

**AVIDBANK HOLDINGS, INC.**

**ISSUER INFORMATION AND DISCLOSURE STATEMENT  
PURSUANT TO RULE 15c2-11(a)(5)**

**For the Period ended March 31, 2025**

**This statement has not been filed with the Securities and Exchange Commission or any other regulatory agency.**

The following information is compiled, maintained and made available pursuant to Rule 144(c)(2) of the Securities Act of 1933, as amended, and Rule 15c2-11(a)(5)(i) - (xiv) and (a)(5)(xvi) of the Securities Exchange Act of 1934, as amended ("Securities Exchange Act"). Avidbank Holdings, Inc. (the "Company") is not subject to Section 13 or 15(d) of the Securities Exchange Act and does not file periodic reports with the Securities and Exchange Commission ("SEC"). In the absence of such filings, this information is intended to satisfy the requirement that adequate current public information with respect to an issuer be available as a condition to the resale of certain securities of the issuer under Rule 144.

**i. the exact name of the issuer and its predecessor (if any).**

The name of the Company is Avidbank Holdings, Inc. The Company's predecessor and current subsidiary is Avidbank. The Company was formerly Peninsula Bank Holding Co., which was organized in 2007 to be the holding company for The Private Bank of the Peninsula, which was incorporated on April 8, 2003 and commenced operations on October 1, 2003. The Private Bank of the Peninsula changed its name to Avidbank on April 1, 2011, and Peninsula Bank Holding Co. changed its name to Avidbank Holdings, Inc. on August 1, 2011.

**ii. the address of its principal executive offices.**

1732 North First Street, 6<sup>th</sup> Floor  
San Jose, California 95112  
telephone: (408) 200-7390  
website: [www.avidbank.com](http://www.avidbank.com)

for investor relations issues, contact:

Patrick Oakes, Executive Vice President and Chief Financial Officer  
1732 North First Street, 6<sup>th</sup> Floor  
San Jose, California 95112  
telephone: (408) 200-7390

**iii. the state of incorporation, if it is a corporation.**

California; incorporated in 2007 to act as the holding company for Avidbank.

- iv. **the exact title and class of the security; and**
- v. **the par or stated value of the security.**

- a. 7,912,184 shares of Avidbank Holdings, Inc. Common Stock has no par value, issued and outstanding as of March 31, 2025 and the Stock Ticker Symbol is AVBH or AVBH.OB; CUSIP # 05368J103;

- vi. **the number of shares or total amount of the securities outstanding as of the end of the issuer's most recent fiscal year.**

As of December 31, 2024, there were 7,906,761 shares of Avidbank Holdings, Inc. Common Stock, no par value, issued and outstanding.

- vii. **the name and address of the transfer agent.**

**Equiniti Trust Company, LLC**  
6201 15<sup>th</sup> Avenue  
Brooklyn, NY 11219  
Bus: 718.921.8337  
eFax: 718.765.8795

Attention: Craig Colosso

- viii. **the nature of the issuer's business.**

Avidbank Holdings, Inc. is a bank holding company registered under the Bank Holding Company Act of 1956, as amended. The Company was incorporated under the laws of the State of California in 2007 for the principal purpose of engaging in activities permitted for a bank holding company. As a bank holding company, the Company is authorized to engage in the activities permitted under the Bank Holding Company Act of 1956, as amended, and the regulations thereunder. Its principal office is located at 1732 North First Street, 6<sup>th</sup> Floor, San Jose, California 95112 and its telephone number is 408 200-7390.

The Company owns 100% of the issued and outstanding common shares of its banking subsidiary, Avidbank.

The Bank was incorporated under the laws of the State of California on April 8, 2003, and with the approval of the Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation (the "FDIC"), opened for business on October 1, 2003. In doing so, the Bank became the first locally owned commercial bank to start business in Palo Alto in many years. Avidbank operates in Santa Clara, San Mateo and San Francisco Counties including a head office and branch office in San Jose located at 1732 North First Street, 6<sup>th</sup> floor, San Jose. The Bank has loan production offices in Redwood City located at 821 Winslow Street and in San Francisco located at 135 Main Street, Suite 2150.

Avidbank's deposits are insured by the FDIC up to applicable legal limits. Avidbank's primary business is providing a wide array of financial products with an exemplary level of personal service to small and medium-sized businesses, professionals and individuals preferring quality personal attention. The Bank's principal service area is Santa Clara, San Francisco and San Mateo counties, and the Bank utilizes electronic banking systems and an extensive courier service to provide

personalized banking services throughout its service area. Avidbank offers checking, money market and savings deposits along with certificates of deposit. On the lending side, Avidbank offers unsecured commercial loans, lines of credit, secured commercial real estate loans, construction loans, invoice financing loans and other installment and term loans along with other customary banking services. The Bank is a California state-chartered banking institution.

The mission of Avidbank is to provide customized financial services to the San Francisco Bay Area's businesses, professionals, and individuals who desire a high degree of personalized attention.

The Company's Primary SIC Code is 6022, state commercial bank.

For discussion of Supervision and Regulation of the Company and the Bank, see Appendix A.

At [March 31, 2025](#) the company had [143](#) full-time employees and equivalents.

**ix. the nature of products or services offered.**

Avidbank is a full-service community bank that specializes in providing financial services to small and medium sized businesses, professionals and individuals in the San Francisco Bay Area. Avidbank's Specialty Finance and Venture Lending divisions work with companies throughout the country. The products and the marketing focus of the Bank are designed to meet the demands of the Bank's target market. In addition to providing products and services, the Bank emphasizes the establishment of long-standing relationships with its customers and regularly modifies the products and services it offers to meet the unique demands of its customers. The following discussion is a review of the base or core products and services that Avidbank offers and is prepared to structure to meet customer needs.

*Commercial Lending*

The Bank provides a full array of commercial credit products:

- Lines of Credit to finance seasonal cash flow fluctuation.
- Term Loans to finance equipment purchases, business acquisitions and other growth needs.
- Venture Term Loans to bridge companies to their next equity round and to provide ongoing working capital.
- Account Receivables / Inventory Lines to finance business with ongoing working capital requirements.
- Invoice Financing Lines to provide ongoing working capital.
- Standby Letters of Credit in lieu of performance bonds or guarantees.

The Bank's commercial and industrial loans have a high degree of industry diversification. A substantial portion of commercial and industrial loans that are not secured by real estate are secured by accounts receivable, inventory, equipment or other collateral. The remainder of the Bank's commercial and industrial loans are unsecured. Both secured and unsecured loans are underwritten based on the underlying historic and projected cash flow of the borrower.

## *Commercial Real Estate and Construction Lending*

The Bank provides commercial real estate financing for both construction and mortgage purposes as well as construction lending on residential properties. Although many real estate borrowers are owners / users of the property constructed and / permanently financed, the Bank also provides real estate financing for developers. The products offered by the bank include:

- Construction Loans for both residential and commercial projects.
- Commercial Mortgage financing (“Mini Perms”) with maturities up to ten years with longer amortizations.
- Acquisition financing for “build ready” lots that are already zoned and approved for the proposed project.
- Business lines of credit secured on residential or commercial property which provide secured working capital lines to developers.

Real estate mortgage loans are secured by deeds of trust on commercial property with repayment from the cash flow of the borrower.

Real estate construction loans consist of loans to individuals and developers that are secured by single-family and multi-family residential properties and to owner-users and developers that are secured by commercial properties. Repayment of construction loans is generally from long-term mortgages.

## *Personal Loan Products*

For individuals, Avidbank offers lines of credit and term loans on an unsecured basis to qualified borrowers.

## *Cash Management Services*

For business customers, Avidbank offers an extensive array of cash management products, which can be customized to meet specific customer requirements. Products on the accounts payable side include ACH payments, Bill Pay, Positive Pay, Wire Transfers and Zero Balance Accounts. Products on the accounts receivable side include ACH Collections, Lockbox, Merchant Services, Remote Deposit Capture (RDC), Mobile RDC and Incoming Wire Transfers.

## *Deposit Products*

Avidbank offers a wide variety of both interest bearing and non-interest-bearing transactional accounts for both businesses and individuals. In addition to providing access to deposit accounts via Online (Internet) Banking, the Bank also provides extensive courier service throughout the San Francisco Bay Area so that customers’ deposit and other banking needs may be served without the customer having to make a trip to the Bank. The Bank also offers savings accounts, money market deposit accounts and certificates of deposits for businesses and individuals.

## *Other Services*

Avidbank offers notary services and medallion guarantee stamps for stock transfers.

It is Avidbank’s intent to provide our customers with easy access to solutions for all their financing needs.

## *Competition*

The Bank's primary market area consists of the San Francisco Bay Area peninsula and nearby communities of adjacent counties. In California generally, and in the Bank's service area specifically, major banks and local regional banks dominate the commercial banking industry. By virtue of their larger capital bases, such institutions have substantially greater lending limits than those of the Bank, as well as more locations, more products and services, greater economies of scale and greater ability to make investments in technology for the delivery of financial services.

As an independent bank, the Bank's principal competitors for deposits and loans are other banks (particularly major banks), savings and loan associations, credit unions, thrift and loans, mortgage brokerage companies and insurance companies. Other institutions, such as mutual funds, brokerage houses, credit card companies and even retail establishments have offered new investment vehicles, such as money-market funds, that also compete with banks. The direction of federal legislation in recent years favors competition between different types of financial institutions and encourages new entrants into the financial services market, and it is anticipated that this trend will continue.

To compete with larger financial institutions in its service area, the Bank relies upon specialized services, responsive handling of customer needs, local promotional activity, and personal contacts by its officers, directors and staff, compared to large multi-branch banks that compete primarily on interest rates and location of branches. The Bank also assists customers requiring services not offered by the Bank to obtain such services from its correspondent banks. For customers whose loan demands exceed the Bank's lending limits, the Bank seeks to arrange funding for such loans on a participation basis with its correspondent banks or other independent commercial banks. No assurance can be given that the Bank will be able to compete successfully for such loans. Even if the Bank is successful in making such larger loans, larger and stronger borrowers may be more creditworthy and therefore may be able to negotiate for lower interest rates on their loans, which in turn may reduce the net interest margin in the Bank's portfolio.

### **x. the nature and extent of the issuer's facilities.**

The Company and Avidbank lease all four of their current premises.

The Company's headquarters and branch office are located at 1732 North First Street, 6th Floor, San Jose, CA 95112. The landlord is RNM First Street Center, L.P., located at 230 California Avenue, Suite 212, Palo Alto, CA 94306. The premises consist of approximately 28,404 square feet on the sixth floor of the office building. The Bank leased the property for ten years commencing on November 13, 2017 and contains one five-year renewal option.

Avidbank's former branch office is located at 437 Lytton Avenue, Suite 100, Palo Alto, CA 94301. The landlord is Manhattan Associates, LP, 3105 Woodside Road, Woodside, CA, 94062. The office consists of approximately 2,986 square feet situated on the first floor of the building. The office was leased for a ten-year term commencing on October 23, 2017 and contains one five-year renewal option. The Palo Alto office was closed on October 1, 2021 and the location was subleased due to a lack of client foot traffic. Branch personnel have been moved to our San Jose and Redwood City offices.

The Bank's Redwood City loan production office is located at 999 Main Street, Redwood City, California. The office relocated from another Redwood City office on March 1, 2025. The premises consist of approximately 3,183 square feet of a two story, commercial office building. The office space is leased from Premia 9M, LLC. The lease has a schedule of fixed annual rent increases with

the initial term expiring in 2030.

The Bank's San Francisco loan production office opened March 30, 2015, and is located at 135 Main Street, Suite 2150, San Francisco, California. The premises consist of approximately 7,377 square feet on the twenty-first floor of a twenty-two-story commercial office building. The office space is leased from RNM 135 Main, LP. This lease has a schedule of fixed annual rent increases with the term expiring in 2030.

**xi. the name of the chief executive officer and members of the board of directors.**

Name	Principal Occupation, Business Experience and Other Information
<p>Mark D. Mordell</p> <p>Age: 65</p> <p>Position with Company: Chairman of the Board and Chief Executive Officer</p> <p>Director Since: 2006</p>	<p>Mr. Mordell joined the board of directors of the Bank in January of 2006 and was appointed Chairman in February of 2007. He was named Chief Executive Officer of the Company and the Bank in March 2012 and brings over 30 years of financial services, real estate and diverse business experience to the Company. In 1991 he founded California Bavarian Corporation and its successor company, CBC Properties, LLC, which was a full-service real estate investment and management organization based in Palo Alto. Mr. Mordell also serves as an advisory board member to MMM Management, Inc., the strategic advisor to a family office based in San Francisco. Mr. Mordell is also an Advisory Board Member of the Donovan &amp; Bank Foundation which assists Special Forces Operators transition into a life of peace, contentment and balance. Additionally, Mr. Mordell has served and serves in various community organizations including Stanford University, Peninsula Bridge, Sacred Heart Preparatory School and the Town of Portola Valley. Mr. Mordell received a B.A. in Economics from Stanford University. We believe Mr. Mordell's leadership at the Bank since its early stage to the present, his experience in establishing and managing businesses and his experience in financial services and real estate qualify him to serve as the chairman of our board.</p>
<p>Kristofer W. Biorn</p> <p>Age: 60</p> <p>Position with Company: Director</p> <p>Director Since: 2009</p>	<p>Mr. Biorn has been on the Board for 15 years. He has been an attorney with the Palo Alto law firm of Crist   Biorn   Shepherd   Roskoph APC since 1995. He specializes in litigation related to estates and trusts and has extensive experience in estate planning and commercial real estate transactions. He has served on the Silicon Valley Bar Association executive committee and the Palo Alto Family YMCA Board of Directors. Mr. Biorn received a B.A. in Comparative Area Studies from Duke University and a Juris Doctor degree from University of California College of the Law - San Francisco. We believe Mr. Biorn's legal background, commercial real estate, business expertise and community leadership qualify him to serve on our board.</p>
<p>James F. Deutsch</p> <p>Age: 69</p> <p>Position with Company: Director</p> <p>Director Since: 2024</p>	<p>Mr. Deutsch has over 40 years of experience in banking. Currently, he is a senior partner with Patriot Financial Partners ("Patriot"), a private equity firm based in Radnor, Pennsylvania and has been with Patriot since January 2012. Prior to joining Patriot in 2012, he served as president, CEO, and founder of Team Capital Bank, a privately held institution headquartered in Bethlehem, Pennsylvania. Before Team Capital, Mr. Deutsch spent over 25 years with Commerce Bank, Brown Brothers Harriman, and Summit Bank. At those banks, he held various management positions in commercial banking, investment banking, and corporate finance. At Patriot, Mr. Deutsch is a member of the Investment Committee, and he also has responsibility for new investment opportunities. He has served on the board of directors of more than ten banks ranging in size from \$1 billion to \$30 billion in assets. Outside of Patriot, Mr. Deutsch has served on the boards of many not-for-profit agencies and served as Chair on several of those including the State Theatre, Valley Youth House, and Minsi Trails Boy Scouts. Mr. Deutsch previously served on the boards of directors of the following public companies: Trinity Capital (January 2017 – March 2019); MBT Financial (May 2015 – September 2019); Enterprise Financial (March 2019 – April 2021); and Pacific Mercantile Bancorp (November 2018 – October 2021). Mr. Deutsch received his B.S. in Finance and his MBA from Lehigh University. We believe Mr. Deutsch's experience in banking and the financial services industry and community leadership qualify him to serve on our board.</p>



Diane J. Flynn Age: 62 Position with Company: Director Director Since: 2020	<p>Ms. Flynn is the Co-Founder and CEO of ReBoot Accel, empowering leaders for greater impact and personal fulfillment and has served this position since 2014. She advises Fortune 500 companies around building inclusive cultures, coaches executives, and facilitates leadership workshops. Ms. Flynn co-authored two books – “50 Questions Inclusive Leaders Ask” and “The Upside,” presenting the business case for diverse workforces and best practices for tapping the potential of each employee. She leads workshops for Stanford Graduate School of Business and has served as guest faculty at the Modern Elder Academy and 1440 Multiversity. She has been featured on The Today Show, NBC’s Morning Joe, ABC News, NPR’s The Takeaway, WSJ and Forbes, and has three top-selling courses at Udemy, with over 90,000 students worldwide. Diane was previously Chief Marketing Officer of GSVlabs (a.k.a. OneValley), VP of Business Development at Electronic Arts, Inc. (Nasdaq: EA), and an associate consultant at The Boston Consulting Group. Currently, she also serves on the boards at Resurge International, an international humanitarian organization and MixR, Inc., a California based HR Tech startup, and previously served on the boards of Sacred Heart Schools and Santa Lucia Preserve. Ms. Flynn earned a B.A. degree in Economics from Stanford University and an MBA from Harvard University. We believe Ms. Flynn’s extensive experience in leadership development and innovation, knowledge of corporate management, and connection and service to the California community qualify her to serve on our board.</p>
Lisa B. Hendrickson Age: 73 Position with Company: Director Director Since: 2006	<p>Ms. Hendrickson has been our board member since 2006. She worked for 17 years at Avenidas from September 1999 to November 2016, a Palo Alto based not-for-profit senior services agency, initially as president and CEO for 15 years and then as capital project manager for two years and then retired. Previously she had 20 years of commercial banking experience culminating as senior vice president and regional commercial banking manager for Wells Fargo Bank in Palo Alto. She has been involved with numerous not-for-profit agencies, serving as a director of several including Samaritan House, Friends of the Junior Museum and Menlo Park Atherton Education Foundation. Ms. Hendrickson is currently a trustee of The Christensen Fund, a foundation that works to support indigenous peoples in advancing their inherent rights, dignity and self-determination. Ms. Hendrickson received her B.A. in Economics from Smith College. We believe Ms. Hendrickson’s institutional knowledge and banking experience, as well as her commitment to the Bank since its early stage qualify her to serve on our board.</p>
Bryan C. Polster Age: 72 Position with Company: Lead Independent Director Director Since: 2007	<p>Mr. Polster has more than 40 years of experience in the public accounting profession. He was a partner of Frank, Rimerman + Co. LLP, a certified public accounting firm, serving leading technology, venture capital, and real estate companies in Silicon Valley from August 1985 to his retirement in June 2020. While at Frank, Rimerman + Co. LLP, he served as Managing Partner of the firm from 1995 to 2014 and as Chairman of the Board of Partners from 2014 to 2020. Since his retirement in 2020, Mr. Polster has been self-employed, providing business consulting services to various companies and family offices. Mr. Polster serves on the Boards of Directors of Camico Mutual Insurance Company, The Sobrato Organization and the Sobrato Family Foundation. He was also the past chair of the board of Cristo Rey San Jose Jesuit High School. Mr. Polster held a Certified Public Accountant (CPA) license but had stopped practicing since his retirement in 2020. Mr. Polster received his B.S. in Accounting and MBA from Indiana University. We believe Mr. Polster’s expertise in accounting, financials and his in-depth knowledge of business operations qualify him to serve on our board.</p>



Michael F. Rosinus Age: 66 Position with Company: Director Director Since: 2014	<p>Mr. Rosinus is a finance industry veteran with over 40 years of experience spanning commercial banking, hedge funds, and private equity. He is the founder and principal leader of an investment firm, PTMR Capital Partners LP where he has served since October 2010. Mr. Rosinus has a particular focus on investments in community banks, other financial services companies, and a consumer-packaged goods company. He is the executive chairman and principal shareholder of GoHydrate Inc., a rapidly growing manufacturer and distributor of GoHydrate, an electrolyte drink mix and has served on this position since April 2018. Mr. Rosinus has a long history of serving on various bank boards of directors throughout the country. He previously served on the boards of Bridgeview Bancorp, Inc. and Bridgeview Bank Group, Cordia Bancorp and Bank of Virginia, Home Bancorp Inc. and Homebanc, Highlands Bankshares, Inc. and Highlands Union Bank, and NewDominion Bank. Prior to founding his investment firm, Mr. Rosinus was employed in the banking industry for 18 years, serving as the Chief Lending Officer for M&amp;T Bank in New York City and subsequently the Chief Executive Officer of the Commercial Bank for Citibank in Chicago. He received his B.A. from Hamilton College and MBA from the Stern School of Business, New York University. We believe Mr. Rosinus’ vast experience in banking and the financial services industry qualifies him to serve on our board.</p>
Robert H. Scott Age: 70 Position with Company: Director and Managing Director of Strategic Relationships Director Since: 2017	<p>Mr. Scott currently serves as Managing Director of Strategic Relationships for Venture Lending at the Bank, leveraging his industry expertise and strong connections with venture capital and private equity firms. In November 2022, Mr. Scott founded Let’s Go Racing, a consultancy firm that forges winning partnerships between innovative brands and motorsport teams to drive commercial success. Currently, Mr. Scott serves as a board adviser to Altaeros Energies, Inc.—an autonomous aerostat supporting both government and commercial applications—and serves as Chairman and Board Member at Trilio, a next-generation data protection and recovery solution for scale-out cloud architectures. He is also a member of the Customer Advisory Board at Fortinet (Nasdaq: FTNT), a global leader in cybersecurity. Previously between May 2019 to January 2022, Mr. Scott served as CEO of Cygiant, Inc., a cybersecurity services provider that specialized in helping organizations hunt, detect, and respond to cyberthreats. After its acquisition by SilverSky Inc. in January 2022, he transitioned to the role of Chief Strategy Officer with a focus on strategic partnerships and served in this position until May 2024. Mr. Scott also led Bradford Networks, Inc., a network security company later acquired by Fortinet between 2015 and 2019, and Clique Intelligence, a software platform for data sharing and collaboration between 2013 and 2015. We believe Mr. Scott’s expertise in cybersecurity technology and experience in business development qualify him to serve on our board.</p>
Marc Verissimo Age: 69 Position with Company: Director Director Since: 2017	<p>Mr. Verissimo has over 38 years of banking experience, primarily in senior positions. He currently sits on various boards of directors, consulting and advising businesses and companies after retiring from serving on several leadership positions at Silicon Valley Bank (“SVB”) in 2016. Mr. Verissimo started his career in banking with Bank of America and First Interstate Bank. In 1982, he founded the technology banking practice at Comerica Bank (Dallas, Texas) and managed the Bank’s lending group. In 1993, he joined SVB. Over the next 23 years with SVB, Mr. Verissimo served on the executive committee and worked in multiple roles including head of SVB’s California banking, twice as interim Chief Financial Officer, Chief Strategy Officer and his last role as Chief Risk Officer. In these positions he led SVB’s California banking team, oversaw the Bank’s overseas expansion into the United Kingdom, China, Israel, and India, with responsibility for IT, HR, legal, enterprise risk management, cybersecurity, compliance, credit review, and regulatory relations among other responsibilities. Mr. Verissimo served on the boards of Pollen VC, a private equity-backed fintech company from 2018 to 2023 and spent six years on the UC Davis endowment as a trustee on the finance committee. He currently sits on the board of Customer Vineyard, bringing big data analytics to the wine industry and on the board of Lighter Capital, a fintech financing company for startups. He received his B.S. in Finance from the University of California, Davis and an MBA from Harvard Business School. We believe Mr. Verissimo’s banking expertise qualifies him to serve on our board.</p>

### *Principal Shareholders*

Principal shareholders owning five percent or more of the Company's issued and outstanding shares of common stock are listed in the table below.

### *Security Ownership of Management, Directors and Principal Shareholders*

The following table sets forth information as of [March 31, 2025](#), pertaining to beneficial ownership of the Company's common stock. The information in the following table has been obtained from the Company's records, or from information furnished directly by the individual or entity to the Company.

For purposes of the following table, shares issuable pursuant to stock options which may be exercised within 60 days of the above date are deemed to be issued and outstanding and have been treated as outstanding in determining the amount and nature of beneficial ownership and in calculating the percentage of ownership of those individuals possessing such interest, but not for any other individuals.

Name	Relationship with Company	Shares Beneficially Owned (#)	Unvested Restricted Stock	Total Shares (#) (1)	Percent Shares Owned including Unvested Restricted Stock (%)
<b>Directors and Officers</b>					
Mark D. Mordell	<i>CEO and Chairman</i>	150,285	75,624	225,909	2.86%
Kristofer W. Biorn	<i>Director</i>	58,765	1,500	60,265	*
James F. Deutsch (2)	<i>Director</i>	970,918	1,500	972,418	12.29%
Diane J. Flynn	<i>Director</i>	8,145	1,500	9,645	*
Lisa B. Hendrickson	<i>Director</i>	43,910	1,500	45,410	*
Bryan C. Polster	<i>Director</i>	202,408	1,500	203,908	2.58%
Michael F. Rosinus (3)	<i>Director</i>	208,580	1,500	210,080	2.66%
Robert H. Scott	<i>Director</i>	8,764	4,500	13,264	*
Marc J. Verissimo	<i>Director</i>	10,944	1,500	12,444	*
Patrick Oakes	<i>Executive Vice President and Chief Financial Officer</i>	20,220	12,386	32,606	*
Gina Thoma-Peterson	<i>Executive Vice President and Chief Operating Officer</i>	15,339	11,297	26,636	*
Total directors and executive officers of the Company as a group		<b>1,698,278</b>	<b>114,307</b>	<b>1,812,585</b>	<b>22.91%</b>
<b>Over 5% Shareholders</b>					
Alliance Bernstein L.P and affiliated entities (4)	<i>5% or more ownership</i>	637,209	—	637,209	8.05%
1st & Main Growth Partners and affiliated entities (5)	<i>5% or more ownership</i>	735,277	—	735,277	9.29%
Endeavour Capital Advisors Inc. and affiliated entities (6)	<i>5% or more ownership</i>	742,017	—	742,017	9.38%
Fourthstone LLC and affiliated entities (7)	<i>5% or more ownership</i>	780,498	—	780,498	9.86%
Patriot Financial Partners IV, L.P. and affiliated entities (8)	<i>5% or more ownership</i>	970,918	—	970,918	12.27%

\* Less than 1%

- (1) Calculated based on 7,912,184 shares outstanding as of March 31, 2025 and includes unvested shares of restricted common stock granted to such shareholder under our equity incentive plans which such shareholder has voting rights and is accordingly considered to beneficially own. Except as otherwise noted below and except application of community property laws, each person has sole voting and investment power with respect to the shares listed.
- (2) Consists of an aggregate of 972,418 shares of common stock (including shares of stock awards granted to Mr. Deutsch) respectively held by Mr. Deutsch and Patriot Financial Partners IV, L.P., and Patriot Financial Partners Parallel IV, L.P. (collectively, the "Patriot IV Funds") as further described in footnote (8) below. Mr. Deutsch shares voting and investment power of the shares of common stock held by Patriot IV Funds. Mr. Deutsch disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (3) Includes 195,000 shares of common stock held directly by PTMR Capital Partners LP. PTMR GP, LLC, TRF Partners LLC and Michael F. Rosinus may be deemed to beneficial ownership of the shares held by PTMR Capital Partners LP. Mr. Rosinus disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (4) The address for Alliance Bernstein L.P is 501 Commerce Street, Nashville, TN 37203
- (5) The address for 1st and Main Growth Partners is 150 S. Wacker Drive, Suite 2725, Chicago, IL 60606-3105
- (6) The address for Endeavour Capital Advisors Inc. is 410 Greenwich Avenue, Greenwich, CT 06830
- (7) The address for Fourthstone LLC is 575 Maryville Centre Drive, Suite 110, St. Louis, MO 63141
- (8) The Patriot IV Funds are controlled by W. Kirk Wycoff, James F. Deutsch and James J. Lynch. In addition, because (i) Messrs. Wycoff, Deutsch and Lynch serve as general partners of the Patriot IV Funds and Patriot Financial Partners GP IV, L.P. ("Patriot GP IV LP") and as members of Patriot Financial Partners GP IV LLC ("Patriot GP IV LLC"), (ii) Patriot GP IV LLC serves as general partner of Patriot GP IV LP and (iii) Patriot GP IV LP serves as general partner of the Patriot IV Funds, Messrs Wycoff, Deutsch and Lynch, Patriot GP IV LLC and Patriot GP IV LP may be deemed to have shared voting and investment discretion with respect to shares of common stock held by Patriot IV funds. Messrs. Wycoff, Deutsch and Lynch disclaim beneficial ownership of such shares except to the extent of their pecuniary interest therein. The address of the Patriot IV Funds is Four Radnor Corporate Center, Suite 210 Radnor, PA 19087.

**xii. the issuer's \$28.6 million private offering.**

On May 11, 2022, the Company completed a \$28.6 million private offering of common shares at a purchase price of \$22.50 per share. Piper Sandler & Co. acted as financial advisor for Avidbank Holdings in connection with the offering. Manatt, Phelps & Phillips, LLP, San Francisco, CA acted as legal counsel to Avidbank Holdings.

**xiii. the issuer's \$20 million private offering.**

On July 13, 2017, Avidbank Holdings, Inc. completed a \$20 million private offering of common shares at a purchase price of \$19.00 per share. Sandler O'Neill + Partners, L.P. acted as the sole placement agent for Avidbank Holdings in connection with the offering. Manatt, Phelps & Phillips, LLP, San Francisco, CA acted as legal counsel to Avidbank Holdings. Sheppard, Mullin, Richter & Hampton LLP acted as legal counsel to the placement agent.

**xiv. the issuer's private placement of subordinated notes.**

On December 20, 2019, the Company issued \$22 million in ten-year, fixed-to-floating rate subordinated notes to certain qualified institutional buyers and institutional accredited investors. The subordinated notes have a maturity date of December 30, 2029, and bear interest at the rate of 5.00% per annum, payable semiannually, for the first five years of the term, and then quarterly at a variable rate based on the then current 3-month Secured Overnight Financing Rate plus 359.5 basis points. The notes are redeemable after five years, subject to certain conditions. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior to general and secured creditors and depositors. On the balance sheet the subordinated notes are carried net of debt issuance costs less accumulated amortization.

The subordinated notes were issued at the holding company level and have been structured to qualify as Tier 2 capital for regulatory purposes. The Company plans to use the proceeds from the placement of the subordinated notes for general corporate purposes including, but not limited to, contributing capital to the Bank to fund future growth. Sandler O'Neill + Partners, L.P. acted as placement agent for the private placement of the subordinated notes. The Company was advised by Manatt, Phelps & Phillips, LLP.

**xv. the issuer's most recent balance sheet and profit and loss and retained earnings statements.**

Please refer to the financial tables below. The balance sheet includes retained earnings.

**AVIDBANK HOLDINGS, INC. AND SUBSIDIARY**  
**Unaudited Consolidated Statements of Condition**  
(In thousands)

	<b>March 31, 2025</b>	<b>December 31, 2024</b>	<b>September 30, 2024</b>	<b>June 30, 2024</b>	<b>March 31, 2024</b>
<b><u>Assets</u></b>					
Cash and due from banks	\$ 18,866	\$ 8,662	\$ 15,172	\$ 13,750	\$ 9,971
Due from Federal Reserve Bank and interest-bearing deposits in banks	106,135	74,039	121,361	97,974	80,208
Total cash and cash equivalents	125,001	82,701	136,533	111,724	90,179
Investment securities - available for sale	296,617	296,556	316,741	308,661	314,793
Total investment securities	296,617	296,556	316,741	308,661	314,793
Loans, net of deferred loan fees	1,841,187	1,864,942	1,786,756	1,806,607	1,783,024
Allowance for loan losses	(18,722)	(18,679)	(22,315)	(22,410)	(19,342)
Loans, net of allowance for loan losses	1,822,465	1,846,263	1,764,441	1,784,197	1,763,682
Bank owned life insurance	12,764	12,674	12,580	12,490	12,401
Premises and equipment, net	2,118	2,331	2,549	2,810	3,061
Accrued interest receivable and other assets	60,957	63,963	62,625	67,139	72,395
<b>Total assets</b>	<b>\$ 2,319,922</b>	<b>\$ 2,304,488</b>	<b>\$ 2,295,469</b>	<b>\$ 2,287,021</b>	<b>\$ 2,256,511</b>
<b><u>Liabilities and Shareholders' Equity</u></b>					
Deposits:					
Non-interest-bearing demand	\$ 419,823	\$ 414,327	\$ 405,528	\$ 405,644	\$ 477,728
Interest-bearing checking	965,467	993,219	1,026,898	840,839	764,766
Money market and savings	399,010	338,578	336,166	312,162	319,692
Time	58,273	74,468	75,033	99,239	56,140
Brokered	86,915	70,763	57,903	80,608	139,532
Total deposits	1,929,488	1,891,355	1,901,528	1,738,492	1,757,858
Subordinated debt, net	22,000	22,000	21,982	21,957	21,931
Short-term borrowings	155,000	185,000	160,000	330,000	290,000
Accrued interest payable and other liabilities	16,815	19,771	23,438	25,123	19,638
<b>Total liabilities</b>	<b>2,123,303</b>	<b>2,118,126</b>	<b>2,106,948</b>	<b>2,115,572</b>	<b>2,089,427</b>
<b><u>Shareholders' Equity</u></b>					
Common stock	106,839	106,997	106,169	105,487	104,771
Retained earnings	136,139	130,703	124,246	118,400	114,934
Accumulated other comprehensive (loss)	(46,359)	(51,338)	(41,894)	(52,438)	(52,621)
<b>Total shareholders' equity</b>	<b>196,619</b>	<b>186,362</b>	<b>188,521</b>	<b>171,449</b>	<b>167,084</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,319,922</b>	<b>\$ 2,304,488</b>	<b>\$ 2,295,469</b>	<b>\$ 2,287,021</b>	<b>\$ 2,256,511</b>

**AVIDBANK HOLDINGS, INC. AND SUBSIDIARY**  
Unaudited Consolidated Statements of Income  
(In thousands, except per share data)

	Three months ended				
	March 31, 2025	December 31, 2024	September 30, 2024	June 30, 2024	March 31, 2024
Interest and fees on loans	\$ 31,885	\$ 32,308	\$ 33,488	\$ 33,255	\$ 31,828
Interest on investment securities	1,749	1,770	1,767	1,801	1,824
Federal Home Loan Bank dividends	185	185	183	193	190
Other interest income	706	681	1,198	951	819
<b>Total interest income</b>	<u>34,525</u>	<u>34,944</u>	<u>36,636</u>	<u>36,200</u>	<u>34,661</u>
Deposit interest expense	12,827	14,015	14,602	13,494	12,034
Interest on short-term borrowings	1,911	1,437	3,121	3,880	3,442
Interest on long-term debt	435	293	300	300	300
<b>Total interest expense</b>	<u>15,173</u>	<u>15,745</u>	<u>18,023</u>	<u>17,674</u>	<u>15,776</u>
<b>Net interest income</b>	<u>19,352</u>	<u>19,199</u>	<u>18,613</u>	<u>18,526</u>	<u>18,885</u>
Provision for credit losses	—	779	—	2,998	319
<b>Net interest income after provision for credit losses</b>	<u>19,352</u>	<u>18,420</u>	<u>18,613</u>	<u>15,528</u>	<u>18,566</u>
Service charges and bank fees	762	649	675	658	618
Foreign exchange income	220	191	246	208	251
Income from bank owned life insurance	90	93	90	137	187
Gain/(loss) on sale of securities	—	—	—	—	—
Warrant and success fee income	—	65	—	—	—
Other investment income	47	637	240	59	155
Other income	52	205	539	36	72
<b>Total noninterest income</b>	<u>1,171</u>	<u>1,840</u>	<u>1,790</u>	<u>1,098</u>	<u>1,283</u>
Compensation and benefit expenses	9,097	7,389	8,336	7,980	8,794
Occupancy and equipment expenses	996	919	1,033	1,039	1,028
Data processing	615	613	638	597	564
Regulatory assessments	544	541	528	568	446
Legal and professional fees	511	452	534	541	611
Other operating expenses	1,079	1,138	1,028	1,033	984
<b>Total noninterest expense</b>	<u>12,842</u>	<u>11,052</u>	<u>12,097</u>	<u>11,758</u>	<u>12,427</u>
<b>Income before income taxes</b>	7,681	9,208	8,306	4,868	7,422
Provision for income taxes	2,245	2,751	2,460	1,402	2,176
<b>Net income</b>	<u>\$ 5,436</u>	<u>\$ 6,457</u>	<u>\$ 5,846</u>	<u>\$ 3,466</u>	<u>\$ 5,246</u>
Basic earnings per common share	\$ 0.73	\$ 0.87	\$ 0.79	\$ 0.47	\$ 0.71
Diluted earnings per common share	0.71	0.84	0.77	0.46	0.69
Weighted average shares - basic	7,488,051	7,455,650	7,434,726	7,426,949	7,386,639
Weighted average shares - diluted	7,682,884	7,661,711	7,622,428	7,578,613	7,551,406

**xvi. similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.**

Please refer to the Company's audited balance sheets as of December 31, 2024 and December 31, 2023 and related consolidated statements of income, statements of shareholders' equity and comprehensive income cash flows for each of the years in the two-year period ending December 31, 2024 in conformity with generally accepted accounting principles together with the report of independent certified public accountants included in Avidbank Holdings, Inc.'s 2024 Annual Report.

A copy of the Company's 2024 Annual Report can be found on the home page of the company's web site [www.avidbank.com](http://www.avidbank.com) under the title Investor Relations followed by the subtitle Annual Financial Statements.

**xvii. whether a broker or dealer or any associated person is affiliated, directly or indirectly with the issuer.**

No broker or dealer or any associated person is affiliated, directly or indirectly, with the Company in connection with any shares of the Company's common stock that may be resold under Rule 144. One or more brokers or dealers facilitate trades in the Company's common stock and may act as informal market makers. However, no broker or dealer has any obligation to purchase or sell any of the Company's shares of common stock at any time and may discontinue any market-making activities at any time.

**xviii. [omitted]**

**xix. whether a quotation is being submitted or published directly or indirectly on behalf of the issuer, or any director, officer or any person, directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the issuer, and, if so, the name of such person, and the basis for any exemption under the federal securities laws for any sales of such securities on behalf of such person.**

To the best knowledge of the Company, there is no quotation being submitted or published directly or indirectly on behalf of the Company, or any director, officer or any person directly or indirectly the beneficial owner of more than 10 percent of the outstanding units or shares of any equity security of the Company, or at the request of any promoter for the Company.

As of the date of this disclosure, officers or directors of the Company for whose account a broker or dealer is offering to sell shares of the Company's common stock include the following:

**NONE as of March 31, 2025**

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The Company's regular outside counsel is Manatt, Phelps & Phillips, LLP, San Francisco, California. The Company's independent public accounting firm is Crowe LLP. The services provided by Crowe LLP include the auditing and reporting of the financial status of the Company.

This information has been prepared by the Company. If this information is made available by a broker or dealer to other persons pursuant to a request under Rule 15c2-11, delivery of this information to other persons shall not constitute a representation by the broker or dealer that the information is accurate.

Date as of which this information was last revised: [March 31, 2025](#)

No dealer, salesman or any other person has been authorized to give any information, or to make any representations, not contained herein in connection with the issuer. Such information or representations, if made, must not be relied upon as having been authorized by the issuer.

Delivery of this information file does not at any time imply that the information contained herein is correct as of any time subsequent to the date above.

## **Appendix A**

### **SUPERVISION AND REGULATION**

#### ***General***

The Company and the Bank are subject to significant regulation and restrictions under applicable federal and state laws and by various regulatory agencies. These regulations and restrictions are intended primarily for the protection of depositors and the Federal Deposit Insurance Corporation (“FDIC”) Deposit Insurance Fund (“DIF”) and secondarily for the stability of the U.S. banking system. The following discussion of statutes and regulations is a summary and does not purport to be complete nor does it address all applicable statutes and regulations. This discussion is qualified in its entirety by reference to the statutes and regulations referred to in this discussion. From time to time, federal and state legislation is enacted and implemented by regulations which may have the effect of materially increasing the cost of doing business, limiting or expanding permissible activities, or affecting the competitive balance between banks and other financial services providers.

We cannot predict whether or when other legislation or new regulations may be enacted, and if enacted, the effect that new legislation or any implemented regulations and supervisory policies would have on our financial condition and results of operations. Such developments may further alter the structure, regulation, and competitive relationship among financial institutions, may limit the types or pricing of the products and services we offer, and may subject us to increased regulation, disclosure, and reporting requirements. We also cannot predict whether or when regulatory requirements may be reduced or eliminated and the overall effect such reduction or elimination may have on the Company and the Bank. While we expect the Trump administration will seek to implement a regulatory reform agenda that is different than that of the Biden administration, impacting the rulemaking, supervision, examination and enforcement priorities of the federal banking agencies, we also cannot predict the extent or scope of such regulatory reforms.

#### ***Legislation and Regulatory Developments***

The federal banking agencies have the ability to promulgate regulations and guidelines intended to ensure the financial strength and safety and soundness of banks and the stability of the U.S. banking system. While we believe the Trump administration will seek to implement a regulatory reform agenda that is different than that of the Biden administration, impacting the rulemaking, supervision, examination and enforcement priorities of the federal banking agencies, the scope of such changes cannot currently be determined.

#### ***Capital Adequacy Requirements***

Bank holding companies and banks are subject to regulatory capital requirements administered by state and federal banking agencies. The risk-based capital guidelines for bank holding companies, and additionally for banks, require capital ratios that vary based on the perceived degree of risk associated with a banking organization’s operations, both for transactions reported on the balance sheet as assets, such as loans, and for those recorded as off-balance sheet items, such as loan commitments, letters of credit and recourse arrangements. The risk-based capital ratio is determined by classifying assets and certain off-balance sheet financial

instruments into weighted categories, with higher levels of capital being required for those categories perceived as representing greater risks, and with the applicable ratios calculated by dividing qualifying capital by total risk-adjusted assets and off-balance sheet items. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors. Bank holding companies and banks engaged in significant trading activity may also be subject to the market risk capital guidelines and be required to incorporate additional market and interest rate risk components into their risk-based capital standards. Bank holding companies are also required to act as a source of financial strength to their subsidiary banks. Under this policy, the Company must commit resources to support the Bank even when the Company may not be in a financial position to provide it.

### ***Regulatory Capital and Risk-weighted Assets***

The Federal Reserve monitors our capital adequacy on a consolidated basis, and the FDIC and the California Department of Financial Protection and Innovation (“DFPI”) monitor the capital adequacy of our Bank. These rules implement the Basel III international regulatory capital standards in the United States, as well as certain provisions of the Dodd-Frank Act. These quantitative calculations are minimums, and the Federal Reserve, FDIC or DFPI may determine that a banking organization (like the Company or the Bank), based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner.

Under the Basel III Capital Rules, the Company’s and the Bank’s assets, exposures and certain off-balance sheet items are subject to risk weights used to determine the institutions’ risk-weighted assets. These risk-weighted assets are used to calculate the following minimum capital ratios for the Company and the Bank:

- **Tier 1 Leverage Ratio**, equal to the ratio of Tier 1 capital to quarterly average assets (net of goodwill, certain other intangible assets and certain other deductions).
- **CET1 Risk-Based Capital Ratio**, equal to the ratio of CET1 capital to risk-weighted assets. CET1 capital primarily includes common stockholders’ equity subject to certain regulatory adjustments and deductions, including with respect to goodwill, intangible assets and certain deferred tax assets. Because we are not an advanced approach banking organization, we were permitted to make a one-time permanent election to exclude accumulated other comprehensive income items from regulatory capital. We made this election in order to avoid significant variations in our levels of capital depending upon the impact of interest rate fluctuations on the fair value of our Bank’s available-for-sale securities portfolio.
- **Tier 1 Risk-Based Capital Ratio**, equal to the ratio of Tier 1 capital to risk-weighted assets. Tier 1 capital is primarily comprised of CET1 capital, perpetual preferred stock and certain qualifying capital instruments.
- **Total Risk-Based Capital Ratio**, equal to the ratio of total capital, including CET1 capital, Tier 1 capital and Tier 2 capital, to risk-weighted assets. Tier 2 capital primarily includes qualifying subordinated debt and qualifying allowance for credit losses. Tier 2 capital also includes, among other things, certain trust preferred securities.

The total minimum regulatory capital ratios and well-capitalized minimum ratios are reflected in the charts below. For purposes of the Federal Reserve's Regulation Y, including determining whether a bank holding company meets the requirements to be a financial holding company, bank holding companies, such as the Company, must maintain a Tier 1 Risk-Based Capital Ratio of 6.0% or greater and a Total Risk-Based Capital Ratio of 10.0% or greater.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on our operations or financial condition. Failure to be well-capitalized or to meet minimum capital requirements could also result in restrictions on the Company's or the Bank's ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications.

In addition to meeting the minimum capital requirements, under the Basel III Capital Rules, the Company and the Bank must also maintain the required Capital Conservation Buffer to avoid becoming subject to restrictions on capital distributions and certain discretionary bonus payments to management. The Capital Conservation Buffer is calculated as a ratio of CET1 capital to risk-weighted assets, and it effectively increases the required minimum risk-based capital ratios. The Capital Conservation Buffer is now at its fully phased-in level of 2.5%.

The Tier 1 Leverage Ratio is not impacted by the Capital Conservation Buffer, and a banking institution may be considered well-capitalized while remaining out of compliance with the Capital Conservation Buffer.

The table below summarizes the capital requirements that the Company and the Bank must satisfy to avoid limitations on capital distributions and certain discretionary bonus payments (i.e., the required minimum capital ratios plus the Capital Conservation Buffer):

	<b>Minimum Basel III Regulatory Capital Ratio Plus Capital Conservation Buffer</b>
	<b>Effective January 1, 2019</b>
CET1 risk-based capital ratio	7.0%
Tier 1 risk-based capital ratio	8.5%
Total risk-based capital ratio	10.5%

As of March 31, 2025 the Company and the Bank are well-capitalized for regulatory purposes.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as “Basel IV”). Among other things, these standards revise the Basel Committee’s standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain “unconditionally cancellable commitments,” such as unused credit card lines of credit) and provides a new standardized approach for operational risk capital. Under the Basel framework, as amended, these standards were effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company and the Bank.

In July, 2023, the FRB, Office of the Comptroller of the Currency (“OCC”) and FDIC proposed significant changes to the Basel III capital rules which replaces the advanced approaches risk-weighted assets framework with a new enhanced risk-based framework and requires banking organizations with generally more than \$100 billion in assets to calculate their regulatory capital using more enhanced requirements applicable to even larger organizations. The impact of any changes to capital requirements and calculations and the implementation of Basel IV on us will depend on the manner in which it is implemented by the federal bank regulators with respect to smaller-sized institutions.

#### *Prompt Corrective Action Provisions*

The Federal Deposit Insurance Act requires the federal bank regulatory agencies to take “prompt corrective action” with respect to a depository institution if that institution does not meet certain capital adequacy standards, including requiring the prompt submission of an acceptable capital restoration plan. Depending on the bank’s capital ratios, the agencies’ regulations define five categories in which an insured depository institution will be placed: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. At each successive lower capital category, an insured bank is subject to more restrictions, including restrictions on the bank’s activities, operational practices or the ability to pay dividends or executive bonuses. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment.

The prompt corrective action standards were changed to conform with the new capital rules. Under the new standards, in order to be considered well-capitalized, the bank will be required to meet the new common equity Tier 1 ratio of 6.5%, an increased Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged).

The federal banking agencies also may require banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case institutions may no longer be deemed to be well capitalized and may therefore be subject to certain restrictions such as taking brokered deposits.

### ***Volcker Rule***

In December 2013, the federal bank regulatory agencies adopted final rules that implement a part of the Dodd-Frank Act commonly referred to as the “Volcker Rule.” Under these rules and subject to certain exceptions, banking entities are restricted from engaging in activities that are considered proprietary trading and from sponsoring or investing in certain entities, including hedge or private equity funds that are considered “covered funds.” These rules became effective on April 1, 2014, although certain provisions are subject to delayed effectiveness under rules promulgated by the FRB. Notwithstanding these provisions, in July 2019, the federal bank regulatory agencies finalized a rule which provides that community banks with \$10 billion or less in total consolidated assets and total trading assets and liabilities of 5 percent or less of total consolidated assets, such as the Bank, are excluded from the Volcker Rule.

### ***Brokered Deposits***

The FDIC limits the ability to accept brokered deposits to those insured depository institutions that are well capitalized. Institutions that are less than well capitalized cannot accept, renew or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC.

### ***Bank Holding Company Regulation***

Bank holding companies and their subsidiaries are subject to significant regulation and restrictions by Federal and State laws and regulatory agencies, which may affect the cost of doing business, and may limit permissible activities and expansion or impact the competitive balance between banks and other financial services providers.

A wide range of requirements and restrictions are contained in both federal and state banking laws, which together with implementing regulatory authority:

- Require periodic reports and such additional reports of information as the Federal Reserve may specify;
- Require bank holding companies to meet or exceed increased levels of capital (See “Capital Adequacy Requirements”);
- Require that bank holding companies serve as a source of financial and managerial strength to subsidiary banks and commit resources as necessary to support each subsidiary bank;
- Limit dividends payable to shareholders and restrict the ability of bank holding companies to obtain dividends or other distributions from their subsidiary banks. The Company’s ability to pay dividends is subject to legal and regulatory restrictions. Substantially all of the Company’s funds to pay principal and interest on our debt obligations are derived from dividends paid by the Bank to the Company;
- Require a bank holding company to terminate an activity or terminate control of or liquidate or divest certain subsidiaries, affiliates or investments if the Federal Reserve believes the activity or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness or stability of any bank subsidiary;

- Require the prior approval of senior executive officer or director changes and prohibit golden parachute payments, including change in control agreements, or new employment agreements with such payment terms, which are contingent upon termination if an institution is in “troubled condition”;
- Regulate provisions of certain bank holding company debt, including the authority to impose interest ceilings and reserve requirements on such debt and require prior approval to purchase or redeem securities in certain situations;
- Require prior approval for the acquisition of 5% or more of the voting stock of a bank or bank holding company by bank holding companies or other acquisitions and mergers with banks and consider certain competitive, management, financial, anti-money-laundering compliance, potential impact on U.S. financial stability or other factors in granting these approvals, in addition to similar California or other state banking agency approvals which may also be required; and
- Require prior notice and/or prior approval of the acquisition of control of a bank or a bank holding company by a shareholder or individuals acting in concert with ownership or control of certain percentage thresholds of the voting stock being a presumption of control.

### *Change in Bank Control*

Federal law and regulation set forth the types of transactions that require prior notice under the Change in Bank Control Act (“CIBCA”). Pursuant to CIBCA and Regulation Y, any person (acting directly or indirectly) that seeks to acquire control of a bank or its holding company must provide prior notice to the Federal Reserve. A “person” for this purpose includes an individual, bank, corporation, partnership, trust, association, joint venture, pool, syndicate, sole proprietorship, unincorporated organization, or any other form of entity. A person acquires “control” of a banking organization whenever the person acquires ownership, control, or the power to vote 25 percent or more of any class of voting securities of the institution. The applicable regulations also provide for certain other “rebuttable” presumptions of control.

In April 2020, the Federal Reserve adopted a final rule to revise its regulations related to determinations of whether a company has the ability to exercise a controlling influence over another company for purposes of the BHCA. The final rule expands and codifies the presumptions for use in such determinations. By codifying the presumptions, the final rule provides greater transparency on the types of relationships that the Federal Reserve generally views as supporting a facts-and-circumstances determination that one company controls another company. The Federal Reserve’s final rule applies to questions of control under the BHCA, but it does not extend to CIBCA or applicable provisions of California law.

### *Other Restrictions on the Company’s Activities*

Subject to prior notice or Federal Reserve approval, bank holding companies may generally engage in, or acquire shares of companies engaged in, activities determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Bank holding companies which elect and retain “financial holding company” status pursuant to the Gramm-Leach-Bliley Act of 1999 (“GLBA”) may engage in these nonbanking activities and broader securities, insurance, merchant banking and other



activities that are determined to be “financial in nature” or are incidental or complementary to activities that are financial in nature without prior Federal Reserve approval. Pursuant to GLBA and Dodd-Frank, in order to elect and retain financial holding company status, a bank holding company and all depository institution subsidiaries of a bank holding company must be considered well capitalized and well managed, and, except in limited circumstances, depository subsidiaries must be in satisfactory compliance with the Community Reinvestment Act (“CRA”), which requires banks to help meet the credit needs of the communities in which they operate. Failure to sustain compliance with these requirements or correct any non-compliance within a fixed time period could lead to divestiture of subsidiary banks or require all activities to conform to those permissible for a bank holding company. The Company has not elected financial holding company status and neither the Company nor the Bank has engaged in any activities determined by the Federal Reserve to be “financial in nature” or incidental or complementary to activities that are “financial in nature.”

The Company is also a bank holding company within the meaning of Section 3700 of the California Financial Code. Therefore, the Company and any of its subsidiaries are subject to examination by, and may be required to file reports with, the California DFPI. DFPI approvals may also be required for certain mergers and acquisitions.

### ***Bank Regulation***

As a California commercial bank whose deposits are insured by the FDIC, the Bank is subject to regulation, supervision, and regular examination by the DFPI and by the FDIC, as the Bank’s primary Federal regulator, and must additionally comply with certain applicable regulations of the Federal Reserve. Specific federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds, their activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, servicing and foreclosing on loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. California banks are also subject to statutes and regulations including Federal Reserve Regulation O and Federal Reserve Act Sections 23A and 23B and Regulation W, which restrict or limit loans or extensions of credit to “insiders”, including officers, directors, and principal shareholders, and loans or extension of credit by banks to affiliates or purchases of assets from affiliates, including parent bank holding companies, except pursuant to certain exceptions and only on terms and conditions at least as favorable to those prevailing for comparable transactions with unaffiliated parties. Failure to comply with applicable bank regulations or adverse results from any examinations of the Bank could affect our costs of doing business and may also limit or impede otherwise permissible activities and expansion activities by the Bank.

Pursuant to the Federal Deposit Insurance Act (“FDI Act”) and the California Financial Code, California state chartered commercial banks may generally engage in any activity permissible for national banks. Therefore, the Bank may form subsidiaries to engage in the many so-called “closely related to banking” or “nonbanking” activities commonly conducted by national banks in operating subsidiaries or in subsidiaries of bank holding companies. Further, California banks may conduct certain “financial” activities permitted under GLBA in a “financial subsidiary” to the same extent as may a national bank, provided the bank is and remains “well-capitalized,” “well-managed” and in satisfactory compliance with the CRA. The Bank currently

has no financial subsidiaries.

### *FDIC and DFPI Enforcement Authority*

The federal and California regulatory structure gives the bank regulatory agencies extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of appropriate loan loss reserves for regulatory purposes. The regulatory agencies have adopted guidelines to assist in identifying and addressing potential safety and soundness concerns before an institution's capital becomes impaired. The guidelines establish operational and managerial standards generally relating to: (1) internal controls, information systems, and internal audit systems; (2) loan documentation; (3) credit underwriting; (4) interest-rate exposure; (5) asset growth and asset quality; and (6) compensation, fees, and benefits. Further, the regulatory agencies have adopted safety and soundness guidelines for asset quality and for evaluating and monitoring earnings to ensure that earnings are sufficient for the maintenance of adequate capital and reserves.

If, as a result of an examination, the DFPI or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the DFPI and the FDIC, and separately the FDIC as insurer of the Bank's deposits, have residual authority to:

- Require prompt affirmative action to correct any conditions resulting from any violation or practice;
- Direct an increase in capital and the maintenance of higher specific minimum capital ratios, which could preclude the Bank from being deemed well capitalized and restrict its ability to accept certain brokered deposits;
- Restrict the Bank's growth geographically, by products and services, or by mergers and acquisitions, including bidding in FDIC receiverships for failed banks;
- Enter into or issue informal or formal enforcement actions, including required Board resolutions, Matters Requiring Board Attention (MRBA), written agreements and consent or cease and desist orders or prompt corrective action orders to take corrective action and cease unsafe and unsound practices;
- Require prior approval of senior executive officer or director changes; remove officers and directors and assess civil monetary penalties; and
- Terminate FDIC insurance, revoke the Bank's charter and/or take possession of and close and liquidate the Bank or appoint the FDIC as receiver.

### *Mergers and Acquisitions*

On July 9, 2021, President Biden signed an "Executive Order on Promoting Competition in the American Economy." Included within the order is a sweeping recommendation that the Attorney General, in consultation with the heads of the FRB, FDIC and OCC review current practices and adopt a plan for the "revitalization" of bank merger oversight to provide more extensive scrutiny of mergers. In September, 2024, the Department of Justice (DOJ) announced

that it withdrew its 1995 Bank Merger Guidelines and, instead, for purposes of evaluating the competitive impact of bank mergers, will rely on its 2023 Merger Guidelines which apply to all industries. For banks considering combinations where there may be even a remote possibility of antitrust concerns under the 2023 Merger Guidelines, the DOJ will review “market realities” in analyzing the competitive effects of a particular transaction. While branch deposit concentration may be one area of focus (i.e., traditional Herfindahl Hirschman Index (HHI) analysis for deposit concentration utilizing the 2023 Merger Guideline baselines), the DOJ will drill down into the products and services that a bank merger may affect prior to fully assessing the impact of a combination. This type of analysis may involve a more robust review of the competitive landscape (i.e., the impact of credit unions and other non-bank competitors), and a closer analysis of interest rates, types of mortgages and other loans offered, quality of service and convenience at branch locations, the types of customers served, and the unique needs in a particular bank market for bespoke financing. The impact of the election of President Trump on bank mergers and acquisition policy has yet to be determined.

### *Deposit Insurance*

The FDIC is an independent federal agency that insures deposits, up to prescribed statutory limits, of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The FDIC insures our customer deposits through the DIF up to prescribed limits for each depositor. The Dodd-Frank Act revised the FDIC’s DIF management authority by setting requirements for the Designated Reserve Ratio (the DIF balance divided by estimated insured deposits) and redefining the assessment base, which is used to calculate banks’ quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and relative risk of default as measured by regulatory capital ratios and other supervisory factors. The FDIC may terminate a depository institution’s deposit insurance upon a finding that the institution’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices that pose a risk to the DIF or that may prejudice the interest of the bank’s depositors. The termination of deposit insurance for a bank would also result in the revocation of the bank’s charter by the DFPI.

We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance, which can be affected by the cost of bank failures to the FDIC among other factors. The FDIC is an independent federal agency that insures deposits through the DIF up to prescribed statutory limits of federally insured banks and savings institutions and safeguards the safety and soundness of the banking and savings industries. The Dodd-Frank Act revised the FDIC’s DIF management authority by setting requirements for the Designated Reserve Ratio (the “DRR”, calculated as the DIF balance divided by estimated insured deposits) and redefining the assessment base which is used to calculate banks’ quarterly assessments. The amount of FDIC assessments paid by each DIF member institution is based on its asset size and its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The FDIC has set the DRR at 2.00%. In October 2022, in order to increase the likelihood that the reserve ratio would be restored to at least 1.35% by the statutory deadline of September 30, 2029, the FDIC increased in the initial base deposit insurance assessment rate schedules uniformly by two (2) basis points. The FDIC will, at least semi-annually, update its income and loss projections for the Deposit Insurance Fund and, if necessary, propose rules to further

increase assessment rates.

In addition, in November, 2023, the FDIC finalized a special assessment to recover the loss to the DIF as a result of the closure of several large regional banks during 2023. The special assessment was equal to approximately 13.4 basis points annually based on the amount of an institution's uninsured deposits as of the quarter ended December 31, 2022 and after applying a \$5 billion deduction for such uninsured deposits. As a result of the application of the \$5 billion deduction, the Bank was not required to incur any additional assessment.

Any future increases in FDIC insurance premiums may have a material and adverse effect on our earnings and could have a material adverse effect on the value of, or market for, our common stock.

### ***Dividends***

It is the Federal Reserve's policy that bank holding companies 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. It is also the Federal Reserve's policy that bank holding companies should not maintain dividend levels that undermine their ability to be a source of strength to its banking subsidiaries. The Federal Reserve also discourages dividend payment ratios that are at maximum allowable levels unless both asset quality and capital are very strong. In addition, a bank holding company may be unable to pay dividends on its common stock if it fails to maintain an adequate capital conservation buffer under current capital rules.

The Federal Reserve also maintains a policy that redemptions of instruments included in regulatory capital and repurchases of common stock from investors be consistent with an organization's current and prospective capital needs.

The Bank is a legal entity that is separate and distinct from its holding company. The Company relies on dividends received from the Bank for use in the operation of the Company and the ability of the Company to pay dividends to shareholders. Future cash dividends by the Bank will also depend upon management's assessment of future capital requirements, contractual restrictions, and other factors. Current capital rules may restrict dividends by the Bank if the additional capital conservation buffer is not achieved. See "Capital Adequacy Requirements".

The ability of the Bank to declare a cash dividend to the Company is subject to California law, which restricts the amount available for cash dividends to the lesser of a bank's retained earnings or net income for its last three fiscal years (less any distributions to shareholders made during such period). Where the above test is not met, cash dividends may still be paid, with the prior approval of the DFPI, in an amount not exceeding the greatest of (1) retained earnings of the bank; (2) the net income of the bank for its last fiscal year; or (3) the net income of the bank for its current fiscal year.

### ***Compensation***

Under regulatory guidance applicable to all banking organizations, incentive compensation policies must be consistent with safety and soundness principles. Under this guidance, financial institutions must review their compensation programs to ensure that they: (i)

provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk, (ii) are compatible with effective controls and risk management, and (iii) are supported by strong corporate governance, including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation. During 2016, as required by the Dodd-Frank Act, the federal bank regulatory agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least \$1 billion of total assets (including the Company and Avidbank).

Federal regulators have issued multiple statements regarding cybersecurity and that financial institutions need to design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. In addition, a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations in the event of a cyber-attack. A financial institution is also expected to develop appropriate processes to enable recovery of data and business operations and address rebuilding network capabilities and restoring data if the institution or one of its critical service providers fall victim to a cyber-attack. In November 2021, the federal banking agencies adopted a final rule, with compliance required by May 1, 2022, that requires banking organizations to notify their primary banking regulator within 36 hours of determining that a "computer-security incident" has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, the banking organization's ability to carry out banking operations or deliver banking products and services to a material portion of its customer base, its businesses and operations that would result in material loss. If we fail to observe the regulatory guidance, we could be subject to various regulatory sanctions, including financial penalties.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, a number of states, notably including California where we conduct substantially all our banking business, have adopted laws and/or regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many such states have also implemented or modified their data breach notification and data privacy requirements, including California and New York. We expect this trend of state-level activity in those areas to continue, and we continue to monitor relevant legislative and regulatory developments in California and other states in which our customers are located or in which we conduct business.

In the ordinary course of business, we rely on electronic communications and information systems, as well as certain third-party service providers' electronic communication and information systems, to conduct our operations and to store sensitive data. We employ a layered, defensive approach that leverages people, processes and technology to manage and maintain cybersecurity controls. We employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. We also seek to evaluate and monitor the cybersecurity policies and

practices of key third-party service providers which utilize electronic and information systems that interface with our Bank's systems, in the manner and to the extent required by applicable banking laws and regulations. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures. While to date we have not detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, our systems and those of our customers and third-party service providers are under constant threat, and it is possible that we or they could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by us and our customers. In addition, to the extent we experience any data breaches, we may become subject to governmental fines or enforcement actions and reputation risk as well as potential liability arising out of governmental or private litigation. See Item 1A. Risk Factors for a further discussion of risks related to cybersecurity and data breaches.

### ***Operations and Consumer Compliance Laws***

The Bank must comply with numerous federal and state anti-money laundering and consumer protection statutes and implementing regulations, including the USA PATRIOT Act of 2001, the Bank Secrecy Act, the Foreign Account Tax Compliance Act, the CRA, the California Consumer Privacy Act, the California Privacy Rights Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act, the Equal Credit Opportunity Act, the Truth in Lending Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, the National Flood Insurance Act, the California Homeowner Bill of Rights and various federal and state privacy protection laws, including the Telephone Consumer Protection Act and the CAN-SPAM Act. Noncompliance with any of these laws could subject the Bank to compliance enforcement actions as well as lawsuits and could also result in administrative penalties, including, fines and reimbursements. The Bank and the Company are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition.

These laws and regulations mandate certain disclosure and reporting requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, servicing, collecting and foreclosure of loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank and the Company to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

The Anti-Money Laundering Act of 2020 ("AMLA"), which amends the Bank Secrecy Act of 1970 ("BSA"), 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 BSA compliance; expands enforcement and investigation-related authority, including increasing available sanctions for certain BSA violations and instituting BSA whistleblower incentives and protections.

The Bank received an overall “Satisfactory” rating in its most recent FDIC CRA performance evaluation, which measures how financial institutions support their communities. The Bank received a “Satisfactory” rating for both the lending and the community development tests.

The CRA specifically directs the federal bank regulatory agencies, in examining insured depository institutions, to assess their record of helping to meet the credit needs of the entire communities in which the financial institution operates, including low and moderate income (LMI) communities, consistent with safe and sound banking practices. The CRA further requires the agencies to take a financial institution’s record of meeting its community credit needs into account when evaluating applications for, among other things, domestic branches, consummating mergers or acquisitions or holding company formations. On October 24, 2023, the OCC, FDIC, and FRB issued a final rule intended to modernize and strengthen regulations implementing the CRA. For banks with total assets in excess of \$2 billion, which includes the Bank, the Bank’s CRA evaluation will be based on four tests: (i) retail lending; (ii) retail services and products (including digital delivery systems for banks with more than \$10 billion in assets or banks which request consideration of such systems); (iii) community development (CD) financing; and (iv) CD services. Weighting of each test is applied to those banks (such as the bank) when regulators are evaluating CRA performance based on multiple tests. Alternatively, banks (including the Bank) have the option to be evaluated based on a regulator-approved strategic CRA plan. In addition, banks with total assets in excess of \$2 billion are subject to revised and more comprehensive CRA-related data collection, reporting and maintenance requirements. Regulators will downgrade an institution’s CRA rating in the case of illegal or discriminatory credit practices.

The final CRA rule was intended to take effect on April 1, 2024 with staggered compliance dates, including compliance with the new tests, data collection requirements, with the requirement to define retail lending assessment areas, all of which become applicable on January 1, 2026 and revised data reporting requirements taking effect January 1, 2027. The final CRA rule was enjoined from implementation by a Texas federal court on April 1, 2024, extending the effective date of April 1, 2024, as well as all other implementation dates, on a day-for-day basis for each day that the injunction remains in effect. The decision of the district court is currently on appeal. We are continuing to evaluate the impact of these changes to bank and holding company regulations and their impact to our financial condition, results of operations, and/or liquidity, which cannot be predicted at this time.

The Dodd-Frank Act provided for the creation of the Bureau of Consumer Finance Protection (“CFPB”) as an independent entity within the Federal Reserve with broad rulemaking, supervisory and enforcement authority over consumer financial products and services, including deposit products, residential mortgages, home-equity loans and credit cards. The CFPB’s functions include investigating consumer complaints, conducting market research, rulemaking, and enforcing rules related to consumer financial products and services. CFPB regulations and guidance apply to all covered persons and banks with \$10 billion or more in assets, such as the Bank. Accordingly, the Bank is subject to CFPB supervision, including examination by the CFPB.



The CFPB has finalized a number of significant rules which impact nearly every aspect of the lifecycle of a residential mortgage loan. These rules implement the Dodd-Frank Act amendments to the Equal Credit Opportunity Act, the Truth in Lending Act and the Real Estate Settlement Procedures Act. Among other things, the rules adopted by the CFPB require covered persons including banks making residential mortgage loans to: (i) develop and implement procedures to ensure compliance with an “ability-to-repay” test and identify whether a loan meets a new definition for a “qualified mortgage”, in which case a rebuttable presumption exists that the creditor extending the loan has satisfied the ability-to-repay test; (ii) implement new or revised disclosures, policies and procedures for originating and servicing mortgages including, but not limited to, pre-loan counseling, early intervention with delinquent borrowers and specific loss mitigation procedures for loans secured by a borrower’s principal residence; (iii) comply with additional restrictions on mortgage loan originator hiring and compensation; (iv) comply with new disclosure requirements and standards for appraisals and certain financial products; and (v) maintain escrow accounts for higher-priced mortgage loans for a longer period of time.

The review of products and practices to prevent unfair, deceptive or abusive acts or practices (“UDAAP”) is a continuing focus of the CFPB, and of banking regulators more broadly. The ultimate impact of this heightened scrutiny is uncertain but could result in changes to pricing, practices, products and procedures. It could also result in increased costs related to regulatory oversight, supervision and examination, additional remediation efforts and possible penalties. In addition, the Dodd-Frank Act provides the CFPB with broad supervisory, examination and enforcement authority over various consumer financial products and services, including the ability to require reimbursements and other payments to customers for alleged violations of UDAAP and other legal requirements and to impose significant penalties, as well as injunctive relief that prohibits lenders from engaging in allegedly unlawful practices. The CFPB also has the authority to obtain cease and desist orders providing for affirmative relief or monetary penalties. The Dodd-Frank Act does not prevent states from adopting stricter consumer protection standards. CFPB and state regulation of financial products and potential enforcement actions could adversely affect the Bank’s business, financial condition or results of operations.

The federal bank regulators have adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to unaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. In addition, consumers may also prevent disclosure of certain information among affiliated companies that is assembled or used to determine eligibility for a product or service, such as that shown on consumer credit reports and asset and income information from applications. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services.

In California, consumer privacy rights have been further bolstered by the enactment of the California Consumer Privacy Act (CCPA) and the California Privacy Rights Act (CPRA). The CCPA and CPRA create new consumer rights, impose additional obligations on businesses that collect personal information from California consumers, and create a new enforcement agency called the California Privacy Protection Agency. In particular, The CCPA and CPRA introduces

four new consumer rights, including (1) the right to correction, meaning that users can request to have their personal information corrected; (2) the right to opt-out of automated decision making, meaning that California residents can say ‘no’ to their personal information being used in profiling for behavioral advertisement online; (3) the right to know about automated decision making; and (4) the right to limit use of sensitive personal information. These two statutes also significantly expand the types of consumer data subject to privacy restrictions and increase the potential penalties for any violations.

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are “reasonable and proportional” to the costs incurred by issuers for processing such transactions.

Interchange fees, or “swipe” fees, are charges that merchants pay to us and other card-issuing banks for processing electronic payment transactions. Under the final rules, the maximum permissible interchange fee is equal to no more than 21 cents plus 5 basis points of the transaction value for many types of debit interchange transactions. The Federal Reserve also adopted a rule to allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements required by the Federal Reserve. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Currently, we qualify for the small issuer exemption from the interchange fee cap, which applies to any debit card issuer that, together with its affiliates, has total assets of less than \$10 billion as of the end of the previous calendar year. We will become subject to the interchange fee cap beginning July 1 of the year following the time when our total assets reaches or exceeds \$10 billion. Reliance on the small issuer exemption does not exempt us from federal regulations prohibiting network exclusivity arrangements or from routing restrictions.

### ***Commercial Real Estate Concentration Limits***

In December 2006, the federal banking regulators issued guidance entitled “Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” to address increased concentrations in commercial real estate, or CRE, loans. In addition, in December 2015, the federal bank agencies issued additional guidance entitled “Statement on Prudent Risk Management for Commercial Real Estate Lending.” Together, these guidelines describe the criteria the agencies will use as indicators to identify institutions potentially exposed to CRE concentration risk. An institution that has (i) experienced rapid growth in CRE lending, (ii) notable exposure to a specific type of CRE, (iii) total reported loans for construction, land development, and other land representing 100% or more of the institution’s capital, or (iv) total CRE loans (which excludes owner-occupied CRE loans) representing 300% or more of the institution’s capital, and the outstanding balance of the institutions CRE portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of the level and nature of its CRE concentration risk.

### ***Office of Foreign Assets Control Regulation***

The U.S. 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. We are 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. Failure to comply with these sanctions could have serious financial, legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required. Regulatory authorities have imposed cease and desist orders and civil money penalties against institutions found to be violating these obligations.

### ***Changes in the Federal, State, or Local Tax Laws***

We are subject to changes in federal and applicable state tax laws and regulations that may impact our effective tax rates. Changes in these tax laws may be retroactive to previous periods and as a result could negatively impact our current and future financial performance. For example, the Tax Cuts and Jobs Act of 2017 resulted in a reduction of our federal tax rate from a minimum of 35% in 2017 to 21% in 2018, which had a favorable impact on our earnings. Conversely, this legislation also enacted limitations on certain deductions, including the deduction of FDIC deposit insurance premiums, which partially offset the expected increase in net earnings from the lower tax rate.

### ***Future Legislation and Regulation***

Congress may enact, modify or repeal legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact, modify or repeal legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of proposed legislation (or modification or repeal of existing legislation) could impact the regulatory structure under which the Company and Bank operate and may significantly increase our costs, impede the efficiency of our internal business processes, require the Bank to increase its regulatory capital and modify its business strategy, and limit its ability to pursue business opportunities in an efficient manner. The Company's business, financial condition, results of operations or prospects may be adversely affected, perhaps materially.