	<u>(0.3) %</u>
Consumer:				
Single family residential mortgage	1,782,655	1,920,806	(138,151)	(7.2) %
Other consumer	88,494	86,988	1,506	1.7 %
Total consumer loans	<u>1,871,149</u>	<u>2,007,794</u>	<u>(136,645)</u>	<u>(6.8) %</u>
Total loans⁽³⁾	6,961,032	7,115,038	(154,006)	(2.2) %
Allowance for loan losses	(74,390)	(85,960)	11,570	(13.5) %
Total loans receivable, net	\$ 6,886,642	\$ 7,029,078	\$ (142,436)	(2.0) %

(1) Includes warehouse lending balances of \$647.7 million and \$602.5 million at September 30, 2023 and December 31, 2022.

(2) \$102.3 million of owner-occupied CRE loans were moved to the C&I category from the CRE category during the third quarter of 2023.

(3) Total loans include net deferred loan origination costs (fees), purchased premiums (discounts), and fair value allocations of premiums (discounts) totaling \$7.1 million and \$7.1 million at September 30, 2023 and December 31, 2022.

Total loans ended the third quarter of 2023 at \$6.96 billion, down \$154.0 million from \$7.12 billion at December 31, 2022, comprised primarily of a \$17.4 million decrease in our commercial portfolio and a \$136.6 million decrease in our consumer portfolio.

During the nine months ended September 30, 2023, the decrease in the total loan portfolio was due to changes in the macroeconomic environment, including increases in interest rates impacting new loan volume. During the nine months ended September 30, 2023, we reclassified \$102.3 million of owner-occupied CRE loans to the C&I category to appropriately classify these loans according to their purpose and source of repayment. The overall decrease in the commercial portfolio included (i) a decrease in other C&I loans of \$52.0 million, partially offset by a \$45.2 million increase in warehouse lending balances, (ii) a \$35.7 million decrease in multifamily loans driven by payoff activity and (iii) a \$11.3 million decrease in SBA loans, partially offset by (iv) a \$19.2 million increase in construction loans and (v) a \$17.2 million increase in CRE loans.

The decrease in our consumer portfolio was due primarily to a \$138.2 million decrease in SFR loans mostly driven by payoffs and paydowns.

Loan fundings of \$970.7 million during the nine months ended September 30, 2023 included net warehouse advances of \$48.3 million, offset by other loan paydowns and payoffs of \$1.11 billion.

Loan concentrations were well-diversified between products and industries. Notably, the CRE portfolio of \$1.17 billion had balances related to office loans of \$327.6 million, which was 4.7% of total loans. This portfolio was comprised of general office loans of \$256.5 million with a weighted average loan-to-value ("LTV") of 53% and debt service coverage ratio of 1.6x and medical office loans of \$71.2 million with a weighted average LTV of 53% and debt service coverage ratio of 1.3x.

In connection with our proposed merger with PacWest, we entered into a contingent loan forward sale agreement on our SFR loan portfolio of \$1.8 billion. The contingent forward loan sale agreement was entered to reduce volatility related to the potential sale proceeds by determining a fixed price to be settled on a future date contingent upon completion of the proposed merger. At September 30, 2023, we continue to classify the SFR portfolio as held-for-investment as the sale agreement is contingent upon receipt of approval to close the bank merger. Should the merger not close for any reason, we intend to continue to hold the SFR portfolio for investment.

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 analyze the associated risks in the current loan portfolio and individually grade each loan for credit risk. This analysis includes all loans delinquent over 60 days and non-homogeneous loans such as commercial and CRE loans.

The following table presents the risk categories for total loans by class of loans as of September 30, 2023 and December 31, 2022:

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2023					
Commercial:					
Commercial and industrial	\$ 1,880,538	\$ 34,074	\$ 23,636	\$ 4,716	\$ 1,942,964
Commercial real estate	1,153,630	10,502	9,200	—	1,173,332
Multifamily	1,635,340	3,000	15,932	—	1,654,272
SBA	46,653	1,228	8,417	302	56,600
Construction	262,715	—	—	—	262,715
Consumer:					
Single family residential mortgage	1,730,371	11,779	40,505	—	1,782,655
Other consumer	87,688	350	456	—	88,494
Total	\$ 6,796,935	\$ 60,933	\$ 98,146	\$ 5,018	\$ 6,961,032

(\$ in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2022					
Commercial:					
Commercial and industrial	\$ 1,749,284	\$ 49,399	\$ 43,273	\$ 4,004	\$ 1,845,960
Commercial real estate	1,248,196	1,745	9,710	—	1,259,651
Multifamily	1,658,521	2,997	28,425	—	1,689,943
SBA	55,789	800	11,548	—	68,137
Construction	243,553	—	—	—	243,553
Consumer:					
Single family residential mortgage	1,889,911	9,101	21,794	—	1,920,806
Other consumer	86,599	138	251	—	86,988
Total	\$ 6,931,853	\$ 64,180	\$ 115,001	\$ 4,004	\$ 7,115,038

During the nine months ended September 30, 2023, total criticized and classified assets decreased \$19.1 million to \$164.1 million at September 30, 2023 from decreases in special mention and substandard loans, offset by an increase in doubtful loans.

Total classified assets, consisting of loans risk rated substandard, doubtful and loss, decreased \$15.8 million to \$103.2 million at September 30, 2023. The decrease was due mostly to payoffs and paydowns of \$66.1 million, charge-offs of \$11.7 million, and upgrades of \$3.5 million, partially offset by downgrades of \$65.5 million. At September 30, 2023, loans risk rated doubtful related to three C&I and three SBA relationships, compared to one C&I relationship at December 31, 2022.

Total criticized assets, consisting of loans risk rated special mention, decreased \$3.2 million to \$60.9 million at September 30, 2023 compared to \$64.2 million at December 31, 2022 due mostly to upgrades of \$32.1 million, payoffs and paydowns of \$16.0 million, partially offset by downgrades of \$44.9 million.

Nonperforming Assets

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

(\$ in thousands)	September 30, 2023	December 31, 2022	Amount Change	Percentage Change
Loans past due 90 days or more still on accrual	\$ —	\$ —	\$ —	— %
Nonaccrual loans	60,556	55,251	5,305	9.6 %
Total nonperforming loans	60,556	55,251	5,305	9.6 %
Other real estate owned	882	—	882	— %
Total nonperforming assets	\$ 61,438	\$ 55,251	\$ 6,187	11.2 %
Nonaccrual loans to total loans	0.87 %	0.78 %		
Nonperforming loans to total loans	0.87 %	0.78 %		
Total nonperforming assets to total assets	0.66 %	0.60 %		
ALL to nonperforming loans	122.84 %	155.58 %		
ACL to nonperforming loans	129.46 %	165.18 %		

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 \$1.0 million and \$2.8 million would have been recorded during the three and nine months ended September 30, 2023, had these loans been paid in accordance with their original terms throughout the periods indicated.

At September 30, 2023, non-performing loans were \$60.6 million, and included \$39.8 million of SFR loans, \$9.7 million of C&I loans, \$7.6 million of SBA loans, \$1.9 million of CRE loans and \$1.1 million of multifamily loans. During the nine months ended September 30, 2023, non-performing loans increased \$5.3 million due to total additions of \$42.1 million, offset by \$20.7 million in charge-offs, \$13.2 million in amortization and other removals, and \$2.8 million in loans returning to accrual status. Excluding SFR loans, which are well-secured with low weighted average LTV of 57%, non-performing loans decreased \$13.4 million from year-end. At September 30, 2023, there were \$7.1 million of non-performing loans, primarily consisting of SFR loans that were in a current payment status, however are considered nonaccrual based on other criteria.

At September 30, 2023, non-performing assets included \$0.9 million of real estate owned, consisting of one single-family residence we acquired in the second quarter.

Modifications to Borrowers Experiencing Financial Difficulty (effective January 1, 2023 upon adoption of ASU 2022-02)

During the three and nine months ended September 30, 2023, we had 3 and 6 loan modifications made to borrowers experiencing financial difficulty, with an aggregate balance of \$7.7 million at September 30, 2023, of which one C&I loan of \$3.9 million was previously classified as a TDR. At September 30, 2023, \$4.2 million of the \$7.7 million in modified loans made to borrowers experiencing financial difficulty were past due.

Troubled Debt Restructurings (for modifications to borrowers experiencing financial difficulty prior to January 1, 2023)

At September 30, 2023 and December 31, 2022, we had 7 and 15 loans classified as TDRs, with an aggregate balance of \$3.5 million and \$16.1 million. During the nine months ended September 30, 2023 a \$3.9 million C&I loan that was restructured during 2022 was modified and accounted for as a new loan. Additionally, \$7.8 million relating to three commercial relationships were paid down and \$1.2 million were charged off during this same period.

Accruing TDRs were \$0.1 million and nonaccrual TDRs were \$3.4 million at September 30, 2023, compared to accruing TDRs of \$2.7 million and nonaccrual TDRs of \$13.4 million at December 31, 2022.

Allowance for Credit Losses - Loans

The ACL, which includes the reserve for unfunded loan commitments, totaled \$78.4 million, or 1.13% of total loans, at September 30, 2023, compared to \$91.3 million, or 1.28% of total loans, at December 31, 2022. The \$12.9 million decrease in the ACL was due to: (i) \$13.5 million related to changes in portfolio mix including lower loan balances, charge-off activity, and changes to certain assumptions used in the model, and (ii) \$1.3 million lower RUC from lower unfunded commitments,

partially offset by (iii) higher specific reserves of \$1.9 million. YTD net charge offs totaled \$20.7 million and ALL provision expense was \$9.2 million. The ACL coverage of non-performing loans was 129% at September 30, 2023 compared to 165% at December 31, 2022.

The following table provides a summary of components of the ACL and related ratios as of the dates indicated:

(\$ in thousands)	September 30, 2023	December 31, 2022
Allowance for credit losses:		
Allowance for loan losses (ALL)	\$ 74,390	\$ 85,960
Reserve for unfunded loan commitments	4,005	5,305
Total allowance for credit losses (ACL)	<u>\$ 78,395</u>	<u>\$ 91,265</u>
ALL to total loans	1.07 %	1.21 %
ACL to total loans	1.13 %	1.28 %

The following tables provide summaries of activity in the ACL for the periods indicated:

(\$ in thousands)	Three Months Ended September 30,					
	2023			2022		
	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	\$ 80,883	\$ 4,005	\$ 84,888	\$ 93,793	\$ 5,905	\$ 99,698
Loans charged off	(11,644)	—	(11,644)	(912)	—	(912)
Recoveries of loans previously charged off	151	—	151	63	—	63
Net (charge-offs) recoveries	(11,493)	—	(11,493)	(849)	—	(849)
Provision (reversal of) for credit losses	5,000	—	5,000	(500)	500	—
Balance at end of period	<u>\$ 74,390</u>	<u>\$ 4,005</u>	<u>\$ 78,395</u>	<u>\$ 92,444</u>	<u>\$ 6,405</u>	<u>\$ 98,849</u>

(\$ in thousands)	Nine Months Ended September 30,					
	2023			2022		
	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	\$ 85,960	\$ 5,305	\$ 91,265	\$ 92,584	\$ 5,605	\$ 98,189
Loans charged off	(21,260)	—	(21,260)	(1,637)	—	(1,637)
Recoveries of loans previously charged off	526	—	526	33,839	—	33,839
Net (charge-offs) recoveries	(20,734)	—	(20,734)	32,202	—	32,202
Provision for (reversal of) credit losses	9,164	(1,300)	7,864	(32,342)	800	(31,542)
Balance at end of period	<u>\$ 74,390</u>	<u>\$ 4,005</u>	<u>\$ 78,395</u>	<u>\$ 92,444</u>	<u>\$ 6,405</u>	<u>\$ 98,849</u>

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

(\$ in thousands)	Three Months Ended September 30,					
	2023			2022		
	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	\$ (11,341)	\$ 1,949,411	(2.33) %	\$ (819)	\$ 2,101,671	(0.16) %
Commercial real estate	—	1,255,833	— %	3	1,263,520	— %
Multifamily	—	1,655,307	— %	—	1,644,458	— %
SBA	(163)	27,509	(2.37) %	(44)	49,840	(0.35) %
Construction	—	264,451	— %	—	234,794	— %
Consumer:						
Single family residential mortgage	1	1,802,091	— %	1	1,927,694	— %
Other consumer	10	86,978	0.05 %	10	87,335	0.05 %
Total loans	\$ (11,493)	\$ 7,041,580	(0.65) %	\$ (849)	\$ 7,309,312	(0.05) %

Net charge-offs were \$11.5 million during the third quarter of 2023, compared to \$0.8 million during the comparable 2022 period. The increase in net charge-offs in the third quarter of 2023 were mainly due to charge-offs within the C&I and SBA portfolio.

(\$ in thousands)	Nine Months Ended September 30,					
	2023			2022		
	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	\$ (19,013)	\$ 1,846,026	(1.37) %	\$ 31,678	\$ 2,395,169	1.76 %
Commercial real estate	(300)	1,288,152	(0.03) %	3	1,266,418	— %
Multifamily	—	1,668,551	— %	—	1,481,355	— %
SBA	(934)	29,713	(4.19) %	565	78,497	0.96 %
Construction	—	262,601	— %	—	214,375	— %
Consumer:						
Single family residential mortgage	(369)	1,849,183	(0.03) %	183	1,749,968	0.01 %
Other consumer	(118)	85,568	(0.18) %	(227)	92,633	(0.33) %
Total loans	\$ (20,734)	\$ 7,029,794	(0.39) %	\$ 32,202	\$ 7,278,415	0.59 %

Net charge-offs were \$20.7 million during the nine months ended September 30, 2023, compared to net recoveries of \$32.2 million during the comparable 2022 period. The increase in net charge-offs between periods were due to charge-offs in the C&I portfolio in 2023, and the comparable 2022 period including a \$31.3 million recovery from the settlement of a loan previously charged-off in 2019.

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

(\$ in thousands)	September 30, 2023			December 31, 2022		
	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	\$ 29,642	\$ 1,942,964	27.9 %	\$ 34,156	\$ 1,845,960	25.9 %
Commercial real estate	13,173	1,173,332	16.9 %	15,977	1,259,651	17.7 %
Multifamily	13,963	1,654,272	23.8 %	14,696	1,689,943	23.8 %
SBA	1,082	56,600	0.8 %	2,648	68,137	1.0 %
Construction	6,169	262,715	3.7 %	5,850	243,553	3.4 %
Consumer:						
Single family residential mortgage	9,786	1,782,655	25.6 %	12,050	1,920,806	27.0 %
Other consumer	575	88,494	1.3 %	583	86,988	1.2 %
Total	\$ 74,390	\$ 6,961,032	100.0 %	\$ 85,960	\$ 7,115,038	100.0 %

Servicing Rights

We have retained servicing rights from certain sales of SFR and SBA loans and purchased mortgage servicing rights from unrelated third parties. Purchased mortgage servicing rights are recorded at the purchase price at the time of acquisition, which approximates the fair value. Subsequent to acquisition, we account for these servicing rights using the amortization method. We utilize a servicer to service all of the loans underlying the purchased mortgage servicing rights. Loans underlying retained and purchased servicing rights are not included in our consolidated statements of financial condition.

Mortgage servicing rights totaled \$20.4 million and \$22.5 million at September 30, 2023 and December 31, 2022, which are included in other assets in the accompanying consolidated statements of financial condition. We purchased \$22.7 million of SFR mortgage servicing rights, with underlying mortgage balances of \$1.73 billion, during the second quarter of 2022. At September 30, 2023, the carrying value of these purchased servicing rights was \$19.6 million and the unpaid principal balance of the loans underlying these purchased servicing rights was \$1.59 billion.

During the three and nine months ended September 30, 2023, we recognized loan servicing income of \$0.6 million and \$1.7 million. During the three and nine months ended September 30, 2022, we recognized loan servicing income of \$0.6 million and \$1.0 million.

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. These investments help promote the development of renewable energy sources and lower the cost of housing for residents by lowering homeowners' monthly utility costs.

The following table presents the activity related to our investment in alternative energy partnerships for the three and nine months ended September 30, 2023 and 2022:

(\$ in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Balance at beginning of period	\$ 19,111	\$ 23,531	\$ 21,410	\$ 25,888
Return of capital	(342)	(626)	(1,059)	(1,782)
Gain (loss) on investments using HLVB method	34	(504)	(1,548)	(1,705)
Balance at end of period	\$ 18,803	\$ 22,401	\$ 18,803	\$ 22,401
Unfunded equity commitments at end of period	\$ —	\$ —	\$ —	\$ —

During the three ended September 30, 2023 and 2022, we received a return of capital of \$0.3 million and \$0.6 million. During the nine months ended September 30, 2023 and 2022, we received a return of capital of \$1.1 million and \$1.8 million. We did not make any capital contributions during the periods indicated.

During the three months ended September 30, 2023 and 2022, we recognized a net gain on investment of \$34 thousand and a net loss on investment of \$0.5 million. During the nine months ended September 30, 2023 and 2022, we recognized net losses on investment of \$1.5 million and \$1.7 million. From an income tax benefits perspective, we recognized no investment tax credits during these periods; however, we recorded income tax expense of \$10 thousand and income tax benefits of \$0.1 million related to these investments for the three months ended September 30, 2023 and 2022 and income tax benefits of \$0.4 million and \$0.5 million during the nine months ended September 30, 2023 and 2022.

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

Deposits

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

(\$ in thousands)	September 30, 2023		December 31, 2022		Amount Change
	Amount	% of Total Deposits	Amount	% of Total Deposits	
Noninterest-bearing deposits	\$ 2,366,544	35.6 %	\$ 2,809,328	39.5 %	\$ (442,784)
Interest-bearing demand deposits	1,531,306	23.1 %	1,947,247	27.3 %	(415,941)
Savings and money market accounts	1,157,126	17.5 %	1,174,925	16.5 %	(17,799)
Certificates of deposit of \$250,000 or less	1,177,795	17.7 %	793,040	11.1 %	384,755
Certificates of deposit of more than \$250,000	407,859	6.1 %	396,381	5.6 %	11,478
Total deposits	\$ 6,640,630	100.0 %	\$ 7,120,921	100.0 %	\$ (480,291)

Total deposits were \$6.64 billion at September 30, 2023, a decrease of \$480.3 million, or 6.7%, from \$7.12 billion at December 31, 2022 due to lower noninterest-bearing checking balances of \$442.8 million, lower interest-bearing demand deposits of \$415.9 million, and lower savings and money market balances of \$17.8 million, partially offset by higher certificates of deposits of \$396.2 million.

We continue to focus on growing granular relationship-based deposits and strategically replacing short-term wholesale funding as we actively manage our funding costs. Noninterest-bearing deposits totaled \$2.37 billion and represented 36% of total deposits at September 30, 2023, compared to \$2.81 billion and 39% at December 31, 2022.

Brokered deposits were \$1.03 billion and \$614.9 million at September 30, 2023 and December 31, 2022. During the nine months ended September 30, 2023, we added short-term brokered deposits to increase our liquidity due to the operating environment during this period.

As of September 30, 2023, insured deposits of \$4.57 billion and collateralized deposits of \$312.5 million represented 74% of total deposits, compared to insured deposits of \$3.93 billion and collateralized deposits of \$341.6 million, or 60% of total deposits at December 31, 2022.

The following table presents the scheduled maturities of certificates of deposit as of September 30, 2023:

(\$ 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	\$ 679,173	\$ 163,730	\$ 274,599	\$ 60,293	\$ 1,177,795
Certificates of deposit of more than \$250,000	142,709	207,180	48,878	9,092	407,859
Total certificates of deposit	\$ 821,882	\$ 370,910	\$ 323,477	\$ 69,385	\$ 1,585,654

Borrowings

We have various available lines of credit. These include the ability to borrow funds from time to time on a long-term, short-term, or overnight basis from the FHLB, the FRB, or other financial institutions. The following table presents our borrowings as of the dates indicated:

(\$ in thousands)	September 30, 2023			December 31, 2022
	Weighted Average Interest Rate	Weighted Average Maturity (years)	Outstanding Balance	Outstanding Balance
FHLB advances:				
Overnight advances	—%	—	\$ —	\$ 20,000
Term advances	2.91%	2.75	611,000	611,000
Term advances (putable)	3.44%	4.25	200,000	100,000
Unamortized costs			(2,671)	(3,652)
Total FHLB advances	3.04%	3.12	\$ 808,329	\$ 727,348
FRB borrowings:				
Short-term advances	5.50%	0.01	\$ 199,964	\$ —
Total FRB borrowings	5.50%	0.01	\$ 199,964	\$ —
Other borrowings:				
Unsecured overnight borrowings	5.49%	0.00	185,802	—
Lines of credit	SOFR + 1.85%	0.22	\$ —	\$ —
Total other borrowings		0.00	\$ 185,802	\$ —

In light of market volatility in the first half of 2023, we proactively performed liquidity-enhancing measures, including additional advances from the FHLB and draws on available FRB facilities. We reduced our excess liquidity toward the end of the second quarter as market volatility began to stabilize.

FHLB Advances. FHLB advances are collateralized by a blanket lien on all real estate loans. At September 30, 2023, our secured borrowing capacity with the FHLB totaled \$2.42 billion, of which the Bank was eligible to borrow an additional \$1.19 billion based on qualifying loans with an aggregate unpaid principal balance of \$3.63 billion as of that date.

As of September 30, 2023, FHLB advances increased \$81.0 million, or 11.1%, to \$808.3 million mainly due to an increase in term putable advances of \$100.0 million, partially offset by decrease in overnight advances of \$20.0 million.

FRB Borrowings. At September 30, 2023, the Bank had borrowing capacity with the Federal Reserve of \$1.38 billion, including the secured borrowing capacity through the FRB Discount Window, BIC and BTFP programs. The FRB credit programs are collateralized by certain qualifying loans with an unpaid principal balance of \$1.28 billion and securities with a carrying value of \$505.8 million.

We utilized available capacity in the FRB Discount Window and BIC programs through \$200.0 million in overnight borrowings, but did not utilize the BTFP and there was no outstanding borrowing under this program at September 30, 2023.

Other Borrowings. The Bank maintains available unsecured federal funds lines with six correspondent banks totaling \$290.0 million and \$210.0 million, with no outstanding borrowings at September 30, 2023 and December 31, 2022.

We mainly utilize FHLB and FRB borrowings and the unsecured federal funds lines as our secondary source of funds. From time to time, the Bank may also utilize alternate sources of funds, including unsecured overnight borrowings through AFX and other financial institutions. The availability of such unsecured borrowings fluctuates regularly and are subject to the counterparties discretion. Other borrowings from these alternate sources totaled \$185.8 million and zero under these facilities at September 30, 2023 and December 31, 2022.

In addition, the holding company maintains a \$50.0 million revolving line of credit, with no borrowings under this line of credit at September 30, 2023 and December 31, 2022.

For additional information, see Note 6 - *Federal Home Loan Bank Advances, Federal Reserve Bank Borrowings and Other Borrowings* of the Notes to Consolidated Financial Statements (unaudited) included in Part I of this Quarterly Report on Form 10-Q.

Long-term Debt

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

(\$ in thousands)	Interest Rate	Maturity Date	September 30, 2023		December 31, 2022	
			Par Value	Unamortized Debt Issuance Cost and Discount	Par Value	Unamortized Debt Issuance Cost and Discount
Senior notes ⁽¹⁾	5.25%	4/15/2025	\$ 174,000	\$ (520)	\$ 175,000	\$ (722)
Subordinated notes ⁽²⁾	4.375%	10/30/2030	85,000	(1,728)	85,000	(1,899)
PMB Statutory Trust III, junior subordinated debentures	SOFR + 3.40%	9/26/2032	7,217	—	7,217	—
PMB Capital Trust III, junior subordinated debentures	SOFR + 2.00%	10/8/2034	10,310	—	10,310	—
Total			\$ 276,527	\$ (2,248)	\$ 277,527	\$ (2,621)

(1) The Senior Notes bear interest at a fixed rate of 5.25% per annum, payable semi-annually in arrears.

(2) The Subordinated Notes bear interest at an initial fixed rate of 4.375% per annum, payable semi-annually in arrears. From and including October 30, 2025 to, but excluding, the maturity date or the date of earlier redemption, the Subordinated Notes bear interest at a floating rate per annum equal to a benchmark rate, which is expected to be 3-Month Term SOFR, plus a spread of 419.5 basis points, payable quarterly in arrears.

During the three months ended September 30, 2023, there were no repurchases of senior notes. During the nine months ended September 30, 2023, we repurchased senior notes with an outstanding balance of \$1.0 million at a discount and recognized an \$80 thousand gain. There were no repurchases of senior notes during the three and nine months ended September 30, 2022.

At September 30, 2023, we were in compliance with all covenants under our long-term debt agreements.

Liquidity Management

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

Post-closing of the merger, we expect to manage liquidity in a similar fashion as our current management framework, but will adopt new liquidity management policies that address the fact that we will be a larger institution with new product lines, including deposits in business lines not existing for us today. In doing so, we will assess the new characteristics associated with the combined company when establishing oversight of key metrics, along with other critical “Liquidity,” “Funding,” and “Investment” tolerances.

Banc of California, N.A.

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

At September 30, 2023, we had primary liquidity of \$1.00 billion, including total cash and cash equivalents of \$311.0 million and unpledged AFS securities of \$717.7 million. Our cash increased \$82.1 million from December 31, 2022 and \$27.3 million from June 30, 2023 as we continued to reduce the excess liquidity that we deployed in the first quarter of 2023 as part of a conservative strategy to hold extra liquidity due to the operating environment during this period.

Secondary Sources of Liquidity: The Bank also generates cash through secured and unsecured secondary sources of funds. The Bank maintains pre-established secured lines of credit with the FHLB and the FRB as secondary sources of liquidity to provide funds for lending and investment activities and to enhance interest rate risk and liquidity risk management. At September 30, 2023, we had available unused secured borrowing capacities of \$1.19 billion from the FHLB and \$1.18 billion through the FRB Discount Window, BIC and BTFP programs.

The Bank has additional sources of secondary liquidity through pre-established unsecured federal funds lines with correspondent banks totaling \$290.0 million, with no outstanding borrowings at September 30, 2023.

We mainly utilize FHLB and FRB borrowings and the unsecured federal funds lines as our secondary source of funds. From time to time, the Bank may also utilize alternate sources of funds, including unsecured overnight borrowings through AFX and other financial institutions. The availability of such unsecured borrowings fluctuates regularly and are subject to the counterparties discretion. Other borrowings from these alternate sources totaled \$185.8 million and zero under these facilities at September 30, 2023 and December 31, 2022.

As of September 30, 2023, the Company had high levels of liquidity available with total cash and cash equivalents of \$311.0 million, unpledged AFS securities of \$717.7 million, and unused borrowing capacity of \$2.67 billion, resulting in total primary and secondary liquidity available of \$3.67 billion. This was 2.1 times total uninsured and uncollateralized deposits of \$1.76 billion.

Banc of California, Inc.

Primary Sources of Liquidity: 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 three and nine months ended September 30, 2023, the Bank paid zero and \$70.0 million of dividends to Banc of California, Inc. At September 30, 2023, Banc of California, Inc. had \$44.1 million in cash, all of which was on deposit at the Bank.

Secondary Sources of Liquidity: In addition, the holding company has a \$50.0 million revolving line of credit. There were no borrowings under this line of credit at September 30, 2023 and at December 31, 2022, and we were in compliance with all covenants.

On February 13, 2023, we announced our Board of Directors authorized the repurchase of up to \$35 million of our common stock. The repurchase authorization expires in February 2024. Purchases may be made in open-market transactions, in block transactions on or off an exchange, in privately negotiated transactions or by other means as determined by our management and in accordance with the regulations of the SEC. The timing of purchases and the number of shares repurchased under the program will depend on a variety of factors including price, trading volume, corporate and regulatory requirements and market conditions.

During the three months ended September 30, 2023, there were no shares of common stock repurchased under the program. During the nine months ended September 30, 2023, there were 1,759,491 shares of common stock repurchased under the

program at a weighted average price of \$12.02. As of September 30, 2023, the Company had \$13.9 million remaining under the current stock repurchase authorization.

Commitments and Contractual Obligations

The following table presents our commitments and contractual obligations as of September 30, 2023:

(\$ 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	\$ 230,094	\$ 31,939	\$ 104,325	\$ 75,051	\$ 18,779
Unused lines of credit	1,412,335	1,069,154	220,088	100,975	22,118
Standby letters of credit	10,559	9,663	896	—	—
Total commitments	\$ 1,652,988	\$ 1,110,756	\$ 325,309	\$ 176,026	\$ 40,897
FHLB advances and FRB borrowings	\$ 1,011,002	\$ 200,002	\$ 311,000	\$ 500,000	\$ —
Other borrowings	185,802	185,802	—	—	—
Long-term debt	276,527	—	174,000	—	102,527
Operating and capital lease obligations	26,558	8,076	11,364	4,707	2,411
Certificates of deposit	1,585,654	1,516,269	68,312	1,073	—
Total contractual obligations	\$ 3,085,543	\$ 1,910,149	\$ 564,676	\$ 505,780	\$ 104,938

At September 30, 2023, we had unfunded commitments of \$15.4 million, \$7.4 million, and \$20.5 million for LIHTC investments, SBIC investments, and other investments. Unfunded commitments for LIHTC investments were included in accrued expenses and other liabilities on the consolidated balance sheet.

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. 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. Under the relevant rules and including the required conservation buffer, 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%.

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

	Banc of California, Inc.	Banc of California, NA	Minimum Capital Requirements	Well-Capitalized Requirements (Bank)	Capital Conservation Buffer Requirements
September 30, 2023					
Total risk-based capital	14.83 %	16.37 %	8.00 %	10.00 %	10.50 %
Tier 1 risk-based capital	12.53 %	15.41 %	6.00 %	8.00 %	8.50 %
Common equity tier 1 capital	12.53 %	15.41 %	4.50 %	6.50 %	7.00 %
Tier 1 leverage	10.13 %	12.46 %	4.00 %	5.00 %	N/A
December 31, 2022					
Total risk-based capital	14.18 %	16.00 %	8.00 %	10.00 %	10.50 %
Tier 1 risk-based capital	11.78 %	14.92 %	6.00 %	8.00 %	8.50 %
Common equity tier 1 capital	11.78 %	14.92 %	4.50 %	6.50 %	7.00 %
Tier 1 leverage	9.70 %	12.25 %	4.00 %	5.00 %	N/A

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, currently the Bank cannot pay dividends to us without OCC approval. During the three and nine months ended September 30, 2023, the Bank paid zero and \$70.0 million in dividends to Banc of California, Inc.

During the three and nine months ended September 30, 2023, we declared and paid dividends on our common stock of \$0.10 and \$0.30 per share totaling \$5.7 million and \$17.2 million.

Post-closing of the merger, the surviving bank, as a California state-chartered bank and member of the Federal Reserve System, will be subject to applicable California and federal law and regulations, including any approval requirements with respect to dividends paid by the surviving bank.

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 economic 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:

- Complementing our current loan origination platform through strategic acquisitions of whole loans,
- Strategically managing multiple warehouse relationships,
- Originating shorter-term consumer loans,
- Managing the level of investments and duration of investment securities,
- Managing our deposits to establish stable deposit relationships, and
- Using FHLB advances and/or certain derivatives such as swaps as hedges to align maturities and repricing terms.

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 our economic value of 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, SOFR 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, which delegates the day to day management of interest rate risk to the Management ALCO. Management ALCO ensures that the Bank is following the appropriate and current regulatory guidance in the formulation and implementation of our interest rate risk program. Board ALCO reviews the results of our interest rate risk modeling quarterly to ensure that we have appropriately measured our interest rate risk, mitigated our exposures appropriately and any residual risk is acceptable. In addition to our annual review of our asset liability management policy, our Board of Directors periodically reviews the interest rate risk policy limits.

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

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

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

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

At September 30, 2023, our interest rate risk profile is "asset sensitive", as compared to a "neutral" interest rate risk profile position as of June 30, 2023 and December 31, 2022 mainly due to the impact of the interest rate swaptions executed in connection with the proposed merger (see below). 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 materially from those predicted by our model.

The following table presents the projected change in the Company's economic value of equity at September 30, 2023 and net interest income over the next twelve months, that would occur upon an immediate change in interest rates, 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
September 30, 2023						
+200 bps	\$ 1,601,095	\$ 133,411	9.1 %	\$ 354,573	\$ 64,200	22.1 %
+100 bps	1,536,345	68,661	4.7 %	324,957	34,584	11.9 %
0 bps	1,467,684			290,373		
-100 bps	1,452,453	(15,231)	(1.0)%	285,561	(4,812)	(1.7)%
-200 bps	1,418,189	(49,495)	(3.4)%	279,109	(11,264)	(3.9)%

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

Use of Derivatives to Manage Interest Rate Risk Related to the Proposed Merger with PacWest

Concurrently with the announcement of the proposed bank merger, we entered into an aggregate \$3.1 billion of interest rate swaptions, where, if executed, we would pay a fixed rate and receive a floating rate based on 2-year, 7-year and 10-year SOFR. We entered into these swaptions to protect against rising interest rate risk associated with various assets on our balance sheet in anticipation of the sale of such assets in connection with the proposed merger with PacWest. These swaptions were included in our simulation model to project change in the Company's economic value of equity at September 30, 2023 and net interest income over the next twelve months and provide a material benefit on the economic value of equity and net interest income in the upward shock rate scenarios until their expiration on November 28, 2023.

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.

ITEM 4 - CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act) as of September 30, 2023 was carried out under the supervision and with the participation of the Company's Principal Executive Officer, Principal Financial Officer and other members of the Company's senior management. The Company's Principal Executive Officer and Principal Financial Officer concluded that, as of September 30, 2023, 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 nine months ended September 30, 2023 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, 2022 and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2023.

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

	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 July 1, 2023 to July 31, 2023	2,391	\$ 11.82	—	\$ 13,852,812
From August 1, 2023 to August 31, 2023	4,233	\$ 13.63	—	\$ 13,852,812
From September 1, 2023 to September 30, 2023	—	\$ —	—	\$ 13,852,812
Total	6,624	\$ 12.98	—	

During the three and nine months ended September 30, 2023, 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 February 13, 2023, we announced a repurchase program of up to \$35 million of our common stock. The repurchase authorization expires in February 2024. 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

- 2.1 [Agreement and Plan of Merger, dated as of July 25, by and among Registrant, Cal Merger Sub, Inc. and PacWest Bancorp \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 28, 2023 and incorporated herein by reference.\)](#)
- 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 [Sixth Amended and Restated Bylaws of the Registrant \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on May 15, 2023 and incorporated herein by reference.\)](#)
- 10.1 [Investment Agreement, dated July 25 2023, by and between Registrant and affiliates of funds managed by Warburg Pincus LLC \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 28, 2023 and incorporated herein by reference.\)](#)
- 10.2 [Investment Agreement, dated July 25 2023, by and between Registrant and investment vehicles sponsored, managed or advised by Centerbridge Partners, L.P. and its affiliates \(Filed as an exhibit to the Registrant's Current Report on Form 8-K filed on July 28, 2023 and incorporated herein by reference.\)](#)
- 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 September 30, 2023 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Statements of Financial Condition; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Income; (iv) Consolidated Statements of Stockholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) the Notes to Consolidated Financial Statements. The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

BANC OF CALIFORNIA, INC.

Date: November 9, 2023

/s/ Jared Wolff

Jared Wolff
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2023

/s/ Joseph Kauder

Joseph Kauder
Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

Date: November 9, 2023

/s/ Raymond Rindone

Raymond Rindone
Executive Vice President, Chief Accounting Officer and Deputy Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATIONS

I, Jared Wolff, certify that:

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

Date: November 9, 2023

/s/ Jared Wolff

Jared Wolff

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATIONS

I, Joseph Kauder, certify that:

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

Date: November 9, 2023

/s/ Joseph Kauder

Joseph Kauder

Executive Vice President, Chief Financial Officer
(Principal Financial Officer)

SECTION 1350 CERTIFICATION

Each of the undersigned hereby certifies in his or her capacity as an officer of Banc of California, Inc. (“the Company”) that this Quarterly Report of the Company on Form 10-Q for the quarter ended September 30, 2023 fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented in the financial statements included in such report.

Date: November 9, 2023

/s/ Jared Wolff

Jared Wolff

Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2023

/s/ Joseph Kauder

Joseph Kauder

Executive Vice President, Chief Financial Officer
(Principal Financial Officer)