California BanCorp

CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2022 and 2021
and for the years then ended and
independent auditor's report

California BanCorp

To Our Shareholders,

Our performance in 2022 represented another year of successfully executing on our strategic plan for generating profitable growth and enhancing the value of our franchise. We continued to consistently add new clients, grow our balance sheet and revenue, and increase operating leverage. As a result, we generated a substantial increase in our profitability, with our earnings per share being 56% higher than the prior year, and we reached a significant milestone for the Company with our return on average assets exceeding 1.00% during the second half of the year. With our strong financial performance and effective balance sheet management, we also generated a 14% increase in tangible book value per share during a year in which many banks saw declines, and increased our TCE ratio by nearly 100 basis points, all through internal capital generation.

We are particularly pleased that we delivered on all of the goals that we set for 2022: we continued to grow our balance sheet while maintaining disciplined expense control, resulting in improved efficiencies; we substantially increased our fee income, which was partially driven by the investments we have made to improve our treasury management platform that has enhanced our ability to attract new commercial clients to the bank; and we effectively capitalized on our asset sensitivity to drive significant expansion in our net interest margin. The achievement of all of these goals contributed to our substantial increase in earnings and returns.

Over the past few years, we have added banking talent that fits our relationship-oriented, highly consultative approach while providing expertise in specialized areas of lending and increasing our exposure to new markets. With our diverse lending platform, we have the flexibility to focus our loan production on whichever asset classes present the most attractive risk-adjusted yields at any given point in time. Due to the strong commercial banking team we have built, we consistently saw a higher level of loan production during 2022, which resulted in 16% loan growth, even as we opportunistically executed some loan sale transactions that both enhanced our profitability and favorably adjusted our risk profile. Importantly, as our franchise has grown, we have maintained exceptional asset quality. For the full year, our net charge-offs were just 0.01% of average loans, and we ended the year with non-performing assets/total assets of just 0.06%.

Our primary focus remains on developing deposit relationships with high quality commercial clients that maintain their operating accounts with the bank. With our improved treasury management platform, we are consistently adding new operating accounts, and we have built a stable, low-cost deposit base with noninterest-bearing deposits accounting for 45% of our total deposits at year end. Due to the strong deposit base that serves as the foundation for our bank, we were able to effectively control our deposit costs despite the significant increase in interest rates during the year, which contributed to the margin expansion that led to our increased profitability. We believe the franchise we have built based on a stable, low-cost deposit base and conservatively underwritten, well diversified loan portfolio will enable us to continue to deliver strong financial performance for our shareholders, even as the operating environment remains challenging in 2023. Over the longer term, as economic conditions improve, we believe that our commercial banking team's ability to generate attractive lending opportunities and low-cost deposits will result in higher levels of revenue, more operating leverage, and profitable growth that will further enhance the value of our franchise.

Sincerely,

Stephen A. Cortese
Chairman of the Board

Steven E. Shelton
Chief Executive Officer

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

FORM 10-K

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

For the fiscal year ended December 31, 2022
Commission File Number 001-39242

CALIFORNIA BANCORP
(Exact name of registrant as specified in its charter)

California	**82-1751097**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1300 Clay Street, Suite 500
Oakland, California 94612
(Address of principal executive offices)
(510) 457-3737
(Registrant's telephone number, including area code)

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

Common Stock, No Par Value	CALB	NASDAQ Global Select Market
(Title of class)	**(Trading Symbol)**	**(Name of exchange on which registered)**

Indicate by check mark if the registrant is a well-known seasonal issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☒

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the registrant's common stock held by non-affiliates was approximately $146.6 million on June 30, 2022 based on the closing price per common share of $19.27 on that date.

Number of shares outstanding of the registrant's common stock as of March 1, 2023: 8,337,568

Documents Incorporated by Reference: Portions of the registrant's definitive proxy statement for its 2023 Annual Meeting of Shareholders are incorporated by reference in Part III of this report.

CALIFORNIA BANCORP
INDEX TO ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2022

Forward Looking Statements

Certain statements contained in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include statements relating to our projected growth, anticipated future financial performance, financial condition, credit quality and management's long-term performance goals, as well as statements relating to the anticipated effects on our business, financial condition and results of operations from expected developments or events, our business, growth and strategies. These statements, which are based on certain assumptions and estimates and describe our future plans, results, strategies and expectations, can generally be identified by the use of the words and phrases "may," "will," "should," "could," "would," "goal," "plan," "potential," "estimate," "project," "believe," "intend," "anticipate," "expect," "target," "aim," "predict," "continue," "seek," "projection" and other variations of such words and phrases and similar expressions. With respect to any such forward-looking statements, the Company claims the protection provided for in the Private Securities Litigation Reform Act of 1995.

We have made the forward-looking statements in this report based on assumptions and estimates that we believe to be reasonable in light of the information available to us at this time. However, these forward-looking statements are subject to significant risks and uncertainties, and could be affected by many factors. Factors that could have a material adverse effect on our business, financial condition, results of operations and future growth prospects can be found in the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of this report and elsewhere in this report. These factors include, but are not limited to, the following:

- business and economic conditions nationally, regionally and in our target markets, particularly in the greater San Francisco Bay Area and other areas in which we operate;
- concentration of our loan portfolio in commercial and industrial loans, which loans may be dependent on the borrower's cash flows for repayment and, to some extent, the local and regional economy;
- concentration of our loan portfolio in real estate loans and changes in the prices, values and sales volumes of commercial and residential real estate;
- the concentration of our business activities within the geographic areas of Northern California;
- credit and lending risks associated with our commercial real estate, commercial and industrial, and construction and development portfolios;
- the impact of the COVID-19 epidemic on our business, employees, customers and the local, national and global economy;
- disruptions to the credit and financial markets, either nationally or globally;
- increased competition in the banking industry, nationally, regionally or locally;
- our ability to execute our business strategy to achieve profitable growth;
- the dependence of our operating model on our ability to attract and retain experienced and talented bankers in each of our markets;
- risks that our cost of funding could increase, in the event we are unable to continue to attract stable, low-cost deposits and/or reduce our cost of deposits;
- our ability to improve our operating efficiency;
- failure to keep pace with technological change or difficulties when implementing new technologies;
- our ability to attract and maintain business banking relationships with well-qualified businesses, real estate developers and investors with proven track records in our market areas;
- our ability to attract sufficient loans that meet prudent credit standards, including in our commercial and industrial and owner-occupied commercial real estate loan categories;

- failure to maintain adequate liquidity and regulatory capital and comply with evolving federal and state banking regulations;
- inability of our risk management framework to effectively mitigate risks, such as credit risk, interest rate risk, liquidity risk, price risk, compliance risk, operational risk, strategic risk and reputational risk;
- our ability to develop new, and grow our existing, streams of noninterest income;
- our dependence on our management team and our ability to motivate and retain our management team;
- risks related to any future acquisitions, including failure to realize anticipated benefits from future acquisitions;
- system failures, data security breaches, including as a result of cyber-attacks, or failures to prevent breaches of our network security;
- data processing system failures and errors;
- our heavy reliance on communications and information systems to conduct business and reliance on third parties and affiliates to provide key components of business structure, any disruptions of which could interrupt operations or increase the costs of doing business;
- fraudulent and negligent acts by our customers, employees or vendors;
- our financial reporting controls and procedures' ability to prevent or detect all errors or fraud;
- our ability to maintain expenses in line with current projections;
- fluctuations in the market value of the securities held in our securities portfolio;
- the adequacy of our reserves (including the allowance for loan and lease losses and the appropriateness of our methodology for calculating such reserves);
- increased loan losses or impairment of goodwill and other intangibles;
- an inability to raise necessary capital to fund our growth strategy, operations, or to meet increased minimum regulatory capital levels;
- the sufficiency of our capital, including sources of such capital and the extent to which capital may be used or required;
- interest rate changes and their impact on our financial condition and results of operations;
- the institution and outcome of litigation and other legal proceeding to which we become subject;
- changes in our accounting standards;
- the impact of recent and future legislative and regulatory changes;
- examinations by our regulatory authorities, including the possibility that the regulatory authorities may, among other things, require us to increase our allowance for loan losses, or write-down assets, or otherwise impose restrictions or conditions on our operations, including, but not limited to, our ability to acquire or be acquired;
- governmental monetary and fiscal policies;
- changes in the scope and cost of Federal Deposit Insurance Corporation insurance and other insurance coverage; and
- other factors and risks described under the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections herein.

Because of these risks and other uncertainties, our actual results, performance or achievement, or industry results, may be materially different from the anticipated or estimated results discussed in the forward-looking statements in this Annual Report on Form 10-K. Our past results of operations are not necessarily indicative of our future results. You should not rely on any forward-looking statements, which represent our beliefs, assumptions and estimates only as of the dates on which they were made, as predictions of future events. We undertake no obligation to update these forward-looking statements, even though circumstances may change in the future, except as required under federal securities law. We qualify all of our forward-looking statements by these cautionary statements.

PART I

Item 1. Business

Overview

California BanCorp (the "Company" or "we") was organized in 2017 to serve as the holding company for California Bank of Commerce (the "Bank") and is headquartered in Oakland, California. The Company commenced operation on June 30, 2017 following a reorganization transaction in which it became the Bank's holding company. This transaction was treated as an internal reorganization as all shareholders of the Bank became shareholders of the Company. As a bank holding company, the Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Company has no operations other than ownership and management of the Bank.

The Bank is a California-chartered commercial bank founded in 2007. The Bank is headquartered in Walnut Creek, California, approximately 15 miles east of Oakland, California. In addition to its headquarters, the Bank has a full service branch in California located in Contra Costa County and 4 loan production offices in California located in Alameda County, Contra Costa County, Sacramento County, and Santa Clara County. The Bank is supervised and regulated by the California Department of Financial Protection and Innovation (the "DFPI") and the Federal Deposit Insurance Corporation (the "FDIC").

We primarily serve business and professional corporations with a variety of business focused financial services. Some of the products and services that we offer include commercial checking, savings and money market accounts, certificates of deposit, treasury and cash management services, foreign exchange services, commercial and industrial loans, asset-based loans, loans to dental and veterinary professionals, commercial real estate loans, residential and commercial construction and development loans, online banking, and mobile banking. As of December 31, 2022, we had total consolidated assets of $2.04 billion, total gross loans of $1.59 billion, total deposits of $1.79 billion and total shareholders' equity of $172.3 million.

Our Strategy

The Bank is a relationship-based commercial business bank focused on providing innovative products and services that are value-driven. We maintain a strong credit culture as a foundation of sound asset quality, and we embrace innovation and strive to provide the solutions our customers need and expect. We focus on creating value for the communities and clients we serve to provide exceptional return for our shareholders, and also growing relationship deposits and lending those funds to invest in and support the communities we serve, with the ultimate goal of yielding superior growth in earnings per share.

Our strategic plan includes the following measures of long-term success: (i) earnings per share growth; (ii) return on assets; (iii) return on tangible common equity; (iv) total risk-based capital ratio; (v) core deposit growth; and (vi) nonperforming assets to total assets ratio.

Our Market Area

We are headquartered in the San Francisco Bay Area in Oakland, California. The Bank maintains its headquarters in Walnut Creek, California, where it offers full banking services. We also operate loan production offices in Walnut Creek, Oakland, San Jose and Sacramento, California.

Our market areas cover primarily the greater San Francisco Bay Area and Sacramento. Our branch and loan production offices are located in three contiguous counties in the San Francisco Bay Area: Alameda, Contra Costa and Santa Clara; and Sacramento County. The economic base of this market area is heavily dependent on small and medium-sized businesses, providing us with a market rich in potential customers.

The economies of the San Francisco Bay Area are primarily driven by the technology, real estate, financial services, tourism, shipping and manufacturing industries. Sacramento is the capitol of the State of California and government-related activities are a significant portion of the region's economy. The Sacramento area also includes a number of higher education centers, including state universities and technical colleges.

Competition

The banking business is highly competitive, and we face competition in our market areas from many other local, regional, and national financial institutions. Competition among financial institutions is based on interest rates offered on deposit accounts, interest rates charged on loans, other credit and service charges relating to loans, the quality and scope of the services rendered, the convenience of banking facilities, among other factors. We compete with commercial banks, credit unions, savings institutions, mortgage banking firms, finance companies, including "fintech" lenders, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as regional and national financial institutions that operate offices in our market areas and elsewhere. The competing major commercial banks have greater resources that may provide them a competitive advantage by enabling them to maintain numerous branch offices, mount extensive advertising campaigns and invest in new technologies, for example. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers.

The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer most types of financial services, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Some of our non-banking competitors, such as fintech lenders, have fewer regulatory constraints and may have lower cost structures. In addition, some of our competitors have assets, capital and lending limits greater than that of the Bank, have greater access to capital markets and offer a broader range of products and services than the Bank. These institutions may have the ability to offer lower rates on loans and higher rates on deposits than we can offer. Some of these institutions offer services, such as international banking, which we do not directly offer, except for a limited suite of services such as international wires and currency exchange.

We compete with these institutions by focusing on our position as an independent, commercial business bank and rely upon local promotional activities, personal relationships established by our officers, directors, and employees with our customers, and specialized services tailored to meet the needs of the customers we serve. We strive to provide innovative products to our customers that are value-driven. We actively cultivate relationships with our customers that extend beyond a single loan to a full suite of products that serve the needs of our commercial customers. Our goal is to develop long-standing connections with our customers and the communities that we serve. While our position varies by market, our management believes that we can compete effectively as a result of local market knowledge, local decision making, and awareness of customer needs.

Our Business

General

We provide a range of commercial lending services, including commercial and industrial loans, commercial real estate loans, and residential and commercial construction and development loans. Our specialty commercial lending niches include dental and veterinary lending, commercial contractors, asset-based lending, commercial and residential construction and emerging businesses. Our customers are generally small to medium-sized businesses and professional firms that are located in or conduct a substantial portion of their business in our market areas. The majority of our customer-facing offices are loan production offices.

Credit Administration and Loan Review

Historically, we believe we have made sound, high quality loans while recognizing that lending money involves a degree of business risk. We have loan policies designed to assist us in managing this business risk. These policies provide a general framework for our loan origination, monitoring and funding activities, while recognizing that not all risks can be anticipated.

As part of our credit administration, we document the borrower's business, purpose of the loan, our evaluation of the repayment source and the associated risks, our evaluation of collateral, covenants and monitoring requirements, and the risk rating rationale. Our strategy for approving or disapproving loans is to follow conservative loan policies and consistent underwriting practices which include:

- maintaining close relationships among our customers and their designated banker to ensure ongoing credit monitoring and loan servicing;
- granting credit on a sound basis with full knowledge of the purpose and source of repayment for such credit;
- confirming that primary and secondary sources of repayment are adequate in relation to the amount of the loan;
- developing and maintaining targeted levels of diversification for our loan portfolio as a whole and for loans within each category; and
- properly documenting each loan and confirming that any insurance coverage requirements are satisfied.

For loan approvals, a loan is first recommended by a line of business manager and then is directed to the appropriate officer within credit administration for approval, subject to specified limits. This process ensures that the loan is supported by both the line of business and credit administration and allows us to respond to customer credit requests in an expeditious manner. Proposed loans above the specified limit must be approved by the Bank's board of directors.

Managing credit risk is a company-wide process. Our strategy for credit risk management includes centralized credit policies, uniform underwriting criteria and ongoing risk monitoring and review processes for all credit exposures. Our processes emphasize early-stage review of loans, regular credit evaluations and management reviews of loans, which supplement the ongoing and proactive credit monitoring and loan servicing provided by our bankers. Our Chief Credit Officer provides company-wide credit oversight and periodically reviews all credit risk portfolios to ensure that the risk identification processes are functioning properly and that our credit standards are followed. In addition, a third-party loan review is performed to assist in the identification of problem assets and to confirm our internal risk rating of loans. We attempt to identify potential problem loans early in an effort to seek aggressive resolution of these situations before the loans become a loss, record any necessary charge-offs promptly and maintain adequate allowance levels for probable loan losses inherent in the loan portfolio.

Our loan policies generally include other underwriting guidelines for loans collateralized by real estate. These underwriting standards are designed to determine the maximum loan amount that a borrower has the capacity to repay based upon the type of collateral securing the loan and the borrower's income. Our loan policies include maximum amortization schedules and loan terms for each category of loans collateralized by liens on real estate.

In addition, our loan policies provide guidelines for: personal guarantees; environmental review; loans to employees, executive officers and directors; problem loan identification; maintenance of an adequate allowance for loan losses and other matters relating to lending practices. We do not make loans to any director, executive officer of the Bank, or the related interests of each, unless the loan is approved by the full board of directors of the Bank.

Lending Limits

Under California law, our ability to make aggregate secured and unsecured loans-to-one-borrower is limited to 25% and 15%, respectively, of unimpaired capital and surplus. At December 31, 2022, the Bank's limit on aggregate secured loans-to-one-borrower was $57.8 million and unsecured loans-to-one borrower was $34.6 million. At December 31 2022, the Bank's highest aggregate balance of secured loans-to-one-borrower was $28.6 million and the highest aggregate balance of unsecured loans-to-one borrower was $19.0 million. The Bank's legal lending limit will increase or decrease as the Bank's level of capital increases or decreases. In addition, the Bank has established internal loan limits, which are lower than the legal lending limits for a California bank. Our board of directors will adjust the internal lending limit as deemed necessary to continue to mitigate risk and serve the Bank's customers. We are also able to sell participations in our larger loans to other financial institutions, which allow us to manage the risk involved in these loans and to meet the lending needs of our customers requiring extensions of credit in excess of these limits.

Commercial and Industrial Loans

We have significant expertise in small to middle market commercial and industrial lending, with an emphasis on the dental and veterinary industries, contractors and emerging companies. Our success is the result of our product and market expertise, and our focus on delivering high-quality, customized and quick turnaround service for our customers due to our focus on maintaining an appropriate balance between prudent, disciplined underwriting, on the one hand, and flexibility in our decision making and responsiveness to our customers, on the other hand, which has allowed us to grow our commercial and industrial loan portfolio while maintaining asset quality. As of December 31, 2022, commercial and industrial loans made up approximately $634.5 million or 40% of our loan portfolio.

We provide a mix of variable and fixed rate commercial and industrial loans. We extend commercial business loans for working capital, accounts receivable and inventory financing and other business purposes. Generally, short-term loans have maturities ranging from 12 months to 3 years, and “term loans” have maturities ranging from 5 to 10 years. Loans are generally intended to finance current transactions and typically provide for periodic principal payments, with interest payable monthly. Repayment of commercial loans depends substantially on the borrower's underlying business, financial condition and cash flows, as well as the sufficiency of the collateral. Compared to real estate, the collateral may be more difficult to monitor, evaluate and sell. Where the borrower is a corporation, partnership or other entity, we typically require personal guarantees from significant equity holders. Our maximum loan-to-value ratio for commercial and industrial loans is dependent on the collateral.

Asset-Based Lending (ABL) Loans

A subset of our commercial and industrial loans are structured as asset based lending (“ABL”) loans, which are secured by the borrower's accounts receivable or inventory. Our ABL loans are structured as callable and cancelable transactions. The ABL loans are originated through and managed by our Business Credit division. Repayment of ABL loans depends substantially on the ability of the borrower to monetize the assets in a defined borrowing base. Generally the borrowing base has a maximum advance rate of 80% against eligible receivables and may include a lower advance rate against inventory. Therefore, the quality and collectability of accounts receivable, concentrations among account debtors, financial strength of the account debtors, and quality and transferability of inventory can impact repayment. At December 31, 2022, ABL loans totaled approximately $50.2 million or approximately 3% of our loan portfolio.

Construction and Development Loans

We offer adjustable rate residential and commercial construction loan financing to builders and developers and to consumers who wish to build their own home. The term of construction and development loans generally is limited to 12 to 36 months. Most loans will mature and require payment in full upon the sale or refinance of the property. We believe that construction and development loans generally carry a higher degree of risk than long-term financing of stabilized, rented, and owner-occupied properties because repayment depends on the ultimate completion of the project and usually on the subsequent sale or refinance of the property. Specific risks include:

- cost overruns;
- mismanaged construction;
- inferior or improper construction techniques;
- economic changes or downturns during construction;
- a downturn in the real estate market;
- rising interest rates which may prevent sale of the property; and
- failure to sell or stabilize completed projects in a timely manner.

We attempt to reduce risk associated with construction and development loans by obtaining personal guarantees and by keeping the maximum loan-to-value ratio at or below 50%-75% depending on the project type with a maximum loan-to-cost ratio of 80%. Many of our loans will include interest reserves built into the loan commitment. Generally, for owner occupied commercial construction loans, we will require periodic cash payments for interest from the borrower's cash flow. As of December 31 2022, construction and development loans made up approximately $63.7 million or 4% of our loan portfolio.

Real Estate Loans

A significant component of our loan portfolio is loans secured by real estate. These loans include both commercial real estate loans and other loans secured by real estate. Real estate loans are subject to the same general risks as other loans and are particularly sensitive to fluctuations in the value of real estate. Fluctuations in the value of real estate and rising interest rates, as well as other factors arising after a loan has been made, could negatively affect a borrower's cash flow, creditworthiness, and ability to repay the loan. We obtain a security interest in real estate where feasible, in addition to any other available collateral, in order to increase the likelihood of the ultimate repayment of the loan. As of December 31, 2022, commercial real estate loans made up approximately $848.2 million or 53% of our loan portfolio.

Our commercial real estate loans generally have terms of 10 years or less, although payments may be structured on a longer amortization basis. We evaluate each borrower on an individual basis and attempt to determine their business risks and credit profile. We attempt to reduce credit risk in the commercial real estate portfolio by emphasizing loans on owner-occupied industrial, office, and retail buildings where the loan-to-value ratio, established by independent appraisals, generally does not exceed 70% of cost or appraised value. We also generally require that a borrower's cash flow exceed 130% of monthly debt service obligations. In order to ensure secondary sources of payment and liquidity to support a loan request, we typically review all of the personal financial statements of the principal owners and require their personal guarantees. Commercial real estate loans are generally viewed as having more risk of default than residential real estate loans. They are also typically larger than residential real estate loans and depend on cash flows from the owner's business or the property to service the debt. Because our loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in our levels of nonperforming assets.

Small Business Administration Loans

We offer U.S. Small Business Administration, or SBA, loans for qualifying businesses for loan amounts up to $5 million. The Bank primarily extends SBA loans known as SBA 7(a) loans and SBA 504 loans. SBA 7(a) loans are typically extended for working capital needs, purchase of inventory, purchase of machinery and equipment, debt refinance, business acquisitions, start-up financing or to purchase or construct owner-occupied commercial property. SBA 7(a) loans are typically term loans with maturities up to 10 years for loans not secured by real estate and up to 25 years for real estate secured loans. SBA loans are fully amortizing with monthly payments of principal and interest. SBA 7(a) loans are typically floating rate loans that are secured by business assets and/or real estate. Depending on the loan amount, each loan is typically guaranteed 75% to 85% by the SBA, with a maximum gross loan amount to any one small business borrower of $5 million and a maximum SBA guaranteed amount of $3.75 million.

We are generally able to sell the guaranteed portion of the SBA 7(a) loans in the secondary market at a premium, while earning servicing fee income on the sold portion over the remaining life of the loan. In addition to the interest yield earned on the unguaranteed portion of the SBA 7(a) loans that are not sold, we recognize income from gains on sales and from loan servicing on the SBA 7(a) loans that are sold.

SBA 504 loans are typically extended for the purpose of purchasing owner-occupied commercial real estate or long-term capital equipment. SBA 504 loans are typically extended for up to 20 years or the life of the asset being financed. SBA 504 loans are financed as a participation loan between the Bank and the SBA through a Certified Development Company ("CDC"). Generally, these loans are structured to give the Bank a 50% first deed of trust and the CDC a 40% second deed of trust, with the remaining 10% funded by the borrower. Interest rates for the first deed of trust loans are subject to normal bank commercial rates and terms and the second deed of trust CDC loans are fixed for the life of the loans based on certain indices.

Our SBA 7(a) loans are originated through our SBA Loan Department. The SBA Loan Department is staffed by loan officers who provide assistance to qualified businesses. The Bank is designated as an SBA Preferred Lender, whereby the SBA has delegated its authority to us to make, service and liquidate loans. This designation generally facilitates a more efficient marketing and approval process for SBA loans. We have attained SBA Preferred Lender status nationwide.

As of December 31, 2022, our SBA loan portfolio totaled approximately $7.2 million or approximately 1% of our loan portfolio.

See Note 3 to the consolidated financial statements for additional information regarding the segment of the SBA loan portfolio that pertains to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act.

Consumer Loans

We occasionally make loans to individuals for personal and household purposes, including secured and unsecured installment loans and revolving lines of credit. Consumer loans are underwritten based on the borrower's income, current debt level, past credit history, and the availability and value of collateral. Consumer rates are both fixed and variable, with negotiable terms. Our installment loans typically amortize over periods up to 5 years. Although we typically require monthly payments of interest and a portion of the principal on our loan products, we will offer consumer loans with a single maturity date when a specific source of repayment is available. Consumer loans are generally considered to have greater risk than first or second mortgages on real estate because they may be unsecured, or, if they are secured, the value of the collateral may be difficult to assess and more likely to decrease in value than real estate. As of December 31, 2022, consumer loans totaled approximately $39.7 million or approximately 2% of our loan portfolio.

Deposit Products

We offer a range of commercially focused deposit and treasury management services at our branch locations that are similar to those typically available in the commercial divisions of the larger regional and national banking institutions, including commercial analysis and other cash management accounts, ranging from money market accounts to long-term certificates of deposit. Transaction accounts and time deposits are tailored to and offered at rates competitive to those offered in our primary market areas. Our customers primarily include businesses, associations, organizations and governmental authorities. Our deposits are insured by the FDIC up to statutory limits.

Securities

We manage our securities portfolio and cash to maintain adequate liquidity and to ensure the safety and preservation of invested principal, with a secondary focus on yield and returns. Specific goals of our investment portfolio are as follows:

- provide a ready source of balance sheet liquidity, ensuring adequate availability of funds to meet fluctuations in loan demand, deposit balances and other changes in balance sheet volumes and composition;
- serve as a means for diversification of our assets with respect to credit quality, maturity and other attributes;
- serve as a tool for modifying our interest rate risk profile pursuant to our established policies; and
- provide collateral to secure local governmental agency and business deposits.

Our investment portfolio is comprised primarily of U.S. government agency securities and mortgage-backed securities issued by government-sponsored entities, though we may hold other securities, such as corporate debt securities.

Our investment policy is reviewed annually by our board of directors. The Bank's board of directors has delegated the responsibility of monitoring our investment activities to the Asset Liability Committee of the Bank's board of directors. Day-to-day activities pertaining to the securities portfolio are conducted under the supervision of our Chief Financial Officer and Chief Executive Officer. We actively monitor our investments on an ongoing basis to identify any material changes in the securities. We also review our securities for potential other-than-temporary impairment at least quarterly.

Implications of Being an Emerging Growth Company

We qualify as an emerging growth company as that term is used in the JOBS Act. An emerging growth company may take advantage of specified reduced reporting and other burdens that are otherwise applicable generally to public companies. These provisions include:

- a requirement to have only two years of audited financial statements and only two years of related management's discussion and analysis of financial condition and results of operations;
- exemption from the auditor attestation requirement in the assessment of the emerging growth company's internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002;
- reduced disclosure about the emerging growth company's executive compensation arrangements; and
- no non-binding advisory votes on executive compensation or golden parachute arrangements.

We could remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our annual gross revenues exceed $1.07 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of our most recently completed second fiscal quarter, or (iii) the date on which we have issued more than $1 billion in non-convertible debt during the preceding three year period. We expect to take advantage of certain of the reduced reporting and other requirements of the JOBS Act with respect to the periodic reports we will file with the SEC and proxy statements that we use to solicit proxies from our shareholders.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We plan to elect to use the extended period for compliance and, as a result, our financial statements may not be comparable to companies that comply with public company effective dates. See our discussion in "Risk Factors".

Human Capital Resources

As of December 31, 2022, we had 157 full-time equivalent employees ("FTE"). None of our employees are represented by any collective bargaining unit or is a party to a collective bargaining agreement. We consider our relationship with our employees to be good and have not experienced interruptions of operations due to labor disagreements. Our relationship banking strategy is largely dependent on the personal relationships of our employees and the quality of service they provide. We strive to attract, develop and retain employees who can further our strategic goals and build long-term shareholder value. To do so, we offer compensation, benefits, and training designed to attract, develop and retain employees. While we expect to hire employees to further our growth strategy, as a result of attrition and as opportunities to recruit talent may arise, in general, we believe our human capital resources are adequate for our needs.

General Corporate Information

Our principal executive offices are located at 1300 Clay Street, Suite 500, Oakland, California and our telephone number at that address is (510) 457-3615.

We file reports with the Securities and Exchange Commission (the "SEC"), which include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as proxy and information statements in connection with our shareholders' meetings. The SEC maintains a website that contains the reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of the website is www.sec.gov. Our website address is www.californiabankofcommerce.com. Electronic copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other information and reports we file with the SEC and amendments to those reports, are available free of charge by visiting the Investor Relations section of our website. These reports are generally posted as soon as reasonably practicable after they are electronically filed with the SEC.

Economic Conditions, Government Policies and Legislation

Our profitability, like that of most financial institutions, depends, among other things, on interest rate differentials. In general, the difference between the interest expense on interest bearing liabilities, such as deposits, borrowings, and debt, and the interest income on our interest earning assets, such as loans we extend to our customers and securities held in our investment portfolio, as well as the level of noninterest bearing deposits, have a significant impact on our profitability. Interest rates are highly sensitive to many factors that are beyond our control, such as the economy, inflation, unemployment, consumer spending, and political changes and events. The impact that future changes in domestic and foreign economic and political conditions might have on our performance cannot be predicted.

Our business is also influenced by the monetary and fiscal policies of the federal government and the policies of regulatory agencies, particularly the Board of Governors of the Federal Reserve System (the "Federal Reserve"). The Federal Reserve implements national monetary policies (with objectives such as curbing inflation or preventing recession) through its open-market operations in U.S. government securities, by adjusting the required level of reserves for depository institutions subject to its reserve requirements, and by varying the targeted federal funds and discount rates applicable to borrowings by depository institutions. The actions of the Federal Reserve in these areas influence the growth of bank loans, investments, and deposits and also affect interest rates earned on interest earning assets and paid on interest bearing liabilities. The nature and impact on the Company, and the Bank, of future changes in monetary and fiscal policies cannot be predicted.

From time to time, legislation and regulations are enacted or adopted which have the effect of increasing the cost of doing business, limiting, or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies, financial holding companies, and other financial institutions and financial services providers are frequently made in the U.S. Congress, in state legislatures, and by various regulatory agencies. These proposals may result in changes in banking statutes and regulations and our operating environment in substantial and unpredictable ways. If enacted, such legislation could increase the cost of doing business, limit permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of this potential legislation will be enacted, and if enacted, the effect that it, or any implementing regulations, would have on our financial condition or results of operations. See "Supervision and Regulation."

Supervision and Regulation

As a financial institution, we are extensively regulated under both federal and state law. This supervisory framework could materially impact the conduct and profitability of our activities. These laws restrict permissible activities and investments and require that we comply with law relating to lending, deposit, brokerage, and fiduciary activities. They also impose capital adequacy requirements and conditions on our ability to pay dividends to our shareholders, to repurchase our stock and to receive dividends from our subsidiary bank. Banking regulation is intended to protect depositors and consumers and not our shareholders.

As a bank holding company, the Company is subject to supervision and regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). The Company is also a bank holding company within the meaning of the California Financial Code. As such, the Company and its subsidiaries are subject to examination by, and may be required to file reports with, the Federal Reserve and the DFPI. As a California state-chartered commercial bank the Bank is subject to supervision, periodic examination and regulation by the DFPI and the FDIC. The Company's and the Bank's regulators generally have broad discretion to impose restrictions and limitations on our operations. Banking regulation is intended to protect depositors and consumers and not shareholders.

The following discussion explains the major pieces of legislation and regulation affecting the banking industry and how that legislation and regulation affects our business. The following summary is qualified by reference to the statutory and regulatory provisions discussed. Changes in applicable laws, regulations and the policies of regulatory authorities may have a material effect on the business and prospects of the Company and the Bank and may significantly affect our operations. We cannot predict the effect that fiscal or monetary policies, or new federal or state legislation or regulation may have on our future business and earnings.

Capital Adequacy

Bank holding companies and depository institutions are required to maintain minimum levels of capital and are subject to consolidated risk-based and leverage capital rules. The federal banking agencies have adopted minimum risk-based capital requirements (Tier 1 capital, common equity Tier 1 capital ("CET1") and total capital) and leverage capital requirements, as well as guidelines that define components of the calculation of capital and the level of risk associated with various types of assets. Financial institutions are expected to maintain a level of capital commensurate with the risk profile assigned to their assets in accordance with the guidelines.

In addition to the minimum risk-based capital and leverage ratios, bank holding companies and depository institutions must maintain a "capital conservation buffer" consisting of CET1 in an amount equal to 2.5% of risk-weighted assets in order to avoid restrictions on their ability to make capital distributions and to pay certain discretionary bonus payments to executive officers. To avoid those restrictions, the capital conservation buffer effectively increases the minimum CET1 capital, Tier 1 capital, and total capital ratios for U.S. banking organizations to 7.0%, 8.5%, and 10.5%, respectively. Banking organizations with capital levels that fall within the buffer must limit dividends, share repurchases or redemptions (unless replaced within the same calendar quarter by capital instruments of equal or higher quality), and discretionary bonus payments. The capital conservation buffer was phased in over four years beginning in 2015 and was fully phased in as of January 1, 2019.

As a banking organization with less than $3.0 billion in assets, the Company is exempt from the consolidated capital rules under the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement. The following table presents the risk-based and leverage capital requirements applicable to the Bank.

	Adequately Capitalized	Well Capitalized	Well Capitalized With Buffer
Leverage Ratio	4.00%	5.00%	5.00%
Common Equity Tier I Capital Ratio	4.50%	6.50%	7.00%
Tier I Capital Ratio	6.00%	8.00%	8.50%
Total Capital Ratio	8.00%	10.00%	10.50%

The capital rules require that goodwill and other intangible assets (other than mortgage servicing assets), net of associated deferred tax liabilities ("DTLs"), be deducted from CET1 capital. Additionally, deferred tax assets ("DTAs") that arise from net operating loss and tax credit carryforwards, net of associated DTLs and valuation allowances, are fully deducted from CET1 capital. However, DTAs arising from temporary differences that could not be realized through net operating loss carrybacks, along with mortgage servicing assets and "significant" (defined as greater than 10% of the issued and outstanding common stock of the unconsolidated financial institution) investments in the common stock of unconsolidated "financial institutions" are partially includible in CET1 capital, subject to deductions defined in the rules.

Federal banking regulators also consider interest rate risk (arising when the interest rate sensitivity of a bank's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in the evaluation of a bank's capital adequacy. Banks with excessive interest rate risk exposure are required to hold additional amounts of capital against their exposure to losses resulting from that risk. Through the risk-weighting of assets, the regulators also require banks to incorporate market risk components into their risk-based capital. Under these market risk requirements, capital is allocated to support the amount of market risk related to a bank's lending and trading activities.

Regulatory Enforcement Powers

If federal banking agency determines that a bank holding company's or a bank's financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of its operations are unsatisfactory or that it or its management was in violation of any law or regulation, that agency would have the authority to take a number of different remedial actions as it deems appropriate under the circumstances. These actions include the power to enjoin any "unsafe or unsound" banking practices; to require that affirmative action be taken to correct any conditions resulting from any violation of law or unsafe or unsound practice; to issue an administrative order that can be judicially enforced; to require that it increase its capital; to restrict its growth; to assess civil monetary penalties against it or its officers or directors; to remove officers and directors; and if the federal banking agency concludes that such conditions cannot be corrected or there is an imminent risk of loss to depositors, to terminate a bank's deposit insurance, which in the case of a California state chartered bank would result in revocation of its charter and require it to cease its banking operations. Under California law the DFPI has many of these same remedial powers with respect to the Bank.

Regulation of the Company

As a bank holding company, the Company is subject to supervision, regulation and examination by the Federal Reserve under the Bank Holding Company Act and the regulations of the Federal Reserve. The Company is required to file quarterly reports with the Federal Reserve and to provide additional information as the Federal Reserve may require. The Federal Reserve regularly examines the Company, may examine any of our subsidiaries and charges us for the cost of the examinations. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

Acquisitions of Banks. The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring direct or indirect ownership or control of any voting shares of any bank if, after the acquisition, the bank holding company will directly or indirectly own or control more than 5% of the bank's voting shares;
- acquiring all or substantially all of the assets of any bank; or
- merging or consolidating with any other bank holding company.

Additionally, the Bank Holding Company Act provides that the Federal Reserve may not approve any of these transactions if it would result in or tend to create a monopoly, substantially lessen competition, or otherwise function as a restraint of trade, unless the anti-competitive effects of the proposed transaction are clearly outweighed by the public interest in meeting the convenience and needs of the communities to be served. The Federal Reserve is also required to consider the financial and managerial resources and future prospects of the bank holding companies and banks involved in the transaction. The Federal Reserve's consideration of financial resources generally focuses on capital adequacy, which is discussed above.

Change in Bank Control. Subject to various exceptions, the Bank Holding Company Act and the Change in Bank Control Act of 1978, as amended, together with related regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control exists if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Under the Federal Reserve's regulations, control may be presumed to exist if a person or company acquires more than 5% but less than 25%, of any class of voting securities of a bank holding company, depending on the circumstances as set forth in the regulations, and the regulations also provide a procedure for challenging presumptions of control.

Permitted Activities. The Bank Holding Company Act generally prohibits a bank holding company from engaging in activities other than banking, managing or controlling banks or other permissible subsidiaries, and from acquiring or retaining direct or indirect control of any company engaged in any activities other than those determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The Gramm-Leach-Bliley Act expanded the permissible activities of a bank holding company that qualifies as a financial holding company to engage in activities that are financial in nature or incidental or complementary to financial activities. Those activities include, among others, certain insurance, advisory and securities activities. The Company has not elected to be financial holding company and we have no plans to do so.

Imposition of Liability for Undercapitalized Subsidiaries: Source of Strength. Under the Federal Deposit Insurance Act (the "FDIA") federal banking agencies are required to take "prompt corrective action" should an insured depository institution fail to meet certain capital adequacy standards. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan, which must be guaranteed by each company "having control of" the undercapitalized institution. For purposes of this statute, the Company controls the Bank. The

FDIA grants greater powers to bank regulators in situations where an institution becomes “significantly” or “critically” undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed distributions, or might be required to consent to a merger or to divest the troubled institution or other affiliates. See “Regulation of the Bank — Prompt Corrective Action” below.

Federal law and Federal Reserve policy require that the Company act as a source of financial and managerial strength to the Bank, committing resources to the Bank, including at times when it may not be in a financial position to provide it. As discussed above, the Company could be required to guarantee a capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of the subsidiary bank. The Bank Holding Company Act provides that, in the event of a bank holding company’s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Restrictions on Dividends and Stock Repurchases. The Company’s ability to pay dividends to its shareholders is limited by both general corporate law and the regulations and policies of the Federal Reserve applicable to bank holding companies. It is the Federal Reserve’s policy that a bank holding company should generally pay dividends on common stock only out of income available over the past year, and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition, and current Federal Reserve policy further calls for a bank holding company to consult with the Federal Reserve before repurchasing shares during a quarter in an amount that exceeds its earnings for the quarter. It is also the Federal Reserve’s policy that a bank holding company should not maintain dividend levels that undermine its ability to be a source of strength to its banking subsidiaries. The Federal Reserve has indicated that bank holding companies should carefully review their dividend policy and has discouraged payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong.

Bank holding companies must consult with the Federal Reserve before redeeming any equity or other capital instrument included in regulatory capital prior to stated maturity, if such redemption could have a material effect on the level or composition of the organization’s capital base. Bank holding companies experiencing financial weaknesses, or that are at significant risk of developing financial weaknesses, must consult with the Federal Reserve before redeeming or repurchasing common stock or other regulatory capital instruments.

As a California corporation, the Company is subject to the limitations of the California Corporations Code, which allows a California corporation to distribute cash or property to shareholders, including as a dividend or repurchase or redemption of shares, if the corporation meets either a retained earnings test or a “balance sheet” test. Under the retained earnings test, the Company may make a distribution from retained earnings to the extent that its retained earnings exceed the sum of (a) the amount of the distribution plus (b) the amount, if any, of dividends in arrears on shares with preferential dividend rights. The Company may also make a distribution if, immediately after the distribution, the value of its assets equals or exceeds the sum of (a) its total liabilities plus (b) the liquidation preference of any shares which have a preference upon dissolution over the rights of shareholders receiving the distribution. Indebtedness is not considered a liability if the terms of such indebtedness provide that payment of principal and interest thereon are to be made only if, and to the extent that, a distribution to shareholders could be made under the balance sheet test. In addition, the Company may not make distributions if it is, or as a result of the distribution would be, likely to be unable to meet its liabilities (except those whose payment is otherwise adequately provided for) as they mature.

The primary source of capital for the Company’s payment of any dividend or its repurchase of stock is expected to be the Bank, through the payment of dividends or management fees to the Company. The ability of the Bank to pay cash dividends or fees to the Company is limited by law and regulation, as described in “*Regulation of the Bank — Dividend Restrictions Applicable to the Bank*,” below.

Regulation of the Bank

The Bank is a California-chartered bank. The deposit accounts of the Bank are insured by the FDIC to the maximum extent provided under federal law. As a California-chartered bank, the Bank is subject to supervision and regulation by the DFPI, the chartering authority for California banks, and as an FDIC-insured bank that is not a member of the Federal Reserve System, the FDIC. The FDIC and DFPI regularly examine the Bank's operations and have the authority to approve or disapprove mergers, the establishment of branches and similar corporate actions. The FDIC and the DFPI also have the power to prohibit the continuance or development of unsafe or unsound banking practices or other violations of law. The Bank is also subject to numerous state and federal statutes and regulations that affect the Bank, its business, activities, and operations.

Prompt Corrective Action

The federal banking regulators are required to take "prompt corrective action" with respect to capital-deficient institutions. For this purpose, federal banking regulations define five capital categories: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." As of December 31, 2022 and 2021, the Bank's capital levels exceeded the minimum levels required to be considered "well capitalized", which means it had a common equity Tier 1 capital ratio of 6.5% or higher; a Tier I risk-based capital ratio of 8.0% or higher; a total risk-based capital ratio of 10.0% or higher; and a leverage ratio of 5.0% or higher. The following table sets forth the minimum regulatory capital levels for each category.

	Leverage Ratio	Common Equity Tier I Capital Ratio	Tier I Capital Ratio	Total Capital Ratio
Well Capitalized	5.00%	6.50%	8.00%	10.00%
Adequately Capitalized	4.00%	4.50%	6.00%	8.00%
Under Capitalized	<4.00%	<4.50%	<6.00%	<8.00%
Significantly Under Capitalized	<3.00%	<3.00%	<4.00%	<6.00%

An institution's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the institution's overall financial condition or prospects for other purposes. An institution may be downgraded to a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. Failure to meet capital guidelines could subject a bank to a variety of enforcement remedies, including issuance of a capital directive, the termination of deposit insurance by the FDIC, a prohibition on accepting brokered deposits, and certain other restrictions on its business.

Federal banking regulators are required to take various mandatory supervisory actions and are authorized to take other discretionary actions with respect to institutions in the three undercapitalized categories: undercapitalized, significantly undercapitalized, and critically undercapitalized. The severity of the actions depends upon the capital category in which the institution is placed. As an institution's capital decreases, the regulators' enforcement powers become more severe.

If an institution becomes undercapitalized, it must submit a capital restoration plan. The federal banking regulators require that each company having control of the undercapitalized institution guarantee the depository institution's compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution's holding company is entitled to a priority of payment in bankruptcy.

The banking regulators have greater power in situations where an institution becomes significantly undercapitalized or fails to submit a capital restoration plan. In addition to requiring undercapitalized institutions to submit a capital restoration plan, bank regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management, and other restrictions. Generally, subject to a narrow exception, the banking regulator must appoint a receiver or conservator for an institution that is critically undercapitalized.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

In addition to the federal regulatory capital requirements described above, the DFPI has authority to take possession of the business and properties of a California-chartered bank in the event that the bank's tangible shareholders' equity is less than the greater of 4% of the bank's total assets or $1.0 million.

Dividend Restrictions Applicable to the Bank

The primary source of funds for the Company is expected to be dividends from the Bank. California and federal laws and regulations limit the Bank's payment of dividends to the Company.

Under the California Financial Code, the Bank is permitted to pay a dividend in the following circumstances: (i) without the consent of either the DFPI or the Bank's shareholders, in an amount not exceeding the lesser of (a) the retained earnings of the Bank; or (b) the net income of the Bank for its last three fiscal years, less the amount of any distributions made during such period; (ii) with the prior approval of the DFPI, in an amount not exceeding the greatest of: (a) the retained earnings of the Bank; (b) the net income of the Bank for its last fiscal year; or (c) the net income for the Bank for its current fiscal year; and (iii) with the prior approval of the DFPI and the Bank's shareholders (i.e., the Company) in connection with a reduction of its contributed capital.

The Bank's ability to pay dividends to the Company is further limited by the requirement to maintain adequate capital pursuant to applicable capital adequacy guidelines and regulations, and a depository institution generally is prohibited from paying any dividends if, following payment thereof, the institution would be undercapitalized. In addition, in order to avoid restrictions on the payment of dividends under the capital rules, the Bank is generally required to maintain a capital conservation buffer of 2.5% in CET1. See "—Capital Adequacy Requirements" above.

Further, the FDIC has the authority to enjoin the Bank from engaging in any an unsafe or unsound practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be an unsafe and unsound banking practice.

Branching

California law permits California banks, such as the Bank, to establish additional banking offices with notice to the DFPI. Deposit-taking banking offices must be approved by the FDIC, which considers a number of factors, including a bank's financial condition and management. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") permits insured state banks to engage in interstate branching if the laws of the state where the new banking office is to be established would permit the establishment of the banking office if it were chartered by a bank in such state. A bank may also establish banking offices in other states by merging with banks or by purchasing banking offices of other banks in other states, subject to certain restrictions.

FDIC Insurance Assessments

The Bank's deposits are insured by the Deposit Insurance Fund of the FDIC up to the maximum amount permitted by law. As an FDIC insured financial institution, the Bank is subject to deposit insurance assessments as determined by the FDIC.

Under the FDIC's risk-based deposit premium assessment system, the assessment rates for an insured depository institution are determined by an assessment rate calculator, which is based on a number of elements that measure the risk each institution poses to the Deposit Insurance Fund. As a result of the Dodd-Frank Act, the calculated assessment rate is applied to average consolidated assets less the average tangible equity of the insured depository institution during the assessment period to determine the dollar amount of the quarterly assessment. Premiums are assessed quarterly and could increase if, for example, criticized loans and leases and/or other higher risk assets increase or balance sheet liquidity decreases. In addition, the FDIC can impose special assessments in certain instances.

Concentrations in Commercial Real Estate Lending

The federal banking regulators have issued guidance to identify institutions that may be exposed to potential significant commercial real estate lending risks and may therefore warrant greater supervisory scrutiny. The guidance includes the following numerical tests:

- total reported loans for construction, land development and other land represent 100% or more of the institution's total capital, or
- total commercial real estate loans represent 300% or more of the institution's total capital, and the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50% or more.

The guidance does not limit a bank's levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. Banking regulators expect banks with concentrations of commercial real estate loans to maintain appropriate underwriting discipline, risk-management and capital commensurate with the level and nature of their commercial real estate risks.

Community Reinvestment Act

The Community Reinvestment Act requires that the federal banking agencies evaluate the record of each financial institution in meeting the credit needs of its local community, including low- and moderate-income neighborhoods. If the Bank fails to adequately comply with the Community Reinvestment Act, the FDIC could impose remedial requirements and limitations on the Bank. In addition, the federal banking agencies must consider an institution's Community Reinvestment Act compliance in evaluating applications for mergers, acquisitions, and to establish branches. Additionally, the Bank must publicly disclose the terms of various Community Reinvestment Act-related agreements.

Transactions with Affiliates and Insiders

We are subject to the provisions of Regulation W promulgated by the Federal Reserve, which implements Sections 23A and 23B of the Federal Reserve Act. Regulation W places limits and conditions on the amount and terms of the Bank's loans or extensions of credit to, investments in, or certain other transactions with the Company or any other affiliated entity. Regulation W also prohibits, among other things, a depository institution from engaging in certain transactions with certain affiliates unless the transactions are on terms substantially the same, or at least as favorable to such institution or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. Federal law also places restrictions on the Bank's ability to extend credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and must not involve more than the normal risk of repayment or present other unfavorable features.

Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act of 1970 as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "Bank Secrecy Act"), which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers and mandatory transaction reporting obligations. For example, the Bank Secrecy Act and related regulations require that the Bank report currency transactions that exceed certain thresholds and transactions determined to be suspicious, establish due diligence requirements for accounts and take certain steps to verify customer identification when accounts are opened. The Bank Secrecy Act requires financial institutions to develop and maintain a program reasonably designed to ensure and monitor compliance with its requirements, to train employees to comply with and to test the effectiveness of the program. Any failure to meet the requirements of the Bank Secrecy Act can result in the imposition of substantial penalties and in adverse regulatory enforcement action against the noncompliant bank.

The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the Bank Secrecy Act, was enacted in January 2021. The AMLA is intended to be a comprehensive reform and modernization to U.S. bank secrecy and anti-money laundering laws. Among other things, it codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the development of standards for evaluating technology and internal processes for Bank Secrecy Act compliance; expands enforcement- and investigation-related authority, including increasing available sanctions for certain Bank Secrecy Act violations and instituting whistleblower incentives and protections.

Office of Foreign Assets Control Regulations and International Sanctions

The United States Treasury Department's Office of Foreign Assets Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries and regimes, under authority of various laws, including designated foreign countries, nationals and others. OFAC publishes lists of specially designated targets and countries. The Bank is responsible for, among other things, blocking accounts of, and transactions with, such targets and countries, prohibiting unlicensed trade and financial transactions with them and reporting blocked transactions after their occurrence. Our failure to comply with these sanctions and requirements could have serious financial, legal and reputational consequences. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

Data Privacy and Cybersecurity

The Gramm-Leach-Bliley Act (the "GLBA") and the implementing regulations issued by federal regulatory agencies require financial institutions (including banks, insurance agencies, and broker/dealers) to adopt policies and procedures regarding the disclosure of nonpublic personal information about their customers to non-affiliated third parties. In general, financial institutions are required to explain to customers their policies and procedures regarding the disclosure of such nonpublic personal information and, unless otherwise required or permitted by law, financial institutions are prohibited from disclosing such information except as provided in their policies and procedures. Specifically, the GLBA established certain information security guidelines that require each financial institution, under the supervision and ongoing oversight of its board of directors or an appropriate committee thereof, to develop, implement, and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against anticipated threats or hazards to the security or integrity of such information, and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer.

Recent cyber-attacks against banks and other financial institutions that resulted in unauthorized access to confidential customer information have prompted the federal banking regulators to issue extensive guidance on cybersecurity. Among other things, financial institutions are expected to design multiple layers of security controls to establish lines of defense and ensure that their risk management processes address the risks posed by compromised customer credentials, including security measures to authenticate customers accessing internet-based services. A financial institution is expected to have a robust business continuity program to recover from a cyberattack and procedures for monitoring the security of third-party service providers that may have access to nonpublic data at the institution.

Consumer Laws and Regulations

The Bank is subject to consumer laws and regulations intended to protect consumers in transactions with depository institutions, as well as other laws or regulations affecting customers of financial institutions generally. These laws and regulations include, among others, the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement and Procedures Act, the Fair Credit Reporting Act and the Federal Trade Commission Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans.

The Dodd-Frank Act centralized responsibility for federal consumer financial protection including implementing, examining and enforcing compliance with federal consumer financial laws with the Consumer Financial Protection Bureau (the "CFPB"). Depository institutions with less than $10 billion in assets, such as the Bank, are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The Dodd-Frank Act also gives state attorneys general the ability to enforce federal consumer protection laws.

Future Legislation and Regulation

Regulators have increased their focus on the regulation of the financial services industry in recent years, leading in many cases to greater uncertainty and compliance costs for regulated entities. Proposals that could substantially intensify the regulation of the financial services industry have been and may be expected to continue to be introduced in the United States Congress, in state legislatures, and by applicable regulatory authorities. These proposals may change banking statutes and regulations and our operating environment in substantial and unpredictable ways. If enacted, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. We cannot predict whether any of these proposals will be enacted and, if enacted, the effect that these proposals, or any implementing regulations, would have on our business, results of operations, or financial condition.

Item 1A. Risk Factors

Our business is subject to certain risks, including those described below. The following discussion addresses the most significant risks that could affect our business, financial condition, liquidity, results of operations, and capital position. If any of the events described in the following risk factors actually occurs then our business, results of operations and financial condition could be materially adversely affected. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations may be materially and adversely effected. In that event, the market price for our common stock would likely decline. More detailed information concerning these risks is contained in other sections of this report, including "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Risks Related to the Banking Business and our Strategy

We may suffer losses in our loan portfolio.

Loan defaults and losses on the loans we make are an inherent risk of the banking business. As a lender, we are exposed to the risk that our borrowers will not repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. Although we believe that our underwriting criteria are, and historically have been, appropriate for the various kinds of loans we make, we have incurred losses on loans that have met these criteria, and may experience higher than expected losses depending on economic factors and our borrowers' behavior. The risks of loan losses are exacerbated by adverse changes in economic, operating and other conditions, which are beyond our control, and may cause our actual loan losses to exceed our current allowance estimates.

We may be required to increase our allowance for loan losses, which would adversely affect our financial performance in the future.

We maintain an allowance for loan losses to provide a reserve for loan defaults and non-performance. There is no precise method of predicting loans losses. We regularly evaluate and conduct an analysis to determine the probable and estimable losses inherent in our loan portfolio and the adequacy of our allowance for loan losses. This evaluation requires us to make a number of estimates and judgments regarding the financial condition and creditworthiness of a significant number of our borrowers, the value and sufficiency of the collateral securing our loans, economic conditions and other factors, all of which are difficult to assess and may change over time.

If our estimates or judgments prove to be incorrect due to circumstances outside our control, the ineffectiveness of our credit administration or for other reasons or the Bank's regulators come to a different conclusion regarding the adequacy of our allowance for loan losses, we could be required to increase the provisions we make for loan losses, which could reduce our income or could cause us to incur operating losses in the future. Moreover, additions to the allowance may be necessary based on changes in economic and real estate market conditions, new information regarding existing loans, identification of additional problem loans and other factors, or unanticipated loan losses results from other circumstances, both within and outside of our control. These additions may require increased provision expense, which could negatively impact our results of operations.

In addition, the FASB has issued a new accounting standard for establishing allowances for loan and lease losses referred to as the Current Expected Credit Loss ("CECL"). CECL will replace the current approach under GAAP, which generally considers only past events and current conditions, with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first originated or acquired. We adopted the CECL standard on January 1, 2023. The CECL standard requires us to record, at the time of origination, credit losses expected throughout the life of the asset portfolio on loans and held-to-maturity securities, as opposed to the current practice of recording losses when it is probable that a loss event has occurred. We are currently evaluating the impact the CECL standard will have on our accounting and regulatory capital position. The adoption of the CECL standard will affect how we determine the allowance for loan losses and could require us to significantly adjust the allowance during the quarterly period ending March 31, 2023 and possibly on an on-going basis. Moreover, the CECL standard may create more volatility in the level of allowance for loan losses. If we are required to materially adjust the level of our allowance for loan losses for any reason, such an adjustment could have an adverse effect on our business, financial condition, and results of operations.

Our focus on lending to small to medium-sized businesses may increase our credit risk.

Most of our commercial business and commercial real estate loans are made to small to medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities, and may have a heightened vulnerability to economic conditions and greater customer concentration risk. If general economic conditions in the markets in which we operate negatively impact this customer segment, our results of operations and financial condition and the value of our common stock may be adversely affected. Moreover, a portion of these loans have been made by us in recent years and the borrowers may not have experienced a complete business or economic cycle. The deterioration of our borrowers' businesses may hinder their ability to repay their loans with us, which could have a material adverse effect on our financial condition and results of operations.

Our business concentration in Northern California imposes risks resulting from any regional or local economic downturn affecting Northern California.

We conduct our banking operations primarily in the greater San Francisco Bay Area of Northern California and we recently expanded to Sacramento, California. As a result, a significant majority of the loans in our loan portfolios as of December 31, 2022 were secured by properties and collateral located in California. As of such date, approximately 67% of the loans in our loan portfolio were made to borrowers who primarily conduct business or live in Northern California. The balance of our other loans were made primarily to borrowers located in other areas of California and were secured by properties located in the state. This geographic concentration imposes risks from lack of geographic diversification, as adverse economic developments in Northern California, among other things, could affect the volume of loan originations, increase the level of nonperforming assets, increase the rate of foreclosure losses on loans and reduce the value of our loans and loan servicing portfolio. Any regional or local economic downturn that affects California or existing or prospective borrowers or property values in such areas may affect us and our profitability more significantly and more adversely than our competitors whose operations are less geographically concentrated.

Because a significant portion of our loan portfolio is comprised of real estate loans, negative changes in the economy affecting real estate values and liquidity could impair the value of collateral securing our real estate loans and result in loan and other losses.

As of December 31, 2022, approximately 57% of our loan portfolio was comprised of commercial real estate and other loans with real estate as a primary or secondary component of collateral. This includes collateral consisting of income producing and residential construction properties, which properties tend to be more sensitive to general economic conditions and downturns in real estate markets. As a result, adverse developments affecting real estate values in our market areas could increase the credit risk associated with our real estate loan portfolio. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the area in which the real estate is located. Adverse changes affecting real estate values and the liquidity of real estate in our markets could increase the credit risk associated with our loan portfolio, and could result in losses that would adversely affect credit quality, financial condition, and results of operation. Negative changes in the economy affecting real estate values and liquidity in our market areas could significantly impair the value of property pledged as collateral on loans and affect our ability to sell the collateral upon foreclosure without a loss or additional losses. Collateral may have to be sold for less than the outstanding balance of the loan, which could result in losses on such loans. Such declines and losses could have a material adverse impact on our business, results of operations and growth prospects. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses, which could adversely affect our financial condition, results of operations and cash flows.

We are exposed to higher credit risk by commercial real estate, commercial and industrial and construction and development-based lending as well as relationship exposure with a number of large borrowers.

Commercial real estate, commercial and industrial and construction and land development based lending usually involve higher credit risks than 1-4 family residential real estate lending. As of December 31, 2022 the following loan types accounted for the stated percentages of our loan portfolio: commercial real estate (both owner-occupied and non-owner occupied) 53%; commercial and industrial 40%; and construction and land 4%. These types of loans also involve larger loan balances to a single borrower or groups of related borrowers. These higher credit risks are further heightened when the loans are concentrated in a small number of larger borrowers leading to relationship exposure. As of December 31, 2022, we had 20 relationships with over $15 million of outstanding borrowings with us. While we are not dependent on any of these relationships and while none of these large relationships have directly impacted our allowance for loan losses, a deterioration of any of these large credits could require us to increase our allowance for loan losses or result in significant losses to us.

Non-owner occupied commercial real estate loans may be affected to a greater extent than residential loans by adverse conditions in real estate markets or the economy because commercial real estate borrowers' ability to repay their loans depends on successful development of their properties, in addition to the factors affecting residential real estate borrowers. These loans also involve greater risk because they generally are not fully amortizing over the loan period, but have a balloon payment due at maturity. A borrower's ability to make a balloon payment typically will depend on being able to either refinance the loan or sell the underlying property in a timely manner.

Commercial and industrial loans and owner-occupied commercial real estate loans are typically based on the borrowers' ability to repay the loans from the cash flow of their businesses. These loans may involve greater risk because the availability of funds to repay each loan depends substantially on the success of the business itself. In addition, the assets securing the loans have the following characteristics: (i) they depreciate over time, (ii) they are difficult to appraise and liquidate, and (iii) they fluctuate in value based on the success of the business.

A subset of our commercial and industrial loans are structured as Asset Based Lending ("ABL") loans. Generally, our ABL loans are structured as callable and cancelable transactions. Generally the borrowing base has a maximum advance rate of 80% against eligible receivables and may include a lower advance rate against inventory. Repayment of ABL loans depends substantially on the ability of the borrower to monetize the assets in a defined borrowing base. Therefore, the quality and collectability of accounts receivable, concentrations among account debtors, financial strength of the account debtors, and quality and transferability of inventory can impact repayment. At December 31, 2022, ABL loans totaled approximately $50.2 million, or 3% of our loan portfolio.

Risk of loss on a construction and development loan depends largely upon whether our initial estimate of the property's value at completion of construction or development equals or exceeds the cost of the property construction or development (including interest), the availability of permanent take-out financing and the builder's ability to ultimately sell the property. During the construction or development phase, a number of factors can result in delays and cost overruns. If estimates of value are inaccurate or if actual construction costs exceed estimates, the value of the property securing the loan may be insufficient to ensure full repayment when completed through a permanent loan or by seizure of collateral.

Additionally, commercial real estate loans, commercial and industrial loans and construction and development loans are more susceptible to a risk of loss during a downturn in the business cycle. Our underwriting, review and monitoring cannot eliminate all of the risks related to these loans.

Banking regulators are giving commercial real estate lending greater scrutiny, and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of allowances for losses and capital levels as a result of commercial real estate lending growth and exposures. Therefore, we could be required to raise additional capital or restrict our future growth as a result of our higher level of commercial real estate loans.

A significant percentage of our loans are attributable to a relatively small number of borrowers.

Our 10 largest borrowing relationships accounted for approximately 13% of our loans at December 31, 2022. Our largest single borrowing relationship accounted for approximately 2% of our loans at December 31, 2022. The loss of any combination of these borrowers, or a significant decline in their borrowings due to fluctuations related to their business needs, could adversely affect our results of operations if we are unable to replace their borrowings with similarly priced new loans or investments. In addition, with this concentration of credit risk among a limited number of borrowers, we may face a greater risk of material credits losses if any one or several of these borrowers fail to perform in accordance with their loans, compared to a bank with a more diversified loan portfolio.

We depend on our executive officers and other key individuals to continue the implementation of our long-term business strategy and could be harmed by the loss of their services and our inability to make up for such loss with qualified replacements.

We believe that our continued growth and future success will depend in large part on the skills of our management team and our ability to motivate and retain these individuals and other key individuals. The loss of any of their service could reduce our ability to successfully implement our long-term business strategy, our business could suffer and the value of our common stock could be materially adversely affected. Leadership changes will occur from time to time and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. We believe our management team possesses valuable knowledge about the banking industry and that their knowledge and relationships would be very difficult to replicate. Our success also depends on the experience of our bankers and lending officers and on their relationships with the customers and communities they serve. The loss of key personnel, or the inability to recruit and retain qualified and talented personnel in the future, could have an adverse effect on our business, financial condition or operating results.

We face strong competition from other companies that offer banking and financial services.

We conduct our banking operations primarily in Northern California. Many of our competitors offer the same, or a wider variety of, banking services within our market areas. These competitors include banks with nationwide operations, regional banks and community banks. In many instances these national and regional banks have greater resources than we do and some community banks may have stronger ties in local markets than we do, which may put us at a competitive disadvantage. We also face competition from many other types of financial institutions, including savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In addition, a number of out-of-state financial institutions have opened production offices, or otherwise solicit deposits and loans, in our market areas. Increased competition in our markets may result in reduced loans and deposits, as well as reduced net interest margin and profitability. Ultimately, we may not be able to compete successfully against current and future competitors. If we are unable to attract and retain banking clients, we may be unable to continue to grow our loan and deposit portfolios, and our business, financial condition and results of operations may be adversely affected.

We follow a relationship-based operating model and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.

We are a community bank, and our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining bankers and other associates who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Furthermore, maintaining our reputation also depends on our ability to protect our brand name and associated trademarks.

However, reputation risk, or the risk to our business, earnings and capital from negative public opinion surrounding our Company and the financial institutions industry generally, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including business and lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract customers and employees and can expose us to litigation and regulatory action. Although we take steps to minimize reputation risk in dealing with our customers and communities, this risk will always be present given the nature of our business.

If our reputation is negatively affected by the actions of our employees or otherwise, our business and operating results may be materially adversely affected.

Interest rate shifts may reduce net interest income and otherwise negatively impact our financial condition and results of operations.

The majority of our banking assets are monetary in nature and subject to risk from changes in interest rates. Like most financial institutions, our earnings are significantly dependent on our net interest income, the principal component of our earnings, which is the difference between interest earned by us from our interest-earning assets, such as loans and investment securities, and interest paid by us on our interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets.

Interest rate increases often result in larger payment requirements for our borrowers, which increase the potential for default. At the same time, the marketability of the property securing a loan may be adversely affected by any reduced demand resulting from higher interest rates. In a declining interest rate environment, there may be an increase in prepayments on loans as borrowers refinance their loans at lower rates.

Changes in interest rates also can affect the value of loans, securities and other assets. An increase in interest rates that adversely affects the ability of borrowers to pay the principal or interest on loans may lead to an increase in nonperforming assets and a reduction of income recognized, which could have a material adverse effect on our results of operations and cash flows.

If short-term interest rates remain at their historically low levels for a prolonged period, and assuming longer term interest rates fall further, we could experience net interest margin compression as our interest earning assets would continue to re-price downward while our interest-bearing liability rates could fail to decline in tandem. Such an occurrence would have a material adverse effect on our net interest income and our results of operations.

Although we believe that we have implemented effective asset and liability management strategies to mitigate the potential adverse effects of changes in interest rates on our results of operations, any substantial or unexpected change in, or prolonged change in market interest rates could have a material adverse effect on our financial condition and results of operations.

We could recognize losses on securities held in our securities portfolio, particularly if interest rates increase or economic and market conditions deteriorate.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and can cause potential adverse changes to the fair value of these securities. For example, fixed-rate securities in our portfolio are generally subject to decreases in market value when interest rates rise, as they did in 2022. Other factors that may influence the value of securities we hold include but are not limited to rating agency downgrades of the securities or our own analysis of the value of the security, defaults by the issuer or individual mortgagors with respect to the underlying securities and instability in the credit markets. Any of the foregoing factors could cause an other-than-temporary impairment in future periods and result in realized losses. The process for determining whether impairment is other-than-temporary usually requires difficult, subjective judgments about the future financial performance of the issuer and any collateral underlying the security in order to assess the probability of receiving all contractual principal and interest payments on the security. Because of changing economic and market conditions affecting interest rates, the financial condition of issuers of the securities and the performance of the underlying collateral, we may recognize realized and/or unrealized losses in future periods, which could have an adverse effect on our financial condition and results of operations.

Our deposit portfolio includes significant concentrations and a large percentage of our deposits are attributable to a relatively small number of customers.

As a commercial bank, we provide services to a number of customers whose deposit levels vary considerably. Our 10 largest depositor relationships accounted for approximately 17% of our deposits at December 31, 2022. Our largest depositor relationship accounted for approximately 3% of our deposits at December 31, 2022. These deposits can and do fluctuate substantially. The loss of any combination of these depositors, or a significant decline in the deposit balances due to ordinary course fluctuations related to these customers' businesses, could adversely affect our liquidity and require us to raise deposit rates to attract new deposits, purchase federal funds or borrow funds on a short-term basis to replace such deposits. Depending on the interest rate environment and competitive factors, low cost deposits may need to be replaced with higher cost funding, resulting in a decrease in net interest income and net income.

A lack of liquidity could adversely affect our operations and jeopardize our business, financial condition, and results of operations.

Liquidity is essential to our business. We rely on our ability to generate deposits and effectively manage the repayment and maturity schedules of our loans and investment securities, respectively, to ensure that we have adequate liquidity to fund our operations. An inability to raise funds through deposits, borrowings, the sale of our investment securities, Federal Home Loan Bank ('FHLB") advances, the sale of loans, and other sources could have a substantial negative effect on our liquidity. Our most important source of funds consists of deposits. Deposit balances can decrease when customers perceive alternative investments as providing a better risk/return tradeoff. If our customers move money out of bank deposits and into other investments, we would lose a relatively low-cost source of funds, increasing our funding costs and reducing our net interest income and net income.

Any decline in available liquidity could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to our shareholders, or to fulfill obligations such as repaying our borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

We may need to raise additional capital in the future, and if we fail to maintain sufficient capital, whether due to losses, an inability to raise additional capital or otherwise, our financial condition, liquidity and results of operations, as well as our ability to maintain compliance with regulatory capital requirements, would be adversely affected.

We face significant capital and other regulatory requirements as a financial institution. In addition, the Company, on a consolidated basis, and the Bank, on a stand-alone basis, must meet certain regulatory capital requirements and maintain sufficient liquidity. We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to support our growth, absorb any losses and to meet our commitments and business needs. Our ability to raise additional capital depends on conditions in the capital markets, economic conditions and a number of other factors, including investor perceptions regarding the banking industry, market conditions and governmental activities, and on our financial condition and performance. Accordingly, we cannot assure you that we will be able to raise additional capital if needed or on terms acceptable to us. If we fail to maintain capital to meet regulatory requirements, our financial condition, liquidity and results of operations would be materially and adversely affected.

We may pursue acquisitions in the future, which would expose us to financial, execution and operational risks that could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

We may pursue acquisitions of other financial institutions, bank branches and or financial services businesses in target markets. Such an acquisition strategy would involve significant risks, including our success in integrating the acquired operations, retaining key employees and customers, achieving anticipated synergies, meeting expectations and otherwise realizing the undertaking's anticipated benefits; litigation resulting from circumstances occurring at the acquired entity prior to the date of acquisition; loan downgrades and credit loss provisions resulting from underwriting of certain acquired loans determined not to meet our credit standards; personnel changes that cause instability within a department; delays in implementing new policies or procedures or the failure to apply new policies or procedures; and other events relating to the performance of our business. Failure to successfully integrate the entities we acquire into our existing operations may increase our operating costs significantly and adversely affect our business and earnings.

Risks Related to Technology

System failure or breaches of our network security, including as a result of cyber-attacks or data security breaches, could subject us to increased operating costs as well as litigation and other liabilities.

The computer systems and network infrastructure we use may be vulnerable to physical theft, fire, power loss, telecommunications failure or a similar catastrophic event, as well as security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Any damage or failure that causes breakdowns or disruptions in our customer relationship management, general ledger, deposit, loan and other systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny for failure to comply with required information security standards, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on us.

Computer break-ins, phishing and other disruptions could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure. Information security risks have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists, and other external parties. Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. In addition, to access our products and services, our customers may use devices that are beyond our control systems. Although we believe we have robust information security procedures and controls, our technologies, systems, networks, and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of the Bank's or our customers' confidential, proprietary and other information, or otherwise disrupt the Bank's or our customers' or other third parties' business operations. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities.

The Bank is under continuous threat of loss due to hacking and cyber-attacks especially as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. Attempts to breach sensitive customer data, such as account numbers and social security numbers, are less frequent but would present significant reputational, legal and/or regulatory costs to us if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. We cannot assure that we will not be the victim of successful hacking or cyberattacks in the future that could cause us to suffer material losses. The occurrence of any cyber-attack or information security breach could result in potential liability to customers, reputational damage and the disruption of our operations, and regulatory concerns, all of which could adversely affect our business, financial condition or results of operations.

We have a continuing need to stay current with technological changes to compete effectively and increase our efficiencies. We may not have the resources to implement new technology to stay current with these changes.

The financial services industry is undergoing rapid technological changes with frequent introductions of new technology-driven products and services. In addition to better serving customers, the effective use of technology increases efficiency and enables financial institutions to reduce costs. Our future success will depend in part upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands for convenience as well as to provide secure electronic environments and create additional efficiencies in our operations as we continue to grow and expand our market area. In connection with implementing new technology enhancements or products in the future, we may experience certain operational challenges (e.g. human error, system error, incompatibility, etc.) which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Many of our larger competitors have substantially greater resources to invest in technological improvements and have invested significantly more than us in technological improvements. As a result, they may be able to offer additional or more convenient products compared to those that we will be able to provide, which would put us at a competitive disadvantage. Accordingly, we may not be able to effectively implement new technology-driven products and services or be successful in marketing such products and services to our customers, which could impair our growth and profitability.

We rely on third parties to provide key components of our business infrastructure.

We rely on third parties to provide key components for our business operations, such as data processing and storage, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. While we select these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason, or poor performance of services by a vendor, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Replacing these third-party vendors could create significant delays and expense that adversely affect our business and performance.

Other Risks Related to Our Operations

We are subject to certain operational risks, including, but not limited to, customer or employee fraud and data processing system failures and errors.

Employee errors and employee and customer misconduct could subject us to financial losses or regulatory sanctions and seriously harm our reputation. Misconduct by our employees could include hiding unauthorized activities from us, improper or unauthorized activities on behalf of our customers or improper use of confidential information. It is not always possible to prevent employee errors and misconduct, and the precautions we take to prevent and detect this activity may not be effective in all cases. Employee errors could also subject us to financial claims for negligence.

We maintain a system of internal controls and insurance coverage to mitigate against operational risks, including data processing system failures and errors and customer or employee fraud. If our internal controls fail to prevent or detect an occurrence, or if any resulting loss is not insured or exceeds applicable insurance limits, it could have a material adverse effect on our business, financial condition and results of operations.

In addition, we rely heavily upon information supplied by third parties, including the information contained in credit applications, property appraisals, title information, equipment pricing and valuation and employment and income documentation, in deciding which loans we will originate, as well as the terms of those loans. If any of the information upon which we rely is misrepresented, either fraudulently or inadvertently, and the misrepresentation is not detected prior to asset funding, the value of the asset may be significantly lower than expected, or we may fund a loan that we would not have funded or on terms we would not have extended. Whether a misrepresentation is made by the applicant or another third party, we generally bear the risk of loss associated with the misrepresentation. A loan subject to a material misrepresentation is typically unsellable or subject to repurchase if it is sold prior to detection of the misrepresentation. The sources of the misrepresentations are often difficult to locate, and it is often difficult to recover any of the monetary losses we may suffer.

We are exposed to risk of environmental liabilities with respect to properties to which we obtain title.

A significant portion of our loan portfolio is secured by real estate. In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. We may be held liable to a government entity or to third parties for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination, or may be required to clean up hazardous or toxic substances, or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations and prospects.

We may be adversely affected by the lack of soundness of other financial institutions or market utilities.

Our ability to engage in routine funding and other transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty or other relationships. Defaults by, or even rumors or questions about, one or more financial institutions or market utilities, or the financial services industry generally, may lead to market-wide liquidity problems and losses of depositor, creditor and counterparty confidence and could lead to losses or defaults by us or by other institutions.

We face risks related to severe weather, natural disasters and other external events that could adversely affect our business.

Our operations and our customers are primarily located in the Northern California where natural and other disasters may occur. The region is vulnerable to natural disasters, such as earthquakes, fires, droughts and floods. These types of natural catastrophic events may disrupt the local economies, our business and customers in these regions. These events could affect the stability of the Bank's deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans and cause significant property damage, any of which could materially adversely affect our business and operating results.

There are substantial risks and uncertainties associated with the introduction or expansion of lines of business or new products and services within existing lines of business.

From time to time, we may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, we may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove attainable. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of our system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on our business, results of operations, and financial condition.

The COVID-19 pandemic may adversely affect our business activities, financial condition and results of operations.

The ongoing COVID-19 pandemic has caused significant disruptions in the United States economy and may continue to disrupt the business, activities and operations of our customers, as well as our business and operations. COVID-19 outbreaks may result in a significant decrease in business and/or cause our customers to be unable to meet existing payment or other obligations to us. The pandemic has also changed consumer and business behaviors and preferences.

There continue to be broad concerns and uncertainty related to the COVID-19 pandemic. If the pandemic has an adverse effect on (i) the preferences and behaviors of our customers, (ii) customer deposits, (iii) the ability of our borrowers to satisfy their obligations to us, (iv) the demand for our loans or our other products and services, (v) other aspects of our business operations, or (vi) on financial markets, real estate markets, or economic growth, any of which could materially and adversely affect our business, liquidity, financial condition and the results of operations.

We continue to monitor the COVID-19 pandemic, its economic effects, its effects on customer behaviors and related risks. However, the rapid development and fluidity of the situation precludes any specific prediction as to its ultimate impact on the Company. The potential continued impact of COVID-19 and its impact on the economy heightens the risk associated with many of the following risk factors described in this report, such as those related to loan losses and our reliance on our executives and third-party service providers, for example.

Climate change could have a material negative impact on us and our clients.

Concerns over the long-term impacts of climate change have led to governmental efforts to mitigate those impacts. Consumers and businesses also may change their behavior as a result of these concerns. We and our customers will need to respond to new laws and regulations as well as consumer and business preferences resulting from climate change concerns. As a result, we and our customers may face cost increases, asset value reductions and operating process changes. We could face reductions in creditworthiness on the part of some customers or in the value of assets securing loans. Our efforts to take these risks into account in making lending and other decisions, may not be effective in mitigating the negative impacts of new laws, changes in consumer or business behavior or other result of climate change.

Climate change presents multi-faceted risks, including operational risk from the physical effects of climate events on us, our customers and other assets; credit risk from borrowers with significant exposure to climate risk; risks associated with the transition to a less carbon- dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, our carbon footprint, and our business relationships with clients who operate in carbon-intensive industries.

The risks associated with climate change are constantly evolving and difficult to assess, but a could have a material negative impact on our business, financial condition and results of operations.

Risks Related To Our Common Stock

Laws and regulations restrict our ability to pay dividends.

Both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends. These restrictions are described in greater detail in “Business—Supervision and Regulation—Regulation of the Company” and “Business—Supervision and Regulation—Regulation of the Bank.

For the foreseeable future, the majority, if not all, of the Company's revenue will be from any dividends paid to the Company by the Bank. Accordingly, our ability to pay dividends also depends on the ability of the Bank to pay dividends to the Company. Furthermore, our present and future dividend policy is subject to the discretion of our board of directors.

We cannot guarantee that the Company or the Bank will be permitted by financial condition or applicable regulatory restrictions to pay dividends or, that our board of directors will ever decide that we should pay dividends.

We have the ability to incur debt and pledge our assets, including our stock in the Bank, to secure that debt.

We have the ability to incur debt and pledge our assets to secure that debt. Absent special and unusual circumstances, a holder of indebtedness for borrowed money has rights that are superior to those of holders of common stock. For example, interest must be paid to the lender before dividends can be paid to the shareholders, and loans must be paid off before any assets can be distributed to shareholders if we were to liquidate. Furthermore, we would have to make principal and interest payments on our indebtedness, which could reduce our profitability or result in net losses on a consolidated basis even if the Bank were profitable.

Our board of directors may issue shares of preferred stock that could adversely affect the rights of our common shareholders.

Our authorized capital stock includes 10,000,000 shares of preferred stock, none of which are issued and outstanding. Our board of directors, in its sole discretion, may designate and issue one or more series of preferred stock from the authorized and unissued shares of preferred stock. Subject to limitations imposed by law or our Articles of Incorporation, our board of directors is empowered to determine:

- the designation of, and the number of, shares constituting each series of preferred stock;
- the dividend rate for each series;
- the terms and conditions of any voting, conversion and exchange rights for each series;
- the amounts payable on each series on redemption or our liquidation, dissolution or winding-up;
- the provisions of any sinking fund for the redemption or purchase of shares of any series; and
- the preferences and the relative rights among the series of preferred stock.

We could issue preferred stock with voting and conversion rights that could adversely affect the voting power of the shares of our common stock and with preferences over the common stock with respect to dividends and in liquidation.

The Company's internal controls and procedures may fail or be circumvented and the accuracy of our management's judgments and estimates about financial and accounting matters may impact operating results and financial condition.

The Company's management regularly reviews and updates its internal controls over financial reporting, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls and procedures, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures, or failure to comply with regulations related to controls and procedures, could result in materially inaccurate reported financial statements and/or have a material adverse effect on the Company's business, results of operations, and financial condition. Similarly, the Company's management makes certain estimates and judgments in preparing the Company's financial statements. The quality and accuracy of those estimates and judgments will impact the Company's operating results and financial condition.

We are an emerging growth company and the reduced disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.

We are an emerging growth company. Under the JOBS Act, emerging growth companies can take advantage of certain exemptions from various reporting requirements that are applicable to other public companies including, without limitation, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a non-binding advisory shareholder vote on executive compensation and golden parachute payments, exemption from the requirement of auditor attestation in the assessment of our internal control over financial reporting and exemption from any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit partner rotation or a supplement to the auditor's report providing additional information about our audit and the financial statements (auditor discussion and analysis). As a result of the foregoing, the information that we provide shareholders may be different than what is available with respect to other public companies.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We plan to elect to use the extended period for compliance and, as a result, our financial statements may not be comparable to companies that comply with public company effective dates.

Our securities are not FDIC insured.

Our securities, including our common stock, are not savings or deposit accounts or other obligations of the Bank, are not insured by the Deposit Insurance Fund, the FDIC or any other governmental agency and are subject to investment risk, including the possible loss of your entire investment in our stock.

Risks Related to Regulations, the E-Business Environment, and Our Industry

We are subject to extensive government regulation and supervision, which may interfere with our ability to conduct our business and may negatively impact our financial results.

The Company and the Bank are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect consumers, depositors' funds and the safety and soundness of the banking system as a whole, not our shareholders. These regulations affect the Bank's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Company and/or the Bank in substantial and unpredictable ways. Such changes could subject the Company and/or the Bank to additional costs, limit the types of financial services and products the Company and/or the Bank may offer, and/or limit the pricing the Company and/or the Bank may charge on certain banking services, among other things. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings.

Our failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on our business, financial condition and results of operations. While we have policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur. See "Business—Supervision and Regulation".

Bank regulatory agencies, including the Federal Reserve, FDIC and the DFPI, periodically conduct examinations of our business, including for compliance with laws and regulations, and could subject us to regulatory enforcement actions or other negative consequences.

Bank regulatory agencies, including the Federal Reserve, the FDIC and the DFPI, periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory, or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin “unsafe or unsound” practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank’s capital, to restrict the bank’s growth, to assess civil monetary penalties against a bank’s officers or directors, and to remove officers and directors. The CFPB also has authority to take enforcement actions, including cease-and desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws.

If a bank regulatory agency determines that we have violated a law or engaged in an unsafe or unsound practice, we could become subject to a variety of supervisory actions and orders, including cease and desist orders, prompt corrective actions, memoranda of understanding and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. The Company could also be required to raise additional capital, or dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility and overall financial condition.

Monetary policies and regulations of the Federal Reserve could adversely affect our business, financial condition and results of operations.

In addition to being affected by general economic conditions, our earnings and growth are affected by the policies of the Federal Reserve. An important function of the Federal Reserve is to regulate the money supply and credit conditions. Among the instruments used by the Federal Reserve to implement these objectives are open market operations in U.S. government securities, adjustments of the discount rate and changes in reserve requirements against bank deposits. These instruments are used in varying combinations to influence overall economic growth and the distribution of credit, bank loans, investments and deposits. Their use also affects interest rates charged on loans or paid on deposits. The monetary policies and regulations of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. The effects of such policies upon our business, financial condition and results of operations cannot be predicted.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Past market developments and bank failures significantly depleted the FDIC’s Deposit Insurance Fund and reduced the ratio of reserves to insured deposits. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay higher FDIC premiums. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations.

We are subject to federal and state fair lending laws, and failure to comply with these laws could lead to material penalties.

Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB, the federal banking agencies and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to our performance under the fair lending laws and regulations could adversely impact our rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact our reputation, business, financial condition and results of operations.

We face a risk of noncompliance and enforcement action with the Bank Secrecy Act and other anti-money laundering statutes and regulations.

The Bank Secrecy Act of 1970, the USA PATRIOT Act and other laws and regulations require financial institutions, among other duties, to institute and maintain effective anti-money laundering programs and file suspicious activity and currency transaction reports as appropriate. If our policies, procedures and systems are deemed deficient we could be subject to liability, including fines, regulatory actions and regulatory restrictions on our ability to proceed with certain aspects of our business plan or expansionary activities, which would negatively impact our business, financial condition and results of operations. Failure to maintain and implement adequate programs to combat money laundering could also have serious reputational consequences for us. See "Business—Supervision and Regulation—Regulation of the Bank."

General Risk Factors

Changes in accounting standards could materially impact our financial statements.

From time to time, the Financial Accounting Standards Board ("FASB") or the SEC may change the financial accounting and reporting standards that govern the preparation of our financial statements. Such changes may result in us being subject to new or changing accounting and reporting standards. In addition, the bodies that interpret the accounting standards (such as banking regulators or outside auditors) may change their interpretations or positions on how these standards should be applied. These changes may be beyond our control, are difficult to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retrospectively, or apply an existing standard differently, also retrospectively, in each case resulting in our needing to revise or restate prior period financial statements.

Our stock price may be volatile, which could result in losses to our investors and litigation against us.

Many factors could cause our stock price to fluctuate substantially in the future. These factors include but are not limited to: actual or anticipated variations in earnings, changes in analysts' recommendations or projections, our announcement of developments related to our businesses, operations and stock performance of other companies deemed to be peers, new technology used or services offered by traditional and non-traditional competitors, news reports of trends, irrational exuberance on the part of investors, new or expected changes to federal banking regulations, our limited number of shares and shareholders, and other issues related to the financial services industry. Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market declines or market volatility in the future, especially in the financial institutions sector, could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices. Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Moreover, in the past, securities class action lawsuits have been instituted against some companies following periods of volatility in the market price of its securities. We could in the future be the target of similar litigation. Securities litigation could result in substantial costs and divert management's attention and resources from our normal business.

If equity research analysts do not publish research or reports about our business, or if they do publish such reports but issue unfavorable commentary or downgrade our common stock, the price and trading volume of our common stock could decline.

The trading market for our common stock could be affected by whether and to what extent equity research analysts publish research or reports about us and our business. We cannot predict at this time how many research analysts will cover us and our common stock or how many will publish research and reports on us. If one or more equity analysts cover us and publish research reports about our common stock, the price of our stock could decline if one or more securities analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us.

If any of the analysts who elect to cover us downgrade their recommendation with respect to our common stock, our stock price could decline rapidly. If any of these analysts ceases coverage of us, we could lose visibility in the market, which in turn could cause our common stock price or trading volume to decline and our common stock to be less liquid.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's principal executive offices are located at 1300 Clay Street, Suite 500, Oakland, California. The Bank operates a branch office in Walnut Creek, California and loan production offices in Walnut Creek, San Jose, Sacramento and Oakland. All of our offices are leased.

Item 3. Legal Proceedings

The Company is not involved in any material pending legal proceedings other than legal proceedings occurring in the ordinary course of business. Management believes that none of these legal proceedings, individually or in the aggregate, will have a material adverse impact on the results of operations or financial condition of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information and Holders of Record

The Company's common stock began trading on the NASDAQ Global Select Market under the symbol "CALB" on March 1, 2020. The closing price for our common stock on December 31, 2022 was $23.78 per share.

As of December 31, 2022, there were approximately 205 shareholders of record. This number does not include shareholders who maintain their shares in the name of brokerage firms or other financial institutions. The Company is not provided the exact number of, or identities of, these shareholders.

Dividends

We have not paid dividends in recent years. It has been our policy to retain earnings to support our future growth rather than paying dividends.

As a holding company, our ability to pay cash dividends is affected by the ability of our bank subsidiary, the Bank, to pay cash dividends. The ability of the Bank (and our ability) to pay cash dividends in the future and the amount of any such cash dividends is and could be in the future further influenced by bank regulatory requirements and approvals and capital guidelines.

For information on the statutory and regulatory limitations on the ability of the Company to pay dividends to shareholder and on the Bank to pay dividends to the Company see "Item 1 — Business — Supervision and Regulation—Regulation of the Company" and "Item 1 -- Business—Supervision and Regulation—Regulation of the Bank."

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read together with our Consolidated Financial Statements and accompanying notes presented elsewhere in this Report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under Item 1A "Risk Factors" and elsewhere in this Report. Please see the "Forward Looking Information" immediately preceding Part I of this Report.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP and with general practices within the financial services industry. Application of these principles requires management to make complex and subjective estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under current circumstances. These assumptions form the basis for our judgments about the carrying values of assets and liabilities that are not readily available from independent, objective sources. We evaluate our estimates on an ongoing basis. Use of alternative assumptions may have resulted in significantly different estimates. Actual results may differ from these estimates.

Allowance for Loan Losses

Credit risk is inherent in the business of extending loans to borrowers. Due to this risk, the Company must maintain an allowance for loan losses that management believes is adequate to absorb estimated probable losses on existing loans that may become uncollectible. This reserve is established through a provision for loan losses that is recorded to expense. Loans are charged against the reserve when management believes with certainty that the loan balance will not be collectible. Any cash received on previously charged-off amounts is recorded as a recovery to the reserve. The Company formally re-evaluates and establishes the appropriate level of the allowance for loan losses on a quarterly basis.

The allowance for loan losses consists of specific and general reserves. The specific reserve relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and also classified as impaired. When a loan is considered to be impaired, the amount of impairment is measured based on the fair value of the collateral (less costs to sell) if the loan is collateral dependent, or on the present value of expected future cash flows or values that are observable on the secondary market if the loan is not collateral dependent. The general reserve relates to all non-impaired loans. In determining the general reserve, management applies quantitative and qualitative factors to each segment of the loan portfolio. Quantitative factors primarily include the Company's historical delinquency and loss experience. For segments of the loan portfolio where the Company has no significant prior loss experience, management uses quantifiable observable industry data to determine the amount of potential loss to include in the reserve. Qualitative factors supplement the quantitative factors applied to each segment of the loan portfolio and include: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration. While management uses the best information available to make its evaluation, future adjustments to the allowance for loan losses may be necessary if there are significant changes in economic or other conditions that affect the current risk profile of the loan portfolio.

Other Significant Accounting Policies

Our most significant accounting policies are described in Note 1 to our audited financial statements for the year ended December 31, 2022, included elsewhere in this Report.

Non-GAAP Financial Measures

Some of the financial measures discussed in this Report are considered non-GAAP financial measures. In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, from the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles.

We believe that non-GAAP financial measures provide useful information to management and investors that is supplementary to our statements of financial condition, results of income and cash flows computed in accordance with GAAP. However, we acknowledge that our non-GAAP financial measures have limitations. As such, you should not view this disclosure as a substitute for results determined in accordance with GAAP, and it is not necessarily comparable to non-GAAP financial measures that other banking companies use. Other banking companies may use names similar to those we use for the non-GAAP financial measures we disclose, but may calculate them differently. You should understand how we and other companies each calculate their non-GAAP financial measures when making comparisons.

The following table reflects the details of the non-GAAP financial measures the Company has included in this Report.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Allowance for loan loss as a percentage of outstanding loans, excluding PPP loans:		
Allowance for loan loss	$ 17,005	$ 14,081
Gross loans	$ 1,593,421	$ 1,376,649
Less: PPP loans	2,358	72,527
Gross loans, net of PPP loans	$ 1,591,063	$ 1,304,122
Allowance for loan loss as a percentage of outstanding loans, excluding PPP loans	1.07%	1.08%

Results of Operations:

Overview

For the years ended December 31, 2022 and 2021, net income was $21.1 million and $13.4 million, respectively. The increase of $7.7 million, or 58%, was primarily attributable to an increase in net interest income of 16.2 million and increase in non-interest income of $3.2 million, partially offset by an increase in the provision for credit losses of $3.8 million, an increase in non-interest expense of $4.2 million and an increase in income tax expense of $3.7 million.

Net Interest Income and Margin

Net interest income, the difference between interest earned on loans and investments and interest paid on deposits and borrowings is the principal component of the Company's earnings. Net interest income is affected by changes in the nature and volume of earning assets and interest-bearing liabilities held during the quarter, the rates earned on such assets and the rates paid on interest bearing liabilities.

Net interest income for the year ended December 31, 2022, was $7

0.9 million, an increase of $16.2 million, or 30% over $54.7 million for the year ended December 31, 2021. The increase in net interest income was primarily attributable to an increase in interest income as the result of a more favorable mix of earning assets combined with higher yields on those assets and the acceleration of an unamortized discount totaling $1.4 million related to the repayment of previously purchased loans, partially offset by a $3.8 million reduction in the amortization of net fees received on Paycheck Protection Program ("PPP") loans funded under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

For the year ended December 31, 2022 average total interest-earning assets were $1.87 billion compared to $1.89 billion for the year ended December 31, 2021. The yield on average earning assets increased 116 basis points to 4.40% for the year ended December 31, 2022 from 3.24% for the year ended December 31, 2021. The yield on total average gross loans in the year ended December 31, 2022 was 4.96%, representing an increase of 67 basis points compared to 4.29% for the same period one year earlier. For the year ended December 31, 2022, the yield on average investment securities increased 6 basis points to 2.90% from 2.84% for the year ended December 31, 2021.

For the year ended December 31, 2022, average loans increased $127.0 million from the year ended December 31, 2021, while average deposit balances decreased $14.9 million for the same period. As a result, the average loan to deposit ratio for the year ended December 31, 2022 was 90.69% compared to 82.25% for the same period in the prior year.

Of the $127.0 million increase in average loan balances year over year, average commercial, real estate other and construction and land loans increased by $151.8 million, $167.7 million and $18.9 million, respectively, as a result of organic growth. These increases were primarily offset by a decrease in lower yielding average SBA loans of $200.0 million as a result of PPP loan forgiveness.

Of the $14.9 million decrease in average total deposit balances year over year, $54.2 million was attributable to a decrease in money market and savings accounts, offset by an increase in total demand deposits of $8.9 million and an increase in time deposits of $30.4 million. The cost of interest-bearing deposits was 0.87% for the year ended December 31, 2022 compared to 0.48% for the same period one year earlier. In addition, the overall cost of average total deposit balances increased by 20 basis points to 0.47% for the year ended December 31, 2022 compared to 0.27% for the year ended December 31, 2021.

As a result, the net interest margin increased by 90 basis points to 3.79% for the year ended December 31, 2022, compared to 2.89% for the year ended December 31, 2021.

The following table shows the composition of average earning assets and average funding sources, average yields and rates, and the net interest margin for the years ended December 31, 2022 and 2021.

	Twelve months ended December 31,					
	2022			2021		
(Dollars in thousands)	Average Balance	Yields or Rates	Interest Income/ Expense	Average Balance	Yields or Rates	Interest Income/ Expense
ASSETS						
Interest earning assets:						
Loans (1)	$1,495,981	4.96%	$ 74,240	$1,368,960	4.29%	$ 58,677
Federal funds sold	220,084	1.60%	3,519	450,898	0.13%	587
Investment securities	155,748	2.90%	4,519	71,376	2.84%	2,029
Total interest earning assets	1,871,813	4.40%	82,278	1,891,234	3.24%	61,293
Noninterest-earning assets:						
Cash and due from banks	19,838			17,642		
All other assets (2)	61,517			60,008		
TOTAL	$1,953,168			$1,968,884		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities:						
Deposits:						
Demand	$ 40,054	0.08%	31	$ 35,623	0.11%	$ 38
Money market and savings	651,429	0.70%	4,544	705,621	0.51%	3,627
Time	205,681	1.57%	3,235	175,240	0.43%	753
Other	121,464	2.88%	3,496	139,011	1.54%	2,145
Total interest-bearing liabilities	1,018,628	1.11%	11,306	1,055,495	0.62%	6,563
Noninterest-bearing liabilities:						
Demand deposits	752,348			747,868		
Accrued expenses and other liabilities	21,256			21,363		
Shareholders' equity	160,936			144,158		
TOTAL	$1,953,168			$1,968,884		
Net interest income and margin (3)		3.79%	$ 70,972		2.89%	$ 54,730

(1) Nonperforming loans are included in average loan balances. No adjustment has been made for these loans in the calculation of yields. Interest income on loans includes amortization of net deferred loan fees of $1.5 million and $3.4 million, respectively.

(2) Other noninterest-earning assets includes the allowance for loan losses of $15.4 million and $13.9 million, respectively.
(3) Net interest margin is net interest income divided by total interest-earning assets.

The following table shows the effect of the interest differential of volume and rate changes for the years ended December 31, 2022 and 2021. The change in interest due to both rate and volume has been allocated in proportion to the relationship of absolute dollar amounts of change in each.

	For the Years Ended December 31, 2022 vs. 2021		
	Increase (Decrease) Due to Change in:		
(Dollars in thousands)	Average Volume	Average Rate	Net Change
Interest income:			
Loans	$ 6,304	$ 9,259	$ 15,563
Federal funds sold	(3,691)	6,623	2,932
Investment securities	2,448	42	2,490
Interest expense:			
Deposits			
Demand	3	(10)	(7)
Money market and savings	(378)	1,295	917
Time	479	2,003	2,482
Borrowings	(505)	1,856	1,351
Net interest income	$ 5,462	$ 10,780	$ 16,242

Interest Income

Interest income increased by $21.0 million in for the year ended December 31, 2022 compared to the same period of 2021 as a result of a more favorable mix of average earning assets combined with a rising rate environment. The increase in interest earned on our loan portfolio of $15.6 million for year ended December 31, 2022 compared to the same period of 2021 was comprised of $6.3 million attributable to an approximate $127.0 million increase in average loans outstanding and $9.3 million attributable to the increase in the yield earned on loans to 4.96% from 4.29%.

Interest Expense

Interest expense increased by $4.7 million during the year ended December 31, 2022 compared to the same period of 2021, primarily due to a rising rate environment. The average rate paid on interest-bearing liabilities for the year ended December 31, 2022 compared to the same period one year earlier increased 49 basis points to 1.11% from 0.62%.

Provision for Loan Losses

We made provisions for loan losses of $3.8 million and $4,000 for the years ended December 31, 2022 and 2021, respectively. The increase in the provision for loan losses was primarily attributable to the growth of the loan portfolio. The Company recorded net loan charge-offs of $851,000 in the year ended December 31, 2022 compared to net loan charge-offs of $34,000 during the same period of 2021. The allowance for loan loss as a percent of outstanding loans was 1.07% at December 31, 2022 and 1.02% at December 31, 2021. The reserve percentage excluding PPP loans, which are guaranteed by the SBA, was 1.07% at December 31, 2022 compared to 1.08% at December 31, 2021 (see discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Non-GAAP Financial Measures”). See further discussion of the Provision for Loan Losses and Allowance for Loan losses in “Financial Condition – Allowance for Loan Losses”.

Non-interest Income

The following table reflects the major components of the Company's non-interest income for the years ended December 31, 2022 and 2021.

	For the Years Ended December 31,		Increase (Decrease)	
(Dollars in thousands)	2022	2021	Amount	Percent
Service charges and other fees	$ 4,913	$ 3,222	$1,691	52%
Gain on sale of SBA loans	1,393	—	1,393	100%
Earnings on BOLI	665	650	15	2%
Other	403	301	102	34%
Total non-interest income	$ 7,374	$ 4,173	$3,201	77%

Non-interest income increased by $3.2 million or 77% for the year ended December 31, 2022 compared to the same period of 2021. The increase was primarily attributable to $1.7 million of increased service charges and loan related fees and a gain of $1.4 million recognized on the sale of a portion of our solar loan portfolio.

Non-interest Expense

The following table reflects the major components of the Company's non-interest expense for the years ended December 31, 2022 and 2021.

	For the Years Ended December 31,		Increase (Decrease)	
(Dollars in thousands)	2022	2021	Amount	Percent
Salaries and benefits	$ 29,097	$ 26,031	$3,066	12%
Premises and equipment	5,093	5,098	(5)	0%
Professional fees	2,179	1,986	193	10%
Data processing	2,647	1,934	713	37%
Other	5,649	5,388	261	5%
Total non-interest expense	$ 44,665	$ 40,437	$4,228	10%

During the year ended December 31, 2022, non-interest expenses increased by $4.2 million or 10% to $44.6 million compared to $40.4 million in the same period of 2021. Excluding the capitalized loan origination costs that are included in salaries and benefits, non-interest expense was $48.8 million for the twelve months ended December 31, 2022 and $46.0 million for the same period in 2021, representing an increase of $2.8 million, or 6%.

Salaries and benefits for the twelve months ended December 31, 2022 were $29.1 million, representing an increase of $3.1 million, or 12%, compared to $26.0 million for the twelve months ended December 31, 2021. The increase in salaries and benefits expense was primarily due to investments to support the continued growth of the business combined with a reduction in capitalized loan origination costs.

For the years ended December 31, 2022 and 2021, the Company's efficiency ratio, the ratio of non-interest expense to revenues, was 57.01% and 68.65%, respectively.

Provision for Income Taxes

Income tax expense was $8.8 million for the year ended December 31, 2022 which compared to $5.1 million for the same period one year earlier. The effective tax rates for those time periods were 29.4% and 27.9%, respectively.

Financial Condition:

Overview

Total assets of the Company were $2.04 billion as of December 31, 2022 compared to $2.01 billion as of December 31, 2021. The increase in total assets was primarily due to strong loan growth, partially offset by decreased liquidity resulting from the outflow of deposits related to the forgiveness of PPP loans along with the payoff of other borrowings.

Loan Portfolio

Our loan portfolio consists almost entirely of loans to customers who have a full banking relationship with us. Gross loan balances increased by $216.8 million from December 31, 2021 to December 31, 2022, primarily due to organic growth in the commercial and industrial and real estate other loan portfolios, partially offset by a reduction in SBA loans due to PPP loan forgiveness and a reduction in the other loan portfolio as a result of the Company selling a portion of its residential solar loan portfolio.

The loan portfolio at December 31, 2022 was comprised of approximately 40% of commercial and industrial loans compared to 34% at December 31, 2021. In addition, commercial real estate loans comprised 57% of our loans at December 31, 2022 compared to 54% at December 31, 2021. A substantial percentage of the commercial real estate loans are considered owner-occupied loans. Our loans are generated by our relationship managers and executives. Our senior management is actively involved in the lending, underwriting, and collateral valuation processes. Higher dollar loans or loan commitments are also approved through a bank loan committee comprised of executives and outside board members.

The following table reflects the composition of the Company's loan portfolio and their percentage distribution at December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Commercial and industrial	634,535	474,281
Real estate—other	848,241	697,212
Real estate—construction and land	63,730	43,194
SBA	7,220	81,403
Other	39,695	80,559
Total loans, gross	1,593,421	1,376,649
Deferred loan origination costs, net	2,040	1,688
Allowance for loan losses	(17,005)	(14,081)
Total loans, net	1,578,456	1,364,256
Commercial and industrial	40%	34%
Real estate—other	53%	51%
Real estate—construction and land	4%	3%
SBA	1%	6%
Other	2%	6%
Total loans, gross	100%	100%

The following table shows the maturity distribution for total loans outstanding as of December 31, 2022. The maturity distribution is grouped by remaining scheduled principal payments that are due within one year, after one but within five years, after five years but within fifteen years, or after fifteen years. The principal balances of loans are indicated by both fixed and variable rate categories.

(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years But Less Than Fifteen Years	Over Fifteen Years	Total
Commercial and industrial	$203,692	$293,633	$137,210	$ —	$ 634,535
Real estate—other	37,064	372,114	427,604	11,459	848,241
Real estate—construction and land	44,748	11,294	7,688	—	63,730
SBA	966	2,350	3,077	827	7,220
Other	1,298	2,142	36,255	—	39,695
Total loans, gross	$287,768	$681,533	$611,834	$ 12,286	$1,593,421

(Dollars in thousands)	Loans With		
	Fixed Rates (1)	Variable Rates	Total
Commercial and industrial	$187,873	$446,662	$ 634,535
Real estate—other	557,433	290,808	848,241
Real estate—construction and land	6,000	57,730	63,730
SBA	2,358	4,862	7,220
Other	39,496	199	39,695
Total loans, gross	$793,160	$800,261	$1,593,421

(1) Excludes variable rate loans on floors

Nonperforming Assets

Nonperforming assets are comprised of loans on nonaccrual status, loans 90 days or more past due and still accruing interest, and other real estate owned. We had no loans 90 days or more past due and still accruing interest and no other real estate owned at December 31, 2022. A loan is placed on nonaccrual status if there is concern that principal and interest may not be fully collected or if the loan has been past due for a period of 90 days or more, unless the obligation is both well secured and in process of legal collection. When loans are placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Income on nonaccrual loans is subsequently recognized only to the extent that cash is received and the loan's principal balance is deemed collectible. Loans are returned to accrual status when they are brought current with respect to principal and interest payments and future payments are reasonably assured. Loans in which the borrower is encountering financial difficulties and we have modified the terms of the original loan are evaluated for impairment and classified as TDR loans.

The following table presents information regarding the Company's nonperforming and restructured loans at December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Nonaccrual loans	$ 1,250	$ 232
Loans over 90 days past due and still accruing	—	—
Total nonperforming loans	1,250	232
Foreclosed assets	—	—
Total nonperforming assets	$ 1,250	$ 232
Performing TDR's	$ —	$ —
Nonperforming loans / gross loans	0.08%	0.02%
Allowance for loan losses / nonperforming loans	1360.40%	6069.40%

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level management believes is adequate to account for probable incurred credit losses in the loan portfolio as of the reporting date. We determine the allowance based on a quarterly evaluation of risk. That evaluation gives consideration to the nature of the loan portfolio, historical loss experience, known and inherent risks in the portfolio, the estimated value of any underlying collateral, adverse situations that may affect a borrower's ability to repay, current economic and environmental conditions and risk assessments assigned to each loan as a result of our ongoing reviews of the loan portfolio. This process involves a considerable degree of judgment and subjectivity. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance. Such agencies may require the Bank to recognize additions to the allowance based on judgments different from those of management.

Our allowance is established through charges to the provision for loan losses. Loans, or portions of loans, deemed to be uncollectible are charged against the allowance. Recoveries of previously charged-off amounts are credited to our allowance for loan losses. The allowance is decreased by the reversal of prior provisions when the total allowance balance is deemed excessive for the risks inherent in the portfolio. The allowance for loan losses balance is neither indicative of the specific amounts of future charge-offs that may occur, nor is it an indicator of any future loss trends.

The following table provides information on the activity within the allowance for loan losses as of and for the periods indicated.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Year ended December 31, 2022						
Beginning balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Provision for loan losses	2,717	798	203	25	32	3,775
Charge-offs	(650)	—	—	(202)	—	(852)
Recoveries	1	—	—	—	—	1
Ending balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Net recoveries (charge-offs) gross loans	-0.10%	0.00%	0.00%	-2.80%	0.00%	-0.05%
Year ended December 31, 2021						
Beginning balance	$ 8,923	$ 3,877	$ 681	$ 604	$ 26	$14,111
Provision for loan losses	(615)	647	—	(17)	(11)	4
Charge-offs	—	—	—	(278)	—	(278)
Recoveries	244	—	—	—	—	244
Ending balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Net recoveries (charge-offs) gross loans	0.05%	0.00%	0.00%	-0.34%	0.00%	0.00%

The provision for loan losses of $3.8 million for the year ended December 31, 2022 was primarily the result of growth in our core loan portfolio along with continued qualitative assessments of the general macroeconomic environment.

Investment Portfolio

Our investment portfolio is comprised of debt securities. We use two classifications for our investment portfolio: available-for-sale (AFS) and held-to-maturity (HTM). Securities that we have the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost. Securities not classified as held-to-maturity securities are classified as "investment securities available-for-sale" and reported at fair value.

During the first quarter of 2022, the Company re-designated certain securities previously classified as available for sale to the held to maturity classification. The securities re-designated consisted of mortgage backed securities and government agencies with a total carrying value of $49.9 million at December 31, 2021. At the time of re-designation the securities included $281,000 of pretax unrealized losses in other comprehensive income which is being amortized over the remaining life of the securities in a manner consistent with the amortization of a premium or discount.

Our investments provide a source of liquidity as they can be pledged to support borrowed funds or can be liquidated to generate cash proceeds. The investment portfolio is also a significant resource to us in managing interest rate risk, as the maturity and interest rate characteristics of this asset class can be readily changed to match changes in the loan and deposit portfolios. The majority of our available-for-sale investment portfolio is comprised of mortgage-backed securities (MBSs) that are either issued or guaranteed by U.S. government agencies or government-sponsored enterprises (GSEs) and corporate bonds.

The following table reflects the amortized cost and fair market values for the total portfolio for each of the categories of investments in our securities portfolio as of December 31, 2022 and 2021.

(Dollars in thousands)	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Estimated Fair Value
At December 31, 2022:				
Mortgage backed securities	$ 18,629	$ 26	$ (897)	$17,758
Government agencies	29,809	—	(1,043)	28,766
Corporate bonds	430	58	—	488
Total available for sale securities	$ 48,868	$ 84	$ (1,940)	$47,012
Mortgage backed securities	$ 61,363	$ —	$ (7,647)	$53,716
Government agencies	3,083	—	(627)	2,456
Corporate bonds	44,420	30	(3,739)	40,711
Total held to maturity securities	$ 108,866	$ 30	$ (12,013)	$96,883
At December 31, 2021:				
Mortgage backed securities	$ 29,943	$ 325	$ (320)	$29,948
Government agencies	3,093	—	(100)	2,993
Corporate bonds	41,725	694	(468)	41,951
Total available for sale securities	$ 74,761	$ 1,019	$ (888)	$74,892
Mortgage backed securities	$ 22,772	$ —	$ (140)	$22,632
Corporate bonds	5,614	—	(30)	5,584
Total held to maturity securities	$ 28,386	$ —	$ (170)	$28,216

Deposits

Our deposits are generated through core customer relationships, related predominantly to business relationships. Many of our business customers maintain high levels of liquid balances in their demand deposit accounts and use the Bank's treasury management services.

At December 31, 2022, approximately 45% of our deposits were in noninterest-bearing demand deposits. The balance of our deposits at December 31, 2022 were held in interest-bearing demand, savings and money market accounts and time deposits. Approximately 40% of total deposits were held in interest-bearing demand, savings and money market deposit accounts at December 31, 2022, which provide our customers with interest and liquidity. Time deposits comprised the remaining 15% of our deposits at December 31, 2022.

Information concerning average balances and rates paid on deposits by deposit type for the past two fiscal years is contained in the Distribution, Yield and Rate Analysis of Net Income table located in the previous section titled "Results of Operations—Net Interest Income and Net Interest Margin".

The following table provides a comparative distribution of our deposits by outstanding balance as well as by percentage of total deposits at the dates indicated.

(Dollars in thousands)	Balance	% of Total
At December 31, 2022:		
Demand noninterest-bearing	$ 811,671	45%
Demand interest-bearing	37,815	2%
Money market and savings	671,016	38%
Time	271,238	15%
Total deposits	$1,791,740	100%
At December 31, 2021:		
Demand noninterest-bearing	$ 771,205	46%
Demand interest-bearing	37,250	2%
Money market and savings	717,480	43%
Time	154,203	9%
Total deposits	$1,680,138	100%

Liquidity

Our primary source of funding is deposits from our core banking relationships. The majority of the Bank's deposits are transaction accounts or money market accounts that are payable on demand. A small number of customers represent a large portion of the Bank's deposits, as evidenced by the fact that approximately 17% of deposits were represented by the 10 largest depositors as of December 31, 2022. We strive to manage our liquidity in a manner that enables us to meet expected and unexpected liquidity needs under both normal and adverse conditions. The Bank maintains significant on-balance sheet and off-balance liquidity sources, including a marketable securities portfolio and borrowing capacity through various secured and unsecured sources.

Interest Rate Risk Management

We measure our interest rate sensitivity through the use of a simulation model. The model incorporates the contractual cash flows and re-pricing characteristics from each financial instrument, as well as certain management assumptions. The model also captures the estimated impacts of optionality and duration and their expected change due to changes in interest rates and the shape of the yield curve. We manage our interest rate risk through established policies and procedures. We measure both the potential short term change in earnings and the long term change in market value of equity on a quarterly basis. Both measurements use immediate rate shocks that assume parallel shifts in interest rates up and down the yield curve in 100 basis point increments. There are eight scenarios comprised of rate changes up or down to 400 basis points. We have established policy thresholds for each of these eight scenarios. In the current interest rate environment, however, we do not consider a decrease in interest rates that is greater than 25 basis points. The impact on earnings for one year and the change in market value of equity are limited to a change of no more than (7.5)% for rate changes of 100 basis points, no more than (15.0)% for changes of 200 basis points, no more than (20.0)% for rate changes of 300 basis points, and no more than (25.0)% for rate change of 400 basis points. The objective of these various simulation scenarios is to optimize the risk/reward equation for our future earnings and capital. Based upon the results of these various simulations and evaluations, we are positioned to be moderately asset sensitive, with earnings increasing in a rising rate environment.

The following table sets forth the estimated changes on the Company's annual net interest income that would result from the designated instantaneous parallel shift in interest rates noted, as of December 31, 2022.

(Dollars in thousands)	Estimated Net Interest Income	Percent Change From Actual
Change in interest rates (basis points):		
+300	$ 96,816	2.7%
+200	$ 96,164	2.0%
+100	$ 95,194	0.9%
-100	$ 93,257	-1.1%
-200	$ 92,088	-2.4%

Capital Resources

We are subject to various regulatory capital requirements administered by federal and state banking regulators. Our capital management consists of providing equity to support our current operations and future growth. Failure to meet minimum regulatory capital requirements may result in mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and off-balance sheet items as calculated under regulatory accounting policies. As of December 31, 2022 and 2021, we were in compliance with all applicable regulatory capital requirements, including the capital conservation buffer, and the Bank's capital ratios exceeded the minimums necessary to be considered ''well-capitalized'' for purposes of the FDIC's prompt corrective action regulations. At December 31, 2022, the capital conservation buffer was 3.40%.

At December 31, 2022, the Bank had a Tier 1 risk based capital ratio of 10.54%, a total capital to risk-weighted assets ratio of 11.40%, and a leverage ratio of 10.23%. At December 31, 2021, the Bank had a Tier 1 risk based capital ratio of 11.38%, a total capital to risk-weighted assets ratio of 12.25%, and a leverage ratio of 9.51%.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a smaller reporting company, we are not required to provide the information required by this item.

Item 8. Financial Statements and Supplementary Data

CALIFORNIA BANCORP
INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA FOR THE YEAR ENDED DECEMBER 31, 2022

Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of
California BanCorp
Oakland, California

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of California BanCorp (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Crowe LLP

We have served as the Company's auditor since
2011.
Sacramento, California
March 24, 2023

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Dollar amounts in thousands)

	December 31, 2022	December 31, 2021
ASSETS:		
Cash and due from banks	$ 16,686	$ 4,539
Federal funds sold	215,696	465,917
Total cash and cash equivalents	232,382	470,456
Investment securities:		
Available for sale, at fair value	47,012	74,892
Held to maturity, at amortized cost	108,866	28,386
Total investment securities	155,878	103,278
Loans, net of allowance for losses of $17,005 and $14,081 at December 31, 2022 and December 31, 2021, respectively	1,578,456	1,364,256
Premises and equipment, net	3,072	4,405
Bank owned life insurance (BOLI)	25,127	24,412
Goodwill and other intangible assets	7,472	7,513
Accrued interest receivable and other assets	39,828	40,676
Total assets	$ 2,042,215	$ 2,014,996
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Deposits		
Non-interest bearing	$ 811,671	$ 771,205
Interest bearing	980,069	908,933
Total deposits	1,791,740	1,680,138
Other borrowings	—	106,387
Junior Subordinated debt securities	54,152	54,028
Accrued interest payable and other liabilities	24,069	23,689
Total liabilities	1,869,961	1,864,242
Commitments and Contingencies (Note 7)		
Shareholders' equity		
Common stock, no par value; 40,000,000 shares authorized; 8,332,479 and 8,264,300 issued and outstanding at December 31, 2022 and December 31, 2021, respectively	111,257	109,473
Retained earnings	62,297	41,189
Accumulated other comprehensive (loss) income, net of taxes	(1,300)	92
Total shareholders' equity	172,254	150,754
Total liabilities and shareholders' equity	$ 2,042,215	$ 2,014,996

	December 31, 2022	December 31, 2021

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Dollar amounts in thousands, except per share data)

	For the Years Ended December 31, 2022	2021
Interest income		
Loans	$ 74,240	$ 58,677
Federal funds sold	3,519	587
Investment securities	4,519	2,029
Total interest income	82,278	61,293
Interest expense		
Deposits	7,810	4,418
Borrowings and subordinated debt	3,496	2,145
Total interest expense	11,306	6,563
Net interest income	70,972	54,730
Provision for loan losses	3,775	4
Net interest income after provision for loan losses	67,197	54,726
Non-interest income		
Service charges and other fees	4,913	3,222
Gain on the sale of loans	1,393	—
Other	1,068	951
Total non-interest income	7,374	4,173
Non-interest expense		
Salaries and benefits	29,097	26,031
Premises and equipment	5,093	5,098
Professional fees	2,179	1,986
Data processing	2,647	1,934
Other	5,649	5,388
Total non-interest expense	44,665	40,437
Income before provision for income taxes	29,906	18,462
Provision for income taxes	8,798	5,094
Net income	$ 21,108	$ 13,368
Earnings per common share		
Basic	$ 2.54	$ 1.63
Diluted	$ 2.51	$ 1.61
Average common shares outstanding	8,306,282	8,222,749
Average common and equivalent shares outstanding	8,404,317	8,292,942

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollar amounts in thousands)

	For the Years Ended December 31,	
	2022	**2021**
Net Income	$21,108	$13,368
Other comprehensive (loss) income		
Unrealized losses on securities available for sale, net	(1,715)	(779)
Unrealized losses on securities transferred from available for sale to held to maturity, net	(281)	—
Amortization of unrealized losses on securities transferred from available for sale to held to maturity, net	9	—
Tax effect	595	230
Total other comprehensive (loss) income	(1,392)	(549)
Total comprehensive income	$19,716	$12,819

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands)

	Common Stock			Accumulated Other Comprehensive Income (Loss)	
	Shares	Amount	Retained Earnings		Total Shareholders' Equity
Balance at December 31, 2020	8,171,734	$ 107,948	$27,821	$ 641	$136,410
Stock awards issued and related compensation expense	68,355	1,688	—	—	1,688
Shares withheld to pay taxes on stock based compensation	(14,426)	(406)	—	—	(406)
Stock options exercised	57,020	575	—	—	575
Shares withheld to pay exercise price on stock options	(18,383)	(332)	—	—	(332)
Net income	—	—	13,368	—	13,368
Other comprehensive (loss)	—	—	—	(549)	(549)
Balance at December 31, 2021	8,264,300	$ 109,473	$41,189	$ 92	$150,754
Stock awards issued and related compensation expense	76,121	2,065	—	—	2,065
Shares withheld to pay taxes on stock based compensation	(16,047)	(302)	—	—	(302)
Stock options exercised	11,550	97	—	—	97
Shares withheld to pay exercise price on stock options	(3,445)	(76)	—	—	(76)
Net income	—	—	21,108	—	21,108
Other comprehensive (loss)	—	—	—	(1,392)	(1,392)
Balance at December 31, 2022	8,332,479	$ 111,257	$62,297	$ (1,300)	$172,254

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

	For the Years Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 21,108	$ 13,368
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	3,775	4
Provision for deferred taxes	(1,281)	(2,285)
Depreciation	1,477	1,569
Deferred loan costs, net	(352)	(1,165)
Stock based compensation, net	1,763	1,282
Increase in cash surrender value of life insurance	(665)	(652)
Discount on retained portion of sold loans, net	(35)	(35)
Gain on sale of loans, net	(1,393)	—
Increase in accrued interest receivable and other assets	3,215	2,946
Decrease in accrued interest payable and other liabilities	1,051	1,177
Net cash provided by operating activities	28,663	16,209
Cash flows from investing activities:		
Purchase of investment securities	(78,780)	(65,224)
Proceeds from principal payments on investment securities	23,418	15,970
Proceeds from sale of loans	37,271	—
Purchase of loans, net	(56,439)	(42,682)
Net (increase) decrease in loans	(197,026)	35,104
Capital calls on low income tax credit investments	(669)	(614)
Redemption (purchase) of Federal Home Loan Bank stock	455	(1,344)
Purchase of premises and equipment	(153)	(181)
Purchase of bank-owned life insurance policies	(50)	(42)
Net cash used for investing activities	(271,973)	(59,013)
Cash flows from financing activities:		
Net increase in customer deposits	111,602	147,932
Paydown of long term borrowings, net	(56,387)	(117,656)
(Paydown of) proceeds from short term and overnight borrowings, net	(50,000)	35,000
Proceeds from issuance of subordinated debt, net	—	29,224
Proceeds from exercised stock options, net	21	243
Net cash provided by financing activities	5,236	94,743
(Decrease) increase in cash and cash equivalents	(238,074)	51,939
Cash and cash equivalents, beginning of period	470,456	418,517
Cash and cash equivalents, end of period	$ 232,382	$ 470,456
Supplemental disclosure of cash flow information:		
Securities transferred from available for sale to the held to maturity classification	$ 49,889	$ —
Cash paid during the year for:		
Interest	$ 10,488	$ 6,508
Income taxes	$ 7,410	$ 6,124

The accompanying notes are an integral part of these consolidated financial statements.

CALIFORNIA BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

California BanCorp (the "Company"), a California corporation headquartered in Oakland, California, is the bank holding company for its wholly-owned subsidiary California Bank of Commerce (the "Bank"), which offers a broad range of commercial banking services to closely held businesses and professionals located throughout Northern California. The Bank has a full service branch located in Contra Costa County and 4 loan production offices located in Alameda County, Contra Costa County, Sacramento County, and Santa Clara County.

The Company's common stock trades on the Nasdaq Global Select marketplace under the symbol CALB.

Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting policies and standards generally accepted in the United States of America (GAAP), as well as prevailing practices within the banking industry. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, California Bank of Commerce. All intercompany accounts have been eliminated. The Company has no significant business activities other than its investment in the Bank.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates used in the Consolidated Financial Statements and related notes. Material estimates that are particularly susceptible to significant changes in the near term relate to: the determination of the allowance for loan losses; certain assets and liabilities carried at fair value; and accounting for income taxes.

Reclassifications

Certain prior balances in the consolidated financial statements have been reclassified to conform to current year presentation. These reclassifications had no effect on prior year net income or shareholders' equity.

Subse

quent Events

Management has reviewed all events through the date these consolidated financial statements were filed with the SEC and concluded that no event required any adjustment to the balances presented.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, amounts held at the Federal Reserve Bank, and Federal funds sold. The Company is required to maintain reserves against certain of the deposit accounts with the Federal Reserve Bank. Federal funds are generally sold and purchased for one-day periods.

Investment Securities

Investment securities are classified into the following categories:

- Available-for-sale securities are reported at fair value, with unrealized gains and losses excluded from earnings and reported, net of taxes, as accumulated other comprehensive income (loss) within shareholders' equity.

- Held-to-maturity securities, which management has the positive intent and ability to hold, are reported at amortized cost adjusted for the accretion of discounts and amortization of premiums.

Interest earned on investment securities is reported in interest income, net of applicable adjustments for accretion of discounts and amortization of premiums. Premiums and discounts are amortized, or accreted, over the life of the related security as an adjustment to income using the level yield method adjusted for changes in principal prepayment speeds. Realized gains and losses on the sale of investment securities are reported in non-interest income and computed using the specific identification method.

An investment security is impaired when its carrying value is greater than its fair value. Investment securities that are impaired are evaluated on at least a quarterly basis and more frequently when economic or market conditions warrant such an evaluation to determine whether such a decline in their fair value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, the intent and ability of the Company to retain its investment in the securities for a period of time sufficient to allow for an anticipated recovery in fair value, and the reasons underlying the decline to determine whether the loss in value is other than temporary. The term “other than temporary” is not intended to indicate that the decline is permanent, but indicates that the prospects for a near-term recovery of value is not necessarily favorable, or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment. Once a decline in value is determined to be other than temporary, and management does not intend to sell the security or it is more likely than not that the Company will not be required to sell the security before recovery, only the portion of the impairment loss representing credit exposure is recognized as a charge to earnings, with the balance recognized as a charge to other comprehensive income. If management intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovering its forecasted cost, the entire impairment loss is recognized as a charge to earnings.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding unpaid principal balances net of unamortized deferred origination fees and costs, any unamortized premiums or discounts on purchased or acquired loans, and the allowance for loan losses.

Loans acquired through a portfolio purchase, or through a business combination, are recorded at their fair value on the date of acquisition. Credit discounts or premiums are included in the determination of fair value; therefore, an allowance for loan losses is not required or recorded on the date of acquisition. Should the Company’s methodology for determining the allowance for loan losses indicate that any credit discount is no longer sufficient to cover probable losses inherent in the acquired loans, an appropriate increase to the allowance for loan losses will be established through a charge to the provision for loan losses. During the year ended December 31, 2022, the Company purchased commercial loans totaling $56.4 million, net of credit discounts. These loans were repaid by the borrowers prior to year-end. During the year ended December 31, 2021, the Company purchased residential solar loan portfolios totaling $42.7 million, net of credit and coupon rate discounts. These portfolios are reflected in the category “other” within Note 3 of the consolidated financial statements.

Interest on loans, including purchased or acquired loans, is accrued on the unpaid principal balance and is credited to income using the effective yield interest method.

Deferred origination fees and costs, and the accretion (amortization) of any discount (premium) related to acquired loans, are amortized over the contractual life of the loan through interest income as an adjustment to the effective loan yield.

Allowance for Loan Losses

Credit risk is inherent in the business of extending loans to borrowers. Due to this risk, the Company must maintain an allowance for loan losses that management believes is adequate to absorb estimated probable losses on existing loans that may become uncollectible. This reserve is established through a provision for loan losses that is recorded to expense. Loans are charged against the reserve when management believes with certainty that the loan balance will not be collectible. Any cash received on previously charged-off amounts is recorded as a recovery to the reserve. The Company formally re-evaluates and establishes the appropriate level of the allowance for loan losses on a quarterly basis.

The allowance for loan losses consists of specific and general reserves. The specific reserve relates to loans that are individually classified as impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings (TDRs) and also classified as impaired. When a loan is considered to be impaired, the amount of impairment is measured based on the fair value of the collateral (less costs to sell) if the loan is collateral dependent, or on the present value of expected future cash flows or values that are observable on the secondary market if the loan is not collateral dependent. The general reserve relates to all non-impaired loans. In determining the general reserve, management applies quantitative and qualitative factors to each segment of the loan portfolio. Quantitative factors primarily include the Company's historical delinquency and loss experience. For segments of the loan portfolio where the Company has no significant prior loss experience, management uses quantifiable observable industry data to determine the amount of potential loss to include in the reserve. Qualitative factors supplement the quantitative factors applied to each segment of the loan portfolio and include: levels of and trends in delinquencies and impaired loans (including TDRs); levels of and trends in charge-offs and recoveries; migration of loans to the classification of special mention, substandard, or doubtful; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentration. While management uses the best information available to make its evaluation, future adjustments to the allowance for loan losses may be necessary if there are significant changes in economic or other conditions that affect the current risk profile of the loan portfolio.

Accrued Interest Receivable on Loans

Interest receivable is only accrued if deemed collectible. It is the Company's policy to place a loan on non-accrual status in the event that the borrower is 90 days or more delinquent (unless the loan is well secured and in the process of collection), or earlier if the timely collection of contractual payments appears doubtful. At the time a loan is placed on non-accrual, accrued interest is reversed out of interest income. Cash payments subsequently received on non-accrual loans are recognized as income only where the future collection of the remaining principal is considered by management to be probable. Loans are restored to accrual status only when the loan is less than 90 days delinquent and not in foreclosure, and the borrower has demonstrated the ability to make future payments of principal and interest.

Loan Commitments and Related Financial Instruments

In the ordinary course of business, the Company is party to financial instruments with off-balance sheet risk, such as commitments to make loans and commercial letters of credit, in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. The Company's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. The Company uses the same credit policies in making these types of commitments as it does for loans included on the balance sheet. Such financial instruments are recorded on the balance sheet at the time they are funded.

Loan Sales and Servicing

The Company has the ability to hold for sale the conditionally guaranteed portion of certain loans that are guaranteed by the Small Business Administration ("SBA loans"). At the time that the Company deems a loan to be held for sale, it is carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. At December 31, 2022 and 2021, the Company did not have any loans held for sale.

Gains or losses on SBA loans held for sale are recognized upon completion of the sale, based on the difference between the selling price and the carrying value of the related loan sold.

SBA loans are generally sold with loan servicing retained by the Company. Servicing assets or liabilities are initially recorded at fair value and are subsequently amortized in proportion to, and over the period of the related net servicing income or expense. Servicing assets are periodically evaluated for impairment. Impairment is determined by stratifying the servicing rights based on interest rates and terms. The amount of the impairment recognized is the amount by which the servicing assets for a stratum exceed their fair value. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. As of December 31, 2022 and 2021, the Company had servicing assets of $221,000 and $248,000, respectively.

Premises and Equipment

The Company's premises and equipment are carried at cost, less accumulated depreciation and amortization. Premises and equipment are depreciated or amortized using the straight-line method over the estimated useful lives of the related assets. The useful lives of furniture, fixtures and equipment are estimated to be 3 to 5 years. Leasehold improvements are amortized over the lesser of the respective lease term (including renewal periods that are reasonably assured) or their useful lives, which are generally 7 to 14 years.

When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred. The Company evaluates premises and equipment for financial impairment as events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Leases

At inception, contracts are evaluated to determine whether the contract constitutes a lease agreement. For contracts that are determined to be an operating lease, the Company recognizes on the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. In discounting the lease payments, the Company uses an incremental borrowing rate represented by the rate it could borrow from the FHLB plus an appropriate credit spread. The Company's lease agreements include options to renew at the Company's option. No lease extensions are reasonably certain to be exercised, therefore none were considered in the calculation of the ROU asset and lease liability.

Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of San Francisco, the Bank is required to maintain an investment in the capital stock of the Federal Home Loan Bank (the "FHLB"). The investment, which is reported in other assets, is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery of par value. No impairment has been recorded to date. Both cash and stock dividends from the FHLB are reported as income.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain current and former executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Low Income Housing Tax Credits

The Company accounts for low income housing tax credits and the related qualified affordable housing projects using the proportional amortization method. Under the proportional amortization method, the Company amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). As the Company disburses cash to satisfy capital calls, other assets are increased. Over time, as the tax credits and other tax benefits of the project are realized by the Company, the investment recorded in other assets is reduced using the proportional amortization method.

The Company had investments in low income housing tax credits with gross commitments (including amounts funded and unfunded) of $13.6 million at December 31, 2022 and 2021. During 2022 and 2021, the Company did not add any new investments and had $669,000 and $614,000 in capital calls throughout the year, respectively.

The investment balances outstanding were $6.2 million and $7.4 million at December 31, 2022 and 2021, respectively, and are reflected in other assets on the consolidated balance sheet. Total commitments remaining for future capital calls were $1.0 million and $1.7 million, at December 31, 2022 and 2021, respectively and are reflected in other liabilities on the consolidated balance sheet.

For the years ended December 31, 2022 and 2021, the Company recognized tax benefits of $208,000 and $207,000, respectively, which were included within income tax expense on the statements of income.

For tax purposes, the Company recorded tax credit and other benefits of $361,000 and $1.4 million, for the years ended December 31, 2022 and 2021, respectively. The Company recorded low income housing credit investment amortization of $1.2 million for both of the years ended December 31, 2022 and 2021.

Other Real Estate Owned

Other real estate owned consist of properties acquired through foreclosure. The Company values these properties at fair value less estimated costs to sell at the time it acquires them, which establishes the new cost basis. After it acquires them, the Company carries such properties at the lower of cost or fair value less estimated selling costs. If the Company records any income from the properties after acquiring them, it includes this amount in other non-interest income. If the Company records any write-downs, or incurs any operating expenses, on such properties after acquiring them, it includes this amount in other non-interest expense. At December 31, 2022 and 2021, the Company did not have any properties acquired through foreclosure.

Business Combinations

The Company accounts for acquisitions of businesses using the acquisition method of accounting. Under the acquisition method, assets acquired and liabilities assumed are recorded at their estimated fair values at the date of acquisition. The Company utilizes various valuation techniques including discounted cash flow analyses to determine these fair values. Any excess of the purchase price over amounts allocated to the acquired assets, including identifiable intangible assets, and the liabilities assumed is recorded as goodwill.

Goodwill and Other Intangibles

Goodwill arises from business combinations and 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. Goodwill determined to have an indefinite useful life is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. If the carrying amount of the goodwill exceeds its fair value, an impairment loss is recognized in the amount of the excess, and the carrying value of the goodwill is reduced accordingly. The Company's goodwill resulted from the acquisition of Pan Pacific Bank in 2015, and is the only intangible asset with an indefinite life on the consolidated balance sheet.

Goodwill impairment exists when a reporting unit's carrying value exceeds its fair value, which is determined through a qualitative assessment whether it is more likely than not that the fair value of equity of the reporting unit exceeds the carrying value ("Step Zero"). The Company completed an impairment analysis of goodwill as of December 31, 2022 and determined there was no impairment.

Other intangible assets consist of a core deposit intangible asset resulting from the 2015 acquisition. Core deposit intangible assets are initially measured at fair value and then amortized over their estimated useful life, in this case ten years on a straight-line basis. The Company considers the remaining useful life of its core deposit intangible asset each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining life were to change, the carrying amount is amortized prospectively over the revised remaining useful life. The Company has not revised its estimate of the useful life of its core deposit intangible asset for the years ended December 31, 2022 and 2021. As of December 31, 2022 the Company's core deposit intangible asset was valued at $122,000 with a remaining useful life of 4 years. Assuming no events or circumstances require a revision to the remaining useful life, the future amortization of the Company's core deposit intangible asset will be approximately $41,000 per year through 2025.

Income Taxes

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the reported amount of assets and liabilities and their tax basis. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. A valuation allowance is recognized if, based on the weight of available evidence, management believes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company considers all tax positions recognized in its consolidated financial statements for the likelihood of realization. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of the tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority.

The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest expense and penalties associated with unrecognized tax benefits, if any, are classified as income tax expense in the statement of income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 9. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Share-Based Compensation

The Company issues awards of equity instruments, such as stock options and restricted stock units, to employees and certain non-employee directors. Compensation expense related to these awards is based on the fair value of the underlying stock on the award date and is amortized over the service period, defined as the vesting period, using the straight-line method. The vesting period is generally five years. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock units. Compensation expense is reduced for actual forfeitures as they occur.

Earnings Per Share ("EPS")

Basic earnings per common share represents the amount of earnings for the period available to each share of common stock outstanding during the reporting period. Basic EPS is computed based upon net income divided by the weighted average number of common shares outstanding during the period. In determining the weighted average number of shares outstanding, vested restricted stock units are included. Diluted EPS represents the amount of earnings for the period available to each share of common stock outstanding including common stock that would have been outstanding assuming the issuance of common shares for all dilutive potential common shares outstanding during each reporting period. Diluted EPS is computed based upon net income divided by the weighted average number of common shares outstanding during each period, adjusted for the effect of dilutive potential common shares, such as restricted stock awards and units, calculated using the treasury stock method. Anti-dilutive shares are not included in the calculation of diluted earnings per share.

	For the Years Ended December 31,	
(Dollars in thousands, except per share data)	2022	2021
Net income available to common shareholders	$ 21,108	$ 13,368
Weighted average basic common shares outstanding	8,306,282	8,222,749
Add: dilutive potential common shares	98,035	70,193
Weighted average diluted common shares outstanding	8,404,317	8,292,942
Basic earnings per share	$ 2.54	$ 1.63
Diluted earnings per share	$ 2.51	$ 1.61

Related Party Transactions

Principal stockholders, directors, and executive officers of the Company, their immediate family members, and companies they control or own more than a 10% interest in, are considered to be related parties. In the ordinary course of business, the Company engages in various related party transactions, including extending credit and bank service transactions. All related party transactions are subject to review and approval pursuant to the Company's Related Party Transaction policy.

Federal banking regulations require that any extension of credit to insiders and their related interests not be offered on terms more favorable than would be offered to non-related borrowers of similar credit worthiness. The following table summarizes the aggregate activity in such loans for the periods indicated:

(Dollars in thousands, except per share data)	For the Years Ended December 31, 2022	2021
Balance, beginning	$25,759	$ 4,915
New loans	—	26,100
Advances	—	4,425
Repayments and other	(415)	(9,681)
Balance, ending	$25,344	$25,759

None of these loans are past due, on nonaccrual status or have been restructured to provide a reduction or deferral of interest or principal because of deterioration in the financial position of the borrower. There were no loans to a related party that were considered classified loans at December 31, 2022 and 2021. The interest income associated with these loans was $970,000 and $609,000 for the years ended December 31, 2022 and 2021, respectively.

Loan commitments outstanding with related parties were $10.0 million at both December 31, 2022 and 2021, respectively.

The Company also accepts deposits from related parties, which totaled $58.3 million and $36.4 million at December 31, 2022 and 2021, respectively. The interest expense associated with these deposits was $1.3 million and $273,000 for the years ended December 31, 2022 and 2021, respectively.

Adoption of New Accounting Standards

In March 2022, the Financial Accounting Standards Board ("FASB") issued ***ASU 2022-02, Financial Instruments—Credit Losses (Topic 326)***. The amendments in this update eliminate the accounting guidance and related disclosures for Troubled Debt Restructurings (TDRs) by creditors in Subtopic 310-40, Receivables—Troubled Debt Restructurings by Creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty and requiring an entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. The amendments in this update are effective for fiscal years beginning after December 15, 2022. The adoption of this accounting guidance is not expected to have a material impact on the Company's Consolidated Financial Statements.

In December 2019, the FASB issued ***ASU 2019-12, Simplifying the Accounting for Income Taxes (Topic 740)***, which clarified and amended existing guidance to provide for more consistent application. ASU 2019-12 became effective for fiscal years beginning after December 15, 2021. The adoption of this standard did not have a material effect on the Company's operating results or financial condition.

In June 2016, the FASB issued ***ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments***. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the current incurred loss approach with an expected loss model, referred to as the current expected credit loss ("CECL") model. The new standard will apply to financial assets subject to credit losses that are measured at amortized cost and certain off-balance-sheet credit exposures, which include, but are not limited to, loans, held-to-maturity securities, loan commitments and financial guarantees.

Additionally, ASU 2016-13 expands the disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. For public business entities that meet the definition of a smaller reporting company, such as the Company, ASU 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2022. Upon adoption, ASU 2016-13 provides for a modified retrospective transition by means of a cumulative effect adjustment to equity as of the beginning of the period in which the guidance is effective.

The Company has selected a software vendor for implementation, sourced and tested required data from the Company's loan systems, tested data feeds to the model, contracted for and received results from independent third parties of model validation of the CECL model and process, determined appropriate segmentations of its portfolio, and selected a preliminary forecast period for reasonable and supportable forecasts. The Company has generated, and continues to evaluate, model scenarios under CECL in tandem with its current reserving processes for interim and annual reporting periods during 2022 due to the fact the Company elected to delay implementation of the CECL process as allowed by FASB. While the Company is currently unable to reasonably estimate the impact of adopting this new guidance, management expects the impact of adoption will be significantly influenced by the composition and quality of the Company's loan and held-to-maturity investment portfolios, as well as the economic conditions as of the date of adoption. The Company also anticipates changes to the processes and procedures for calculating the allowance for credit losses, and an additional allowance for held-to-maturity investments. The Company's evaluation is nearing completion, however we continue to review the full impact and the changes to internal controls required.

2. INVESTMENT SECURITIES

The following table summarizes the amortized cost and estimated fair value of the Company's investment securities at December 31, 2022 and 2021.

(Dollars in thousands)	Amortized Cost	Gross Unrealized / Unrecognized Gains	Gross Unrealized / Unrecognized Losses	Estimated Fair Value
At December 31, 2022:				
Mortgage backed securities	$ 18,629	$ 26	$ (897)	$17,758
Government agencies	29,809	—	(1,043)	28,766
Corporate bonds	430	58	—	488
Total available for sale securities	$ 48,868	$ 84	$ (1,940)	$47,012
Mortgage backed securities	$ 61,363	$ —	$ (7,647)	$53,716
Government agencies	3,083	—	(627)	2,456
Corporate bonds	44,420	30	(3,739)	40,711
Total held to maturity securities	$ 108,866	$ 30	$ (12,013)	$96,883
At December 31, 2021:				
Mortgage backed securities	$ 29,943	$ 325	$ (320)	$29,948
Government agencies	3,093	—	(100)	2,993
Corporate bonds	41,725	694	(468)	41,951
Total available for sale securities	$ 74,761	$ 1,019	$ (888)	$74,892
Mortgage backed securities	$ 22,772	$ —	$ (140)	$22,632
Corporate bonds	5,614	—	(30)	5,584
Total held to maturity securities	$ 28,386	$ —	$ (170)	$28,216

The Company purchased 8 available for sale securities for $36.0 million and 11 held to maturity securities for $42.8 million during the year ended December 31, 2022. The Company purchased 9 available for sale securities for $36.5 million and 7 held to maturity securities for $28.7 during the year ended December 31, 2021. The Company did not sell any securities during the years ended December 31, 2022 and December 31, 2021.

Net unrealized losses on available for sale investment securities totaling $1.9 million were recorded, net of deferred tax assets, as accumulated other comprehensive income within shareholders' equity at December 31, 2022. Net unrealized gains on available for sale investment securities totaling $131,000 were recorded, net of deferred tax liabilities, as accumulated other comprehensive income within shareholders' equity at December 31, 2021.

During the first quarter of 2022, the Company re-designated certain securities previously classified as available for sale to the held to maturity classification. The securities re-designated consisted of mortgage backed securities and government agencies with a total carrying value of $49.9 million at December 31, 2021. At the time of re-designation the securities included $281,000 of pretax unrealized losses in other comprehensive income which is being amortized over the remaining life of the securities in a manner consistent with the amortization of a premium or discount.

The following table summarizes available for sale securities with unrealized losses at December 31, 2022 and 2021 aggregated by major security type and length of time in a continuous unrealized loss position.

	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses	Fair Value	Unrealized / Unrecognized Losses
At December 31, 2022:						
Mortgage backed securities	$ 10,920	$ (537)	$ 4,347	$ (360)	$ 15,267	$ (897)
Government agencies	28,765	(1,043)	—	—	28,765	(1,043)
Total available for sale securities	$ 39,685	$ (1,580)	$ 4,347	$ (360)	$ 44,032	$ (1,940)
Mortgage backed securities	$ 32,271	$ (5,244)	$ 21,445	$ (2,403)	$ 53,716	$ (7,647)
Government agencies	—	—	2,456	(627)	2,456	(627)
Corporate bonds	14,607	(1,143)	22,880	(2,596)	37,487	(3,739)
Total held to maturity securities	$ 46,878	$ (6,387)	$ 46,781	$ (5,626)	$ 93,659	$ (12,013)
At December 31, 2021:						
Mortgage backed securities	$ 14,302	$ (320)	$ —	$ —	$ 14,302	$ (320)
Government agencies	2,993	(100)	—	—	2,993	(100)
Corporate bonds	15,233	(200)	4,732	(268)	19,965	(468)
Total available for sale securities	$ 32,528	$ (620)	$ 4,732	$ (268)	$ 37,260	$ (888)
Mortgage backed securities	$ 22,632	$ (140)	$ —	$ —	$ 22,632	$ (140)
Corporate bonds	5,584	(30)	—	—	5,584	(30)
Total held to maturity securities	$ 28,216	$ (170)	$ —	$ —	$ 28,216	$ (170)

At December 31, 2022 the Company's investment security portfolio consisted of 60 securities, 55 of which were in an unrealized loss position at quarter end. At December 31, 2021 the Company's investment security portfolio consisted of 44 securities, 16 of which were in an unrealized loss position at year end. Management believes that changes in the market value since purchase are primarily attributable to changes in interest rates and relative illiquidity. Because the Company does not intend to sell and is unlikely to be required to sell until a recovery of fair value, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at December 31, 2022 and December 31, 2021, respectively.

The following table summarizes the scheduled maturities of the Company's investment securities as of December 31, 2022.

	Available for Sale		Held to Maturity	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less that one year	$ 2,508	$ 2,478	$ 5,709	$ 5,702
One to five years	34,833	33,682	17,839	17,171
Five to ten years	—	—	32,032	29,719
Beyond ten years	2,095	2,058	21,365	16,803
Securities not due at a single maturity date	9,432	8,794	31,921	27,488
Total investment securities	$ 48,868	$47,012	$108,866	$96,883

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. As such, mortgage backed securities included in a pool are not reflected in the maturity categories above and instead are shown separately as securities not due at a single maturity date.

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Outstanding loans as of December 31, 2022 and 2021 are summarized below. Certain loans have been pledged to secure borrowing arrangements (see Note 6).

(Dollars in thousands)	December 31, 2022	December 31, 2021
Commercial and industrial	634,535	474,281
Real estate - other	848,241	697,212
Real estate - construction and land	63,730	43,194
SBA	7,220	81,403
Other	39,695	80,559
Total loans, gross	1,593,421	1,376,649
Deferred loan origination costs, net	2,040	1,688
Allowance for loan losses	(17,005)	(14,081)
Total loans, net	1,578,456	1,364,256

SBA loans include Paycheck Protection Program ("PPP") loans funded under the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), which was enacted as a result of COVID-19. Of the $491.2 million in PPP loans funded by the Company as a result of the initial launch of the program in April 2020 and the re-launch of the program in January 2021, approximately $488.8 million of those balances have been granted forgiveness by the SBA as of December 31, 2022. Outstanding PPP loans were $2.4 million and $72.5 million as of December 31, 2022 and December 31, 2021, respectively.

The following table reflects the loan portfolio allocated by management's internal risk ratings at December 31, 2022 and 2021.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
As of December 31, 2022						
Grade:						
Pass	$ 613,395	$840,993	$62,031	$ 6,132	$ 39,695	$ 1,562,246
Special Mention	18,157	2,602	—	490	—	21,249
Substandard	2,983	4,646	1,699	598	—	9,926
Total	$ 634,535	$848,241	$63,730	$ 7,220	$ 39,695	$ 1,593,421
As of December 31, 2021						
Grade:						
Pass	$ 450,913	$690,916	$39,074	$ 79,379	$ 80,559	$ 1,340,841
Special Mention	20,904	1,583	1,278	1,111	—	24,876
Substandard	2,464	4,713	2,842	913	—	10,932
Total	$ 474,281	$697,212	$43,194	$ 81,403	$ 80,559	$ 1,376,649

(Dollars in thousands)	30 Days	60 Days	90+ Days	Non-Accrual	Current	Total
As of December 31, 2022						
Commercial and industrial	$ —	$ —	$—	$ 1,028	$ 633,507	$ 634,535
Real estate - other	3,160	—	—	—	845,081	848,241
Real estate - construction and land	—	—	—	—	63,730	63,730
SBA	—	—	—	222	6,998	7,220
Other	—	—	—	—	39,695	39,695
Total loans, gross	$3,160	$ —	$—	$ 1,250	$ 1,589,011	$ 1,593,421
As of December 31, 2021						
Commercial and industrial	$ —	$2,597	$—	$ —	$ 471,684	$ 474,281
Real estate - other	—	—	—	—	697,212	697,212
Real estate - construction and land	—	—	—	—	43,194	43,194
SBA	—	—	—	232	81,171	81,403
Other	—	—	—	—	80,559	80,559
Total loans, gross	$ —	$2,597	$—	$ 232	$ 1,373,820	$ 1,376,649

The following table reflects the impairment methodology applied to gross loans by portfolio segment and the related allowance for loan losses as of December 31, 2022 and 2021.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
As of December 31, 2022						
Gross loans:						
Loans individually evaluated for impairment	$ 1,028	$ —	$ —	$ 222	$ —	$ 1,250
Loans collectively evaluated for impairment	633,507	848,241	63,730	6,998	39,695	1,592,171
Total gross loans	$ 634,535	$848,241	$63,730	$ 7,220	$ 39,695	$ 1,593,421
Allowance for loan losses:						
Loans individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Loans collectively evaluated for impairment	10,620	5,322	884	132	47	17,005
Total allowance for loan losses	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$ 17,005
As of December 31, 2021						
Gross loans:						
Loans individually evaluated for impairment	$ —	$ —	$ —	$ 731	$ —	$ 731
Loans collectively evaluated for impairment	474,281	697,212	43,194	80,672	80,559	1,375,918
Total gross loans	$ 474,281	$697,212	$43,194	$ 81,403	$ 80,559	$ 1,376,649
Allowance for loan losses:						
Loans individually evaluated for impairment	$ —	$ —	$ —	$ 142	$ —	$ 142
Loans collectively evaluated for impairment	8,552	4,524	681	167	15	13,939
Total allowance for loan losses	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$ 14,081

The following table reflects information related to impaired loans as of December 31, 2022 and 2021.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
As of December 31, 2022					
With no related allowance recorded:					
Commercial and industrial	$1,028	$1,678	$—	$1,028	$—
SBA	$ 222	$ 896	$—	$ 227	$ 4
With an allowance recorded:					
Commercial and industrial	$ —	$ —	$—	$ —	$—
SBA	$ —	$ —	$—	$ —	$—
Total:					
Commercial and industrial	$1,028	$1,678	$—	$1,028	$—
SBA	$ 222	$ 896	$—	$ 227	$ 4
As of December 31, 2021					
With no related allowance recorded:					
SBA	$ 232	$ 705	$—	$ 233	$ 14
With an allowance recorded:					
SBA	$ 499	$ 499	$142	$ 477	$ 59
Total:					
SBA	$ 731	$1,204	$142	$ 710	$ 73

The recorded investment in impaired loans in the tables above excludes accrued interest receivable and net deferred origination costs due to their immateriality.

The following table reflects the changes in, and allocation of, the allowance for loan losses by portfolio segment for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	Commercial and Industrial	Real Estate Other	Real Estate Construction and Land	SBA	Other	Total
Year ended December 31, 2022						
Beginning balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Provision for loan losses	2,717	798	203	25	32	3,775
Charge-offs	(650)	—	—	(202)	—	(852)
Recoveries	1	—	—	—	—	1
Ending balance	$ 10,620	$ 5,322	$ 884	$ 132	$ 47	$17,005
Net recoveries (charge-offs) gross loans	-0.10%	0.00%	0.00%	-2.80%	0.00%	-0.05%
Year ended December 31, 2021						
Beginning balance	$ 8,923	$ 3,877	$ 681	$ 604	$ 26	$14,111
Provision for loan losses	(615)	647	—	(17)	(11)	4
Charge-offs	—	—	—	(278)	—	(278)
Recoveries	244	—	—	—	—	244
Ending balance	$ 8,552	$ 4,524	$ 681	$ 309	$ 15	$14,081
Net recoveries (charge-offs) gross loans	0.05%	0.00%	0.00%	-0.34%	0.00%	0.00%

Interest forgone on nonaccrual loans was $199,000 and $43,000 for the years ended December 31, 2022 and 2021, respectively. There was no interest recognized on a cash-basis on impaired loans for the years ended December 31, 2022 and 2021, respectively.

Troubled Debt Restructurings

At December 31, 2022 and 2021, the Company had no recorded investments or allocated specific reserves related to loans with terms that had been modified in troubled debt restructurings.

The Company had no commitments as of December 31, 2022 and 2021 to customers with outstanding loans that were classified as troubled debt restructurings. There were no new troubled debt restructurings during the years ended December 31, 2022 and 2021.

The Company had no troubled debt restructurings with a subsequent payment default within twelve months following the modification during the years ended December 31, 2022 and 2021.

4. PREMISES AND EQUIPMENT

The following table reflects the Company's premises and equipment as of the years ended December 31, 2022 and 2021.

	December 31,	
(Dollars in thousands)	2022	2021
Furniture, fixtures, and equipment	$ 6,211	$ 6,066
Leashold improvements	6,707	6,708
	12,918	12,774
Accumulated depreciation and amortization	(9,846)	(8,369)
Total premises and equipment	$ 3,072	$ 4,405

Depreciation and amortization included in occupancy and equipment expense totaled $1.5 million and $1.6 million for the years ended December 31, 2022 and 2021, respectively.

5. DEPOSITS

The following table reflects the Company's deposit portfolio for the years ended December 31, 2022 and 2021.

	December 31,	
(Dollars in thousands)	2022	2021
Demand noninterest- bearing	$ 811,671	$ 771,205
Demand interest-bearing	37,815	37,250
Money market and savings	671,016	717,480
Certificates of deposit	271,238	154,203
Total deposits	$1,791,740	$1,680,138

The Federal Deposit Insurance Corporation (FDIC) insures up to $250,000 per depositor per FDIC-insured bank. The Company, through its wholly owned subsidiary, had certificates of deposit accounts greater than $250,000 totaling $56.2 million and $50.9 million at December 31, 2022 and 2021, respectively. The Certificate of Deposit Account Registry Service (CDARS) Network enables financial institution members to utilize deposit placement services that qualify large customer deposits for FDIC insurance. Included in certificates of deposits were CDARS accounts totaling $31.8 million and $38.3 million at December 31, 2022 and 2021, respectively. Additionally, the Company had brokered certificates of deposits totaling $180.3 million and $60.6 million at December 31, 2022 and 2021, respectively and certificates of deposit accounts less than $250,000 totaling $2.9 million and $4.3 million at December 31, 2022 and 2021, respectively.

The following table reflects the aggregate annual maturities of the Company's certificates of deposit for the years ended December 31, 2023 through 2027 (dollars in thousands).

Amounts Maturing During The Year Ended December 31,	Less Than or Equal to $250,000	Greater Than $250,000	Total
2023	$ 2,496	$268,356	$ 270,852
2024	373	—	373
2025	—	—	—
2026	13	—	13
2027	—	—	—
Total certificates of deposit	$ 2,882	$268,356	$ 271,238

6. BORROWING ARRANGEMENTS

The Company has a borrowing arrangement with the Federal Reserve Bank of San Francisco (FRB) under which advances are secured by portions of the Bank's loan and investment securities portfolios. The Company's credit limit varies according to the amount and composition of the assets pledged as collateral. At December 31, 2022, amounts pledged and available borrowing capacity under such limits were approximately $484.1 million and $393.0 million, respectively. At December 31, 2021, amounts pledged and available borrowing capacity under such limits were approximately $317.8 million and $218.9 million, respectively. In April 2020, the Company secured an additional arrangement with the FRB for a $332.7 million Paycheck Protection Liquidity Facility (PPPLF) two year term borrowing maturing in April 2022 at a fixed rate of 0.35%. The Company repaid the PPPLF borrowing in full during the second quarter of 2022 and therefore had no balance outstanding as of December 31, 2022. At December 31, 2021, the PPPLF borrowing arrangement had an outstanding balance of $56.4 million.

The Company has a borrowing arrangement with the Federal Home Loan Bank (FHLB) under which advances are secured by portions of the Bank's loan portfolio. The Company's credit limit varies according to its total assets and the amount and composition of the loan portfolio pledged as collateral. At December 31, 2022, amounts pledged and available borrowing capacity under such limits were approximately $386.1 million and $335.1 million, respectively. At December 31, 2021, amounts pledged and available borrowing capacity under such limits were approximately $184.1 million and $88.1 million, respectively. In December 2021, the Company secured a FHLB short term borrowing for $50.0 million at a fixed rate of 0.18%. This FHLB short term borrowing was repaid in full during 2022 and had an outstanding balance of $50.0 million at December 31, 2021.

Under Federal Funds line of credit agreements with several correspondent banks, the Company can borrow up to $123.0 million. There were no borrowings outstanding under these arrangements at December 31, 2022 and December 31, 2021.

The Company maintains a revolving line of credit with a commitment of $3.0 million for a six month term at a rate of Prime plus 0.40%. At December 31, 2022 and December 31, 2021, no borrowings were outstanding under this line of credit.

The Company entered into a three year borrowing arrangement with a correspondent bank on April 27, 2020 for $12.0 million. The note is secured by the Company's investment in the Bank and has a fixed rate of 3.95%. There were no borrowings outstanding under this arrangement at December 31, 2022 and December 31, 2021.

The Company issued $20.0 million in subordinated debt on September 30, 2020. The subordinated debt has a fixed interest rate of 5.00% for the first 5 years and a stated maturity of September 30, 2030. After the fifth year, the interest rate changes to a quarterly variable rate equal to then current three-month term SOFR plus 0.488%. The subordinated debt was recorded net of related issuance costs of $300,000. At December 31, 2022 and December 31, 2021, the balance remained at $20.0 million, net of the remaining unamortized issuance cost.

The Company issued an additional $35.0 million in subordinated debt on August 17, 2021. The subordinated debt has a fixed interest rate of 3.50% for the first 5 years and a stated maturity of September 1, 2031. After the fifth year, the interest rate changes to a quarterly variable rate equal to then current three-month term SOFR plus 0.286%. The subordinated debt was recorded net of related issuance costs of $760,000. At December 31, 2022 and December 31, 2021, the balance remained at $35.0 million, net of the remaining unamortized issuance cost.

7. COMMITMENTS AND CONTINGENT LIABILITES

Financial Instruments with Off-Balance Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. The Company's exposure to credit loss in the event of nonperformance by the other party for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for loans included on the balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include accounts receivable, inventory, and deeds of trust on residential real estate and income-producing commercial properties.

At December 31, 2022 and December 31, 2021, the Company had outstanding unfunded commitments for loans of approximately $644.1 million and $620.0 million, respectively. Unfunded loan commitment reserves, included in the allowance for loan losses, totaled $430,000 and $380,000 at December 31, 2022 and December 31, 2021, respectively.

The outstanding unfunded commitments for loans at December 31, 2022 was comprised of fixed rate commitments of approximately $36.7 million and variable rate commitments of approximately $607.4 million. The following table reflects the interest rate and maturity ranges for the unfunded fixed rate loan commitments as of December 31, 2022.

(Dollars in thousands)	Due in One Year Or Less	Over One Year But Less Than Five Years	Over Five Years	Total
Unfunded fixed rate loan commitments:				
Interest rate less than or equal to 4.00%	$ 17,908	$ 3,600	$4,810	$ 26,318
Interest rate between 4.00% and 5.00%	—	5,637	355	5,992
Interest rate greater than or equal to 5.00%	868	3,504	—	4,372
Total unfunded fixed rate loan commitments	$ 18,776	$ 12,741	$5,165	$ 36,682

Operating Leases

The Company leases various office premises under long-term operating lease agreements. These leases expire between 2023 and 2027, with certain leases containing either three, five, or seven year renewal options.

The following table reflects the quantitative information for the Company's leases at December 31, 2022.

(Dollars in thousands)	December 31, 2022
Operating lease cost (cost resulting from lease payments)	$ 1,914
Operating lease—operating cash flows (fixed payments)	$ 2,441
Operating lease—ROU assets	$ 4,555
Operating lease—liabilities	$ 5,942
Weighted average lease term—operating leases	2.5 years
Weighted average discount rate—operating leases	4.45%

The following table reflects the minimum commitments under these non-cancellable leases, before considering renewal options (dollars in thousands).

(Dollars in thousands)	December 31, 2022
2023	$ 1,497
2024	1,456
2025	1,500
2026	1,435
2027	357
Thereafter	—
Total undiscounted cash flows	$ 6,245
Discount on cash flows	(303)
Total lease liability	$ 5,942

Rent expense included in premises and equipment expense totaled $1.9 million and $2.1 million for the years ended December 31, 2022 and 2021, respectively.

Contingencies

The Company is involved in legal proceedings arising from normal business activities. Management, based upon the advice of legal counsel, believes the ultimate resolution of all pending legal actions will not have a material effect on the Company's financial position or results of operations.

Correspondent Banking Agreements

The Company maintains funds on deposit with other federally insured financial institutions under correspondent banking agreements. Insured financial institution deposits up to $250,000 are fully insured by the FDIC under the FDIC's general deposit insurance rules.

At December 31, 2022, uninsured deposits at financial institutions were approximately $2.9 million. At December 31, 2021, uninsured deposits at financial institutions were approximately $11.0 million.

8. INCOME TAXES

The following table reflects the federal and state components of the Company's provision for income taxes for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	For the Years Ended December 31, 2022	2021
Federal:		
Current	$6,568	$ 4,972
Deferred	(921)	(1,632)
Federal provision for income taxes	5,647	3,340
State:		
Current	3,511	2,407
Deferred	(360)	(653)
State provision for income taxes	3,151	1,754
Provision for income taxes	$8,798	$ 5,094

The Company's reported amount of income tax expense differs from federal statutory income rate for the years ended December 31, 2022 and 2021 primarily due to California franchise taxes, low income housing credits and tax exempt income. The following table reflects a reconciliation of the effective tax rate for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	For the Years Ended December 31, 2022	2021
Statutory federal income tax rate	21.0%	21.0%
State income taxes, net of federal benefit	8.3%	7.6%
Low income housing credits, net of investment losses	-0.3%	-0.8%
Increase in cash surrender value of life insurance	-0.5%	-0.8%
Share-based compensation	0.2%	0.4%
Other, net	0.7%	0.5%
Effective tax rate	29.4%	27.9%

Deferred tax assets and liabilities result from the tax effects of temporary differences between the carrying amount of certain assets and liabilities for financial reporting purposes and their related amounts used for income tax reporting purposes. The following table reflects the Company's deferred tax assets, net of deferred liabilities, included in other assets in the consolidated financial statements.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Deferred tax assets:		
Allowance for loan losses	$ 5,027	$ 4,163
Lease liability	1,757	2,428
Accrued expenses	1,876	1,666
Organization costs	—	14
Share-based compensation	370	391
Deferred compensation	1,072	1,077
Net operating loss carryforwards	977	1,166
Loan discounts	19	34
Unrealized loss on available for sale investment securities	549	12
State tax deduction	743	417
Other	1,134	882
Total deferred tax assets	13,524	12,250
Deferred tax liabilities:		
Deferred loan origination costs	(1,679)	(1,592)
Right of use asset	(1,347)	(1,903)
Core deposit intangible	(36)	(48)
Other	(31)	(92)
Total deferred tax liabilities	(3,093)	(3,635)
Net deferred tax assets	$ 10,431	$ 8,615

As a result of the acquisition of Pan Pacific Bank in 2015, the Company has net operating loss carryforwards. Pursuant to Sections 382 of the Internal Revenue Code, annual use of net operating loss carryforwards may be limited in the event of a change in ownership. The net operating losses absorbed as a result of the acquisition are subject to Section 382 annual limitations in the amount of approximately $640,000 per year. At December 31, 2022, the net operating loss carryforwards for Federal and California income tax reporting purposes totaled $3.0 million and $4.2 million, respectively, and will begin to expire at various dates from 2030 to 2035 if unused. At December 31, 2021, the net operating loss carryforwards for Federal and California income tax reporting purposes totaled $3.6 million and $4.8 million, respectively.

For the tax years 2022 and 2021, the Company filed income tax returns in the U.S. Federal and various state jurisdictions. There are currently no pending U.S. Federal or state income tax or non-U.S. income tax examinations by tax authorities. The Company is no longer subject to tax examinations by U.S. Federal and state taxing authorities for years prior to 2019 for Federal tax returns and 2018 for state tax returns.

The Company is required to record a valuation allowance if it is more likely than not that some portion, or all, of the net deferred tax asset will not be realized. The Company evaluated both positive and negative evidence, including forecasts of future income, cumulative losses, applicable tax planning strategies, and assessments of current and future economic and business conditions and determined that a valuation allowance was not needed to reduce the net deferred tax asset as it is more likely than not that the results of future operations will generate sufficient taxable income to realize the recorded balance. As of December 31, 2022 and 2021, there were no unrecognized tax benefits or interest and penalties accrued by the Company.

9. FAIR VALUE MEASUREMENTS

Fair Value Hierarchy

The Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. Valuations within these levels are based upon:

Level 1—Quoted market prices for identical instruments traded in active exchange markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable or can be corroborated by observable market data.

Level 3—Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Company's estimates of assumptions that market participants would use on pricing the asset or liability. Valuation techniques include management judgment and estimation which may be significant.

Management monitors the availability of observable market data to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total assets, total liabilities or total earnings.

The carrying amounts and estimated fair values of financial instruments at December 31, 2022 and 2021 are as follows:

		Fair Value Measurements			
(Dollars in thousands)	Carrying Amount	Level 1	Level 2	Level 3	Total
As of December 31, 2022					
Financial assets:					
Cash and due from banks	$ 232,382	$ 232,382	$ —	$ —	$ 232,382
Investment securities:					
Available for sale	47,012	—	47,012	—	47,012
Held to Maturity	108,866		89,433	7,450	96,883
Loans, net	1,578,456		—	1,519,903	1,519,903
Accrued interest receivable	7,769	—	926	6,843	7,769
Financial liabilities:					
Deposits	$ 1,791,740	$ 1,520,502	$ 271,178	$ —	$ 1,791,680
Subordinated debt	54,152	—	—	49,027	49,027
Accrued interest payable	1,678	—	1,007	671	1,678
As of December 31, 2021					
Financial assets:					
Cash and due from banks	$ 470,456	$ 470,456	$ —	$ —	$ 470,456
Investment securities:					
Available for sale	74,892	—	67,981	6,911	74,892
Held to Maturity	28,386		22,632	5,584	28,216
Loans, net	1,364,256		—	1,353,888	1,353,888
Accrued interest receivable	5,713	—	633	5,080	5,713
Financial liabilities:					
Deposits	$ 1,680,138	$ 1,525,935	$ 154,146	$ —	$ 1,680,081
Other borrowings	106,387	—	—	106,387	106,387
Subordinated debt	54,028	—	—	56,092	56,092
Accrued interest payable	859	—	42	817	859

These estimates do not reflect any premium or discount that could result from offering the Company's entire holdings of a particular financial instrument for sale at one time, nor do they attempt to estimate the value of anticipated future business related to the instruments. In addition, the tax ramifications related to the realization of unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates.

The methods and assumptions used to estimate fair values are described as follows:

Cash and Due from banks—The carrying amounts of cash and short-term instruments approximate fair values and are classified as Level 1.

Investment Securities—Since quoted prices are generally not available for identical securities, fair values are calculated based on market prices of similar securities on similar dates, resulting in Level 2 classification. For securities where market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators, resulting in Level 3 classification.

FHLB, IBFC, PCBB Stock—It is not practical to determine the fair value of these correspondent bank stocks due to restrictions placed on their transferability.

Loans—Fair values of loans for December 31, 2022 and 2021 are estimated on an exit price basis with contractual cash flow, prepayments, discount spreads, credit loss and liquidity premium assumptions. Loans with similar characteristics such as prepayment rates, terms and rate indexed are aggregated for purposes of the calculations. Loans are generally classified using Level 3 inputs.

Impaired loans—Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. The fair value of impaired loans with specific allocations of the allowance for loan losses that are secured by real property is generally based on recent real estate appraisals. 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 independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. The methods utilized to estimate the fair value of impaired loans do not necessarily represent an exit price.

Deposits—The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in Level 1 classification. The carrying amounts of variable rate and fixed-term money market accounts approximate their fair values at the reporting date resulting in Level 1 classification. For time certificates of deposit, the estimated remaining cash flows were discounted, based on current rates for similar instruments in market, to determine the fair value (premium)/discount and accordingly are classified as Level 2.

FHLB Advances—FHLB Advances are included in Other Borrowings. Fair values for FHLB Advances are estimated using discounted cash flow analyses using interest rates offered at each reporting date by correspondent banks for advances with similar maturities resulting in Level 3 classification.

Paycheck Protection Program Liquidity Facility (PPPLF)—The fair value of PPPLF is estimated using a discounted cash flow based on the remaining contractual term and current rates at which similar advances would be obtained resulting in Level 3 classification.

Senior Notes—Fair values for senior notes are estimated using a discounted cash flow calculation based on current rates for similar types of debt which may be unobservable, and considering recent trading activity of similar instruments in market which can be inactive and accordingly are classified within in the Level 3 classification.

Junior Subordinated Debt Securities—Fair values for subordinated debt are calculated based on its terms and were discounted to the date of the valuation to calculate the fair value on the debt. A market rate based on recent debt offering by peer bank was used to discount cash flow until reprice date and subsequently cash flow were discounted at Prime plus 2% for its security. These assumptions which may be unobservable, and considering recent trading activity of similar instruments in market which can be inactive and accordingly are classified within the Level 3 classification.

Accrued Interest Receivable—The carrying amounts of accrued interest receivable approximate fair value resulting in a Level 2 classification for accrued interest receivable on investment securities and a Level 3 classification for accrued interest receivable on loans since investment securities are generally classified using Level 2 inputs and loans are generally classified using Level 3 inputs.

Accrued Interest Payable—The carrying amounts of accrued interest payable approximate fair value resulting in a Level 2 classification, since accrued interest payable is from deposits that are generally classified using Level 2 inputs.

Off Balance Sheet Instruments—Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of commitments is not material.

Assets Recorded at Fair Value on a Recurring Basis

The Company is required or permitted to record the following assets at fair value on a recurring basis as of December 31, 2022 and December 31, 2021.

		Fair Value Measurements		
(Dollars in thousands)	Fair Value	Level 1	Level 2	Level 3
As of December 31, 2022				
Investments available for sale:				
Mortgage backed securities	$ 17,758	$ —	$ 17,758	$ —
Government agencies	28,766	—	28,766	—
Corporate bonds	488	—	488	—
Total assets measured at fair value on a recurring basis	$ 47,012	$ —	$ 47,012	$ —
As of December 31, 2021				
Investments available for sale:				
Mortgage backed securities	$ 29,948	$ —	$ 29,948	$ —
Government agencies	2,993	—	2,993	—
Corporate bonds	41,951	—	35,040	6,911
Total assets measured at fair value on a recurring basis	$ 74,892	$ —	$ 67,981	$ 6,911

The following table reflects the changes in all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2022 and December 31, 2021.

(Dollars in thousands)	Corporate Securities Year Ended December 31, 2022	2021
Beginning Balance	$ 6,911	$ —
Purchases	—	2,033
Transfers into Level 3	—	4,878
Transfers out of Level 3	(6,911)	—
Ending Balance	$ —	$ 6,911

Assets Recorded at Fair Value on a Non-Recurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. These include assets that are measured at the lower of cost or market value that were recognized at fair value which was below cost at the reporting date.

The following table summarizes impaired loans measured at fair value on a non-recurring basis as of December 31, 2022 and 2021.

(Dollars in thousands)	Carrying Amount	Fair Value Measurements Level 1	Level 2	Level 3
As of December 31, 2022				
Impaired loans—Commercial	$ 1,028	$ —	$ —	$ 1,028
Impaired loans—SBA	222	—	—	222
Total assets measured at fair value on a non-recurring basis	$ 1,250	$ —	$ —	$ 1,250
As of December 31, 2021				
Impaired loans—SBA	$ 731	$ —	$ —	$ 731
Total assets measured at fair value on a non-recurring basis	$ 731	$ —	$ —	$ 731

The fair value of impaired loans is based upon independent market prices, estimated liquidation values of loan collateral or appraised value of the collateral as determined by third-party independent appraisers, less selling costs, generally. Level 3 fair value measurement includes other real estate owned that has been measured at fair value upon transfer to foreclosed assets and impaired loans collateralized by real property and other business asset collateral where a specific reserve has been established or a charged-off has been recorded. The unobservable inputs and qualitative information about the unobservable inputs are based on managements' best estimates of appropriate discounts in arriving at fair market value. Increases or decreases in any of those inputs could result in a significantly lower or higher fair value measurement. For example, a change in either direction of actual loss rates would have a directionally opposite change in the calculation of the fair value of impaired loans.

10. EQUITY INCENTIVE PLAN

Stock-Based Compensation

In an effort to attract, retain and motivate eligible employees and non-employee directors, the Company implemented an equity incentive plan to provide potential additional future compensation based on the performance of the Company. The equity incentive plan aligns the interests of employees and non-employee directors with the interests of shareholders and reinforces the relationship between shareholder gains and compensation.

On May 18, 2017, the Company's shareholders approved the 2017 Equity Incentive Plan which supersedes the Equity Incentive Plan that was established in 2014. On August 6, 2020, the Company's shareholders approved an amendment and restatement of the 2017 Equity Incentive Plan (as amended and restated, the "Amended 2017 Plan"). The Amended 2017 Plan increased the number of shares that may be granted under the plan from 420,000 shares to a maximum of 920,000 shares. The Amended 2017 Plan provides for the following types of stock-based awards: incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, and other stock-based awards. The amount, frequency, and terms of stock-based awards may vary based upon competitive practices, the Company's operating results and government regulations. As of December 31, 2022, the Company has issued incentive stock options, restricted stock units, and other stock-based awards under the 2017 Amended Plan.

Stock options issued under the Amended 2017 Plan may be granted to employees and non-employee directors and may be either incentive or nonqualified stock options as defined under current tax laws. The exercise price of each option must equal the market price of the Company's stock on the date of the grant. The term of the option may not exceed 10 years and generally vests over a five year period.

Restricted stock and restricted stock units issued under the Amended 2017 Plan may be granted to employees and non-employee directors. The grant price of each award equals the market price of the Company's stock on the date of the grant. The awards generally vest over a five year period.

Other stock-based awards may be granted to employees and non-employee directors, and include stock awards that vest immediately without restriction.

At the time the 2017 Equity Incentive Plan was adopted, the total authorized shares available for issuance under the 2014 Equity Incentive Plan (the "2014 Plan") was 404,235 shares and the number of shares available for future grants was 39,123 shares. As the 2017 Equity Incentive Plan superseded the 2014 Plan, no further grants may be made under the 2014 Plan and, as such, the shares that were available for future grant under the 2014 Plan may no longer be awarded.

As of December 31, 2022, there were 739,753 shares of outstanding awards under the Company's stock-based compensation plans and 210,645 shares available for future grants under the Amended 2017 Plan.

Total compensation cost that was charged against income pertaining to the 2014 Plan and the Amended 2017 Plan was $1.8 million and $1.3 million for the years ended December 31, 2022 and 2021, respectively.

Stock Option Awards

The following table reflects a summary of the stock option activity under the 2014 Plan and the Amended 2017 Plan for the year ended December 31, 2022.

	Stock Option Awards Outstanding	
	Number of Shares	Weighted Average Exercise Price
Stock option awards outstanding, December 31, 2021	445,256	$ 17.75
Granted	64,000	$ 22.09
Exercised	(11,550)	$ 8.34
Forfeited or expired	(54)	$ 18.48
Stock option awards outstanding, December 31, 2022	497,652	$ 18.53

The following table reflects the weighted remaining life and aggregate intrinsic value related to the stock options issued under the 2014 Plan and the Amended 2017 Plan at December 31, 2022.

(Dollars in thousands)	Number of Shares	Weighted Remaining Life (Years)	Aggregate Intrinsic Value
Stock option awards outstanding	497,652	6.38	$ 2,613
Stock option awards fully vested and expected to vest	225,442	7.39	$ 1,032
Stock option awards exercisable	255,772	5.41	$ 1,535

The following table reflects information related to stock options exercised and granted during the years ended December 31, 2022 and 2021.

(Dollars in thousands)	For the Years Ended December 31, 2022	2021
Options exercised:		
Intrinsic value	$ 150	$ 436
Cash received, net	$ 21	$ 243
Tax benefit realized	$ —	$ —
Options granted:		
Weighted average fair value	$7.60	$7.27

The fair value of each option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The following table reflects the assumptions used by management in the Black-Scholes option pricing model for the years ended December 31, 2022 and 2021.

	For the Years Ended December 31, 2022	2021
Expected life	10 years	10 years
Stock price volatility	35.2%	31.9%
Risk free interest rate	2.2%	0.5%
Dividend yield	0.0%	0.0%

As of December 31, 2022, there was $1.67 million of total unrecognized compensation cost related to non-vested stock options granted under the 2014 Plan and the Amended 2017 Plan. The cost is expected to be recognized on a straight-line basis over a weighted average period of 5.5 years and will be adjusted for subsequent changes related to forfeitures.

Restricted Stock Units

The following table reflects a summary of the restricted stock activity under the 2014 Plan and the Amended 2017 Plan for the year ended December 31, 2022.

	Non-vested Restricted Stock Units	
	Number of Shares	Weighted Average Grant Value
Non-vested restricted stock units, December 31, 2021	222,157	$17.59
Granted	92,969	$21.64
Vested	(69,592)	$18.11
Forfeited or expired	(3,433)	$18.29
Non-vested restricted stock units, December 31, 2022	242,101	$19.00

As of December 31, 2022, there was $4.6 million of total unrecognized compensation cost related to non-vested restricted stock units granted under the 2014 Plan and the Amended 2017 Plan. The cost is expected to be recognized on a straight-line basis over a weighted average period of 5.5 years and will be adjusted for subsequent changes in estimated forfeitures. The Company estimates the impact of forfeitures on historical experience. Should the Company's current estimate change, additional expense could be recognized or reversed in future periods.

Other Stock-Based Awards

Stock awards totaling 6,753 shares were granted and issued during the year ended December 31, 2022. These stock awards were fully vested upon the date of the grant. The grant date fair value of these awards was included in the compensation cost that was charged against income pertaining to the Amended 2017 Plan.

11. OTHER EMPLOYEE BENEFIT PLANS

Profit Sharing Plan

In 2007, the Company adopted the California Bank of Commerce Profit Sharing 401(k) Plan. All full-time employees 21 years of age or older with 3 months of service are eligible to participate in the 401(k) Plan. Eligible employees may elect to make tax deferred contributions up to the maximum amount allowed by law. The Company may make additional contributions to the plan at the discretion of the Board of Directors. Bank contributions may vest at a rate of 20% annually for all employees. The Company made a fully vested contribution to the 401(k) Plan for the years ended December 31, 2022 and 2021 in the amount of $792,000 and $745,000, respectively.

Salary Continuation and Retirement Plan

The Board of Directors approved a salary continuation plan for certain executives. Under the plan, once these certain executives reach age 65, the Company is obligated to provide them with annual benefits after retirement. The estimated present value of these future benefits has been accrued from the effective date of the plan. The discount rate used to estimate the present value of future benefits was 4.30% and 3.25% for the years ended December 31, 2022 and 2021 respectively.

The expense recognized under this plan for the years ended December 31, 2022 and 2021 totaled $298,000 and $1.2 million, respectively. Accrued compensation payable under the salary continuation plan totaled $3.6 million and $3.3 million at December 31, 2022 and 2021, respectively, and is included in accrued interest payable and other liabilities on the balance sheet.

12. REGULATORY CAPITAL REQUIREMENTS

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (as defined in the regulations) of Common Tier I Capital, Tier I Capital, and Total Capital to risk-weighted assets, and of Tier I capital to average assets. Management believes, as of December 31, 2022, that the Company meets all capital adequacy requirements to which they are subject.

The following tables reflect the consolidated Company's and the Bank's capital adequacy ratios at December 31, 2022 and 2021 as well as the minimum capital ratios required to be deemed "adequately capitalized" and "well capitalized" under the regulatory framework.

	As of December 31, 2022					
	Actual		Adequately Capitalized		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company Capital Ratios:						
Tier I Capital (to Average Assets)	$ 166,082	7.98%	$ 83,229	4.00%	$ 104,036	5.00%
Tier I Common Capital (to Risk Weighted Assets)	$ 166,082	8.23%	$ 90,836	4.50%	$ 131,207	6.50%
Tier I Capital (to Risk Weighted Assets)	$ 166,082	8.23%	$121,114	6.00%	$ 161,485	8.00%
Total Capital (to Risk Weighted Assets)	$ 237,669	11.77%	$161,485	8.00%	$ 201,857	10.00%
Bank Capital Ratios:						
Tier I Capital (to Average Assets)	$ 213,670	10.23%	$ 83,552	4.00%	$ 104,440	5.00%
Tier I Capital (to Risk Weighted Assets)	$ 213,670	10.54%	$ 91,190	4.50%	$ 131,718	6.50%
Tier I Common Capital (to Risk Weighted Assets)	$ 213,670	10.54%	$121,586	6.00%	$ 162,115	8.00%
Total Capital	$ 231,105	11.40%	$162,115	8.00%	$ 202,643	10.00%

	As of December 31, 2021					
	Actual		Adequately Capitalized		Well Capitalized	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Company Capital Ratios:						
Tier I Capital (to Average Assets)	$ 143,148	7.23%	$ 79,204	4.00%	$ 99,005	5.00%
Tier I Common Capital (to Risk Weighted Assets)	$ 143,148	8.62%	$ 74,695	4.50%	$ 107,893	6.50%
Tier I Capital (to Risk Weighted Assets)	$ 143,148	8.62%	$ 99,594	6.00%	$ 132,792	8.00%
Total Capital (to Risk Weighted Assets)	$ 211,637	12.75%	$132,792	8.00%	$ 165,990	10.00%
Bank Capital Ratios:						
Tier I Capital (to Average Assets)	$ 188,635	9.51%	$ 79,373	4.00%	$ 99,216	5.00%
Tier I Capital (to Risk Weighted Assets)	$ 188,635	11.38%	$ 74,616	4.50%	$ 107,779	6.50%
Tier I Common Capital (to Risk Weighted Assets)	$ 188,635	11.38%	$ 99,489	6.00%	$ 132,652	8.00%
Total Capital (to Risk Weighted Assets)	$ 203,095	12.25%	$132,652	8.00%	$ 165,814	10.00%

13. PARENT COMPANY ONLY FINANCIAL INFORMATION

The following table reflects the summary parent company only Statements of Condition for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Assets:		
Cash and due from banks	$ 8,977	$ 9,968
Investment in bank subsidiary	219,842	196,253
Other assets	8,213	5,954
Total assets	$237,032	$212,175
Liabilities:		
Junior subordinated debt	$ 54,152	$ 54,028
Other Liabilities	10,626	7,393
Total liabilities	64,778	61,421
Shareholders' equity	172,254	150,754
Total liabilities and shareholders' equity	$237,032	$212,175

The following table reflects the summary parent company only Statements of Income for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	December 31, 2021
Interest expense	$ (2,240)	$ (1,477)
Non-interest expense	(727)	(543)
Income (loss) before provision for income taxes	(2,967)	(2,020)
Provision for income taxes	877	596
Income (loss) before equity in undistributed subsidiary income	(2,090)	(1,424)
Equity in undistributed subsidiary income	23,198	14,792
Net income	$21,108	$13,368

The following table reflects the summary parent company only Statements of Cash Flows for the years ended December 31, 2022 and 2021.

(Dollars in thousands)	December 31, 2022	2021
Cash flow from operating activities:		
Net income	$ 21,108	$ 13,368
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed (earnings) of subsidiary income	(23,198)	(14,792)
Change in other assets and other liabilities, net	1,078	(4,157)
Net cash provided by (used for) operating activities	(1,012)	(5,581)
Cash flow from investing activities:		
Investment in subsidiary	—	(30,000)
Net cash provided by (used for) investing activities	—	(30,000)
Cash flow from financing activities:		
Proceeds from issuance of subordinated debt, net	—	34,224
Proceeds from exercised stock options	21	243
Net cash provided by (used for) financing activities	21	34,467
(Decrease) increase in cash and cash equivalents	(991)	(1,114)
Cash and cash equivalents, beginning of period	9,968	11,082
Cash and cash equivalents, end of period	$ 8,977	$ 9,968

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, such controls.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Our internal control system is a process designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial reporting.

As of December 31, 2022, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in "Internal Control-Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2022.

Crowe LLP, the independent registered public accounting firm, audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K. Their report is included in Part II, Item 8, under the heading "Report of Independent Registered Public Accounting Firm."

Attestation Report of the Independent Registered Public Accounting Firm

Pursuant to SEC rules applicable to emerging growth companies, this Annual Report on Form 10-K does not include an audit report on internal control over financial reporting from the Company's independent registered public accounting firm.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item with respect to our directors and certain corporate governance practices will be included in our Proxy Statement for our 2023 Annual Meeting of Shareholder (the “Proxy Statement”) or an amendment to this report to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2022. Such information is incorporated herein by reference to the Proxy Statement.

We maintain a Code of Business Conduct and Ethics applicable to our Board of Directors, principal executive officer, and principal financial officer, as well as all of our other employees. Our Code of Business Conduct and Ethics can be found on our internet website located at www.californiabankofcommerce.com.

Item 11. Executive Compensation

The information required by this item will be included in our Proxy Statement or an amendment to this report to be filed with the SEC within 120 days after the end of the Company’s fiscal year ended December 31, 2022. Such information is incorporated herein by reference to the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth information regarding outstanding options and other rights to purchase or acquire common stock granted under the Company’s compensation plans as of December 31, 2022.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans Excluding Securities Reflected in Column (a)
Equity compensation plans approved by security holders	739,753	$ 18.68	210,645
Equity compensation plans not approved by security holders	—	—	—
Total	739,753	$ 18.68	210,645

The remaining information required by this item will be contained in our Proxy Statement, or an amendment to this report, to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2022. Such information is incorporated herein by reference to the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The remaining information required by this item will be contained in our Proxy Statement or an amendment to this report to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2022. Such information is incorporated herein by reference to the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The remaining information required by this item will be contained in our Proxy Statement or an amendment to this report to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2022. Such information is incorporated herein by reference to the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements: The financial statements listed under Part II-Item 8. "Financial Statements and Supplementary Data" are filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules: All financial statement schedules have been omitted since the required information is either not applicable or not required, or has been included in the Financial Statements and related notes.

(b) The following exhibits are filed with or incorporated by reference in this Annual Report on Form 10-K, and this list includes the Exhibit Index.

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of California BanCorp †
3.2	Amended and Restated Bylaws of California BanCorp †
4.1	Form of Certificate of Common Stock of California BanCorp †
4.2	Description of Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K filed on April 14, 2020)
4.3	Form of 5.00% Fixed-Floating Rate Subordinated Note due 2030 of California BanCorp (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on September 30, 2020.
4.4	Indenture, dated as of August 17, 2021, by and between California BanCorp and UMB Bank, National Association, as trustee, including the Form of 3.50% Fixed-to-Floating Rate Subordinated Note due 2031 of California BanCorp (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on August 17, 2021.
10.1	Form of Indemnification Agreement by and between California BanCorp and its directors and executive officers †
10.2	Form of Indemnification Agreement by and between California Bank of Commerce and its directors and executive officers †
10.3	Amended and Restated California BanCorp 2017 Equity Incentive Plan* (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed on July 1, 2020)
10.4	Form of Stock Option Award Agreement under the Amended and Restated California BanCorp 2017 Equity Incentive Plan* (incorporated by reference to Exhibit 10.6 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.5	Form of Restricted Stock Award Agreement under the Amended and Restated California BanCorp 2017 Equity Incentive Plan* (incorporated by reference to Exhibit 10.7 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.6	Form of Stock Option Award Agreement under the California Bank of Commerce 2014 Equity Incentive Plan* (incorporated by reference to Exhibit 10.10 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.7	Form of Restricted Stock Award Agreement under the California Bank of Commerce 2014 Equity Incentive Plan* (incorporated by reference to Exhibit 10.11 to the Company's Form 10 filed with the SEC on March 4, 2020)

Exhibit Number	Description of Exhibit
10.8	Employment Agreement, effective May 7, 2018, by and between Steven E. Shelton and California Bank of Commerce* (incorporated by reference to Exhibit 10.9 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.9	First Amendment to Employment Agreement, dated as of April 28, 2022, by and between California Bank of Commerce and Steven E. Shelton (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on May 2, 2022)*
10.10	Employment Agreement, effective May 20, 2019, by and between Thomas A. Sa and California Bank of Commerce* (incorporated by reference to Exhibit 10.13 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.11	First Amendment to Employment Agreement, dated as of April 28, 2022, by and between California Bank of Commerce and Thomas A. Sa (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 2, 2022)*
10.12	Employment Agreement, dated as of August 9, 2022, by and between California Bank of Commerce and Scott Myers (incorporated by reference to Exhibit 10.3 of the Company's Form 10-Q filed on August 11, 2022)*
10.13	Employment Agreement, dated as of June 19, 2018, by and between California Bank of Commerce and Michele Wirfel (incorporated by reference to Exhibit 10.9 of the Company's Form 10-Q filed on August 11, 2022)*
10.14	Employment Agreement, dated as of July 1, 2019, by and between California Bank of Commerce and Vivian Mui(incorporated by reference to Exhibit 10.8 of the Company's Form 10-Q filed on August 11, 2022)*
10.15	Employment Agreement, dated as of March 10, 2016, by and between California Bank of Commerce and Thomas M. Dorrance(incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q filed on August 11, 2022)*
10.16	First Amendment to Employment Agreement, dated as of June 19, 2018, by and between California Bank of Commerce and Thomas M. Dorrance(incorporated by reference to Exhibit 10.7 of the Company's Form 10-Q filed on August 11, 2022)*
10.17	Executive Supplemental Compensation Agreement by and between California Bank of Commerce and Steven E. Shelton* (incorporated by reference to Exhibit 10.14 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.18	Executive Supplemental Compensation Agreement by and between California Bank of Commerce and Thomas A. Sa* (incorporated by reference to Exhibit 10.15 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.19	Form of Executive Supplemental Compensation Agreement by and between California Bank of Commerce and each of Scott Myers, Thomas M. Dorrance, Vivian Mui and Michele Wirfel (incorporated by reference to Exhibit 10.4 of the Company's Form 10-Q filed on August 11, 2022)*
10.20	Second Amended and Restated Split-Dollar Agreement effective January 13, 2019 by and between California Bank of Commerce and Steven E. Shelton* (incorporated by reference to Exhibit 10.18 to the Company's Form 10 filed with the SEC on March 4, 2020)
10.21	Split-Dollar Agreement by and between California Bank of Commerce and Scott Myers (incorporated by reference to Exhibit 10.5 of the Company's Form 10-Q filed on August 11, 2022)*

Exhibit Number	Description of Exhibit
21.1	Subsidiaries of California BanCorp †
23.1	Consent of Crowe LLP
31.1	Certification of Chief Executive Officer pursuant to section 302 of Sarbanes-Oxley of 2002
31.2	Certification of Chief Financial Officer pursuant to section 302 of Sarbanes-Oxley of 2002
32.1	Certification of Chief Executive Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
32.2	Certification of Chief Financial Officer pursuant to section 906 of the Public Company Accounting Reform and Investor Protection Act of 2002
101.INS	Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
*	Indicates a management contract or compensatory plan.
†	Incorporated by reference to the exhibit of the same number of the Company's Form 10 filed with the SEC on March 4, 2020.

Item 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

CALIFORNIA BANCORP

Date: March 24, 2023	/s/ Steven E. Shelton
	Steven E. Shelton
	Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature/Name	Title	Date
By: /s/ Steven E. Shelton Steven E. Shelton	Chief Executive Officer and Director (Principal Executive Officer)	March 24, 2023
By: /s/ Thomas A. Sa Thomas A. Sa	President, Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)	March 24, 2023
By: /s/ Andrew J. Armanino Andrew J. Armanino	Director	March 24, 2023
By: /s/ Stephen A. Cortese Stephen A. Cortese	Chairman	March 24, 2023
By: /s/ Kevin J. Cullen Kevin J. Cullen	Director	March 24, 2023
By: /s/ Stephen R. Dathe Stephen R. Dathe	Director	March 24, 2023
By: /s/ Wayne S. Doiguchi Wayne S. Doiguchi	Director	March 24, 2023
By: /s/ Rochelle G. Klein Rochelle G. Klein	Director	March 24, 2023
By: /s/ Julie J. Levenson Julie J. Levenson	Director	March 24, 2023
By: /s/ Frank L. Muller Frank L. Muller	Director	March 24, 2023
By: /s/ Millicent C. Tracey Millicent C. Tracey	Director	March 24, 2023
By: /s/ Edmond E. Traille Edmond E. Traille	Director	March 24, 2023

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-251181 and 333-238979 on Form S-8 and 333-266959 on Form S-3 of California BanCorp of our report dated March 24, 2023 relating to the financial statements, appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP
Sacramento, California
March 24, 2023

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Steven E. Shelton, certify that:

1. I have reviewed this annual report on Form 10-K of California BanCorp.
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 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 registrants' 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: March 24, 2023

/s/ Steven E. Shelton
Steven E. Shelton
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Thomas A. Sa, certify that:

1. I have reviewed this annual report on Form 10-K of California BanCorp.

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 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 registrants' 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: March 24, 2023

/s/ Thomas A. Sa
Thomas A. Sa
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE
PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002

In connection with the periodic report of California BanCorp (the "Company") on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the "Report"), I, Steven E. Shelton, Chairman, President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: March 24, 2023

/s/ Steven E. Shelton
Steven E. Shelton
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE
PUBLIC COMPANY ACCOUNTING REFORM AND INVESTOR PROTECTION ACT OF 2002

In connection with the periodic report of California Bancorp (the “Company”) on Form 10-K for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the “Report”), I, Thomas A. Sa, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: March 24, 2023

/s/ Thomas A. Sa
Thomas A. Sa
Chief Financial Officer

California BanCorp

California BanCorp
1300 Clay Street, Suite 500
Oakland, CA 94612
510-457-3615

californiabankofcommerce.