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

# FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024
OR

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

For the transition period from _____ to _____

Commission File Number 001-33572

# Bank of Marin Bancorp

(Exact name of Registrant as specified in its charter)

| California | | | | 20-8859754 |
|---|---|---|---|---|
| (State or other jurisdiction of incorporation or organization) | | | | (IRS Employer Identification No.) |
| 504 Redwood Blvd. | Suite 100 | Novato | CA | 94947 |
| (Address of principal executive office) | | | | (Zip Code) |

Registrant's telephone number, including area code: (415) 763-4520

Not Applicable
(Former name, former address and formal fiscal year, if changed since last report)

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

| Title of each class | Trading symbol | Name of each exchange on which registered |
|---|---|---|
| Common stock, no par value | BMRC | The Nasdaq Stock Market |

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

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

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

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

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

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

As of April 30, 2024, there were 16,285,786 shares of common stock outstanding.

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**PART I FINANCIAL INFORMATION**

**ITEM 1. Financial Statements**

**BANK OF MARIN BANCORP**
**CONSOLIDATED STATEMENTS OF CONDITION**

| (in thousands, except share data; unaudited) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **Assets** | | |
| Cash, cash equivalents and restricted cash | $ 36,308 | $ 30,453 |
| Investment securities: | | |
| Held-to-maturity, at amortized cost (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023) | 915,068 | 925,198 |
| Available-for-sale, at fair value (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023) | 536,365 | 552,028 |
| Total investment securities | 1,451,433 | 1,477,226 |
| Loans, at amortized cost | 2,054,963 | 2,073,720 |
| Allowance for credit losses on loans | (25,501) | (25,172) |
| Loans, net of allowance for credit losses on loans | 2,029,462 | 2,048,548 |
| Goodwill | 72,754 | 72,754 |
| Bank-owned life insurance | 69,747 | 68,102 |
| Operating lease right-of-use assets | 21,553 | 20,316 |
| Bank premises and equipment, net | 7,546 | 7,792 |
| Core deposit intangible, net | 3,515 | 3,766 |
| Interest receivable and other assets | 74,858 | 74,946 |
| **Total assets** | **$ 3,767,176** | **$ 3,803,903** |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Deposits: | | |
| Non-interest bearing | $ 1,444,435 | $ 1,441,987 |
| Interest bearing: | | |
| Transaction accounts | 211,274 | 225,040 |
| Savings accounts | 224,262 | 233,298 |
| Money market accounts | 1,136,595 | 1,138,433 |
| Time accounts | 267,536 | 251,317 |
| Total deposits | 3,284,102 | 3,290,075 |
| Borrowings and other obligations | 260 | 26,298 |
| Operating lease liabilities | 24,150 | 22,906 |
| Interest payable and other liabilities | 21,984 | 25,562 |
| Total liabilities | 3,330,496 | 3,364,841 |
| Commitments and contingent liabilities (Note 8) | | |
| **Stockholders' Equity** | | |
| Preferred stock, no par value, Authorized - 5,000,000 shares, none issued | — | — |
| Common stock, no par value, Authorized - 30,000,000 shares; issued and outstanding - 16,285,786 and 16,158,413 at March 31, 2024 and December 31, 2023, respectively | 218,342 | 217,498 |
| Retained earnings | 273,450 | 274,570 |
| Accumulated other comprehensive loss, net of taxes | (55,112) | (53,006) |
| Total stockholders' equity | 436,680 | 439,062 |
| **Total liabilities and stockholders' equity** | **$ 3,767,176** | **$ 3,803,903** |

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

**BANK OF MARIN BANCORP**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| (in thousands, except per share amounts; unaudited) | Three months ended March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|---|---|---|
| **Interest income** | | | |
| Interest and fees on loans | $ 25,020 | $ 24,964 | $ 24,258 |
| Interest on investment securities | 8,805 | 9,289 | 10,033 |
| Interest on federal funds sold and due from banks | 321 | 1,170 | 56 |
| Total interest income | 34,146 | 35,423 | 34,347 |
| **Interest expense** | | | |
| Interest on interest-bearing transaction accounts | 261 | 278 | 254 |
| Interest on savings accounts | 371 | 322 | 170 |
| Interest on money market accounts | 8,449 | 7,188 | 1,085 |
| Interest on time accounts | 2,280 | 1,991 | 223 |
| Interest on borrowings and other obligations | 91 | 1,380 | 2,716 |
| Total interest expense | 11,452 | 11,159 | 4,448 |
| Net interest income | 22,694 | 24,264 | 29,899 |
| Provision for credit losses on loans | 350 | 1,300 | 350 |
| Reversal of credit losses on unfunded loan commitments | — | — | (174) |
| Net interest income after provision for (reversal of) credit losses | 22,344 | 22,964 | 29,723 |
| **Non-interest income** | | | |
| Wealth management and trust services | 553 | 560 | 511 |
| Service charges on deposit accounts | 529 | 522 | 533 |
| Earnings on bank-owned life insurance, net | 435 | 364 | 705 |
| Debit card interchange fees, net | 408 | 373 | 447 |
| Dividends on Federal Home Loan Bank stock | 377 | 349 | 302 |
| Merchant interchange fees, net | 167 | 119 | 133 |
| Losses on sale of investment securities, net of gains | — | (5,907) | — |
| Other income | 285 | 337 | 304 |
| Total non-interest income | 2,754 | (3,283) | 2,935 |
| **Non-interest expense** | | | |
| Salaries and related benefits | 12,084 | 10,361 | 10,930 |
| Occupancy and equipment | 1,969 | 1,939 | 2,414 |
| Professional services | 1,078 | 921 | 1,123 |
| Data processing | 1,070 | 1,081 | 1,045 |
| Deposit network fees | 845 | 940 | 96 |
| Federal Deposit Insurance Corporation insurance | 435 | 454 | 289 |
| Information technology | 402 | 431 | 370 |
| Depreciation and amortization | 388 | 393 | 882 |
| Directors' expense | 317 | 319 | 321 |
| Amortization of core deposit intangible | 251 | 330 | 345 |
| Other real estate owned | — | — | 4 |
| Other expense | 2,330 | 2,120 | 1,961 |
| Total non-interest expense | 21,169 | 19,289 | 19,780 |
| Income before provision for income taxes | 3,929 | 392 | 12,878 |
| Provision for income taxes | 1,007 | (218) | 3,438 |
| **Net income** | **$ 2,922** | **$ 610** | **$ 9,440** |
| Net income per common share: | | | |
| Basic | $ 0.18 | $ 0.04 | $ 0.59 |
| Diluted | $ 0.18 | $ 0.04 | $ 0.59 |
| Weighted average shares: | | | |
| Basic | 16,081 | 16,040 | 15,970 |
| Diluted | 16,092 | 16,052 | 15,999 |
| **Comprehensive income:** | | | |
| Net income | $ 2,922 | $ 610 | $ 9,440 |
| Other comprehensive (loss) income: | | | |
| Change in net unrealized gains or losses on available-for-sale securities | (4,568) | 28,865 | 16,213 |
| Reclassification adjustment for realized losses on available-for-sale securities in net income | — | 5,907 | — |
| Reclassification adjustment for gains or losses on fair value hedges | 1,217 | (1,726) | — |
| Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity | 361 | 418 | 463 |
| Other comprehensive (loss) income, before tax | (2,990) | 33,464 | 16,676 |
| Deferred tax (benefit) expense | (884) | 9,890 | 4,930 |
| Other comprehensive (loss) income, net of tax | (2,106) | 23,574 | 11,746 |
| **Total comprehensive income** | **$ 816** | **$ 24,184** | **$ 21,186** |

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

**BANK OF MARIN BANCORP**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**For the three months ended March 31, 2024 and 2023**

| (in thousands, except share data; unaudited) | Common Stock Shares | Common Stock Amount | Retained Earnings | Accumulated Other Comprehensive (Loss) Income, Net of Taxes | Total |
|---|---|---|---|---|---|
| | | | Three months ended March 31, 2024 | | |
| Balance at January 1, 2024 | 16,158,413 | $ 217,498 | $ 274,570 | $ (53,006) | $ 439,062 |
| Net income | — | — | 2,922 | — | 2,922 |
| Other comprehensive loss, net of tax | — | — | — | (2,106) | (2,106) |
| Stock issued under employee stock purchase plan | 621 | 10 | — | — | 10 |
| Stock issued under employee stock ownership plan | 24,600 | 425 | — | — | 425 |
| Restricted stock granted | 106,964 | — | — | — | — |
| Restricted stock surrendered for tax withholdings upon vesting | (3,338) | (55) | — | — | (55) |
| Restricted stock forfeited / cancelled | (13,284) | — | — | — | — |
| Stock-based compensation - stock options | — | 17 | — | — | 17 |
| Stock-based compensation - restricted stock | — | 188 | — | — | 188 |
| Cash dividends paid on common stock ($0.25 per share) | — | — | (4,042) | — | (4,042) |
| Stock issued in payment of director fees | 11,810 | 259 | — | — | 259 |
| Balance at March 31, 2024 | 16,285,786 | $ 218,342 | $ 273,450 | $ (55,112) | $ 436,680 |
| | | | Three months ended March 31, 2023 | | |
| Balance at January 1, 2023 | 16,029,138 | $ 215,057 | $ 270,781 | $ (73,746) | $ 412,092 |
| Net income | — | — | 9,440 | — | 9,440 |
| Other comprehensive income, net of tax | — | — | — | 11,746 | 11,746 |
| Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings | 11,530 | 230 | — | — | 230 |
| Stock issued under employee stock purchase plan | 415 | 9 | — | — | 9 |
| Stock issued under employee stock ownership plan | 14,300 | 423 | — | — | 423 |
| Restricted stock granted | 49,428 | — | — | — | — |
| Restricted stock surrendered for tax withholdings upon vesting | (2,213) | (65) | — | — | (65) |
| Stock-based compensation - stock options | — | 116 | — | — | 116 |
| Stock-based compensation - restricted stock | — | 45 | — | — | 45 |
| Cash dividends paid on common stock ($0.25 per share) | — | — | (4,012) | — | (4,012) |
| Stock issued in payment of director fees | 4,612 | 150 | — | — | 150 |
| Balance at March 31, 2023 | 16,107,210 | $ 215,965 | $ 276,209 | $ (62,000) | $ 430,174 |

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

**BANK OF MARIN BANCORP**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the three months ended March 31, 2024 and 2023**

| (in thousands; unaudited) | 2024 | 2023 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 2,922 | $ 9,440 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses on loans | 350 | 350 |
| Reversal of credit losses on unfunded loan commitments | — | (174) |
| Noncash contribution expense to employee stock ownership plan | 425 | 423 |
| Noncash director compensation expense | 259 | 150 |
| Stock-based compensation expense | 205 | 161 |
| Amortization of core deposit intangible | 251 | 345 |
| Amortization of investment security premiums, net of accretion of discounts | 1,277 | 1,964 |
| Accretion of discounts on acquired loans, net | (98) | (168) |
| Net change in deferred loan origination costs/fees | 34 | (324) |
| Depreciation and amortization | 388 | 882 |
| Loss on disposal of premises and equipment | 19 | — |
| Earnings on bank-owned life insurance policies | (435) | (705) |
| Net changes in interest receivable and other assets | 1,082 | (203) |
| Net changes in interest payable and other liabilities | (2,353) | 1,303 |
| Total adjustments | 1,404 | 4,004 |
| Net cash provided by operating activities | 4,326 | 13,444 |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from paydowns/maturities of held-to-maturity securities | 10,252 | 13,634 |
| Proceeds from paydowns/maturities of available-for-sale securities | 10,057 | 19,288 |
| Increase (decrease) in loans receivable, net | 18,690 | (19,072) |
| Purchase of bank-owned life insurance policies | (1,210) | — |
| Purchase of premises and equipment | (161) | (1,438) |
| Cash paid for low income housing tax credit investment | (1) | (38) |
| Net cash provided by investing activities | 37,627 | 12,374 |
| **Cash Flows from Financing Activities:** | | |
| Net decrease in deposits | (5,973) | (322,774) |
| (Repayment of) proceeds from short-term borrowings, net | (26,000) | 293,400 |
| Repayment of finance lease obligations | (38) | (37) |
| Proceeds from stock options exercised | — | 230 |
| Restricted stock surrendered for tax withholdings upon vesting | (55) | (65) |
| Cash dividends paid on common stock | (4,042) | (4,012) |
| Proceeds from stock issued under employee and director stock purchase plans | 10 | 9 |
| Net cash used in financing activities | (36,098) | (33,249) |
| Net increase (decrease) in cash, cash equivalents and restricted cash | 5,855 | (7,431) |
| Cash, cash equivalents and restricted cash at beginning of period | 30,453 | 45,424 |
| Cash, cash equivalents and restricted cash at end of period | $ 36,308 | $ 37,993 |
| **Supplemental disclosure of cash flow information:** | | |
| Interest paid on deposits and borrowings | $ 11,087 | $ 4,290 |
| Income taxes paid, net of refunds | $ — | $ — |
| **Supplemental disclosure of noncash investing and financing activities:** | | |
| Change in net unrealized gains or losses on available-for-sale securities | $ (4,568) | $ 16,213 |
| Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity | $ 361 | $ 463 |
| Bank-owned life insurance benefit receivable | $ — | $ 765 |
| **Restricted cash**[1] | $ — | $ — |

[1] Restricted cash includes reserve requirements held with the Federal Reserve Bank of San Francisco and other cash pledged. The Federal Reserve reduced the reserve requirement ratios to zero percent effective March 26, 2020.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (Unaudited)

**Note 1: Basis of Presentation**

The consolidated financial statements include the accounts of Bancorp, a bank holding company, and its wholly-owned bank subsidiary, Bank of Marin, a California state-chartered commercial bank. References to "we," "our," "us" mean Bancorp and the Bank that are consolidated for financial reporting purposes. The accompanying unaudited consolidated interim financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations.

Although we believe that the disclosures are adequate and the information presented is not misleading, we suggest that these interim financial statements be read in conjunction with the annual financial statements and the notes thereto included in our 2023 Annual Report on Form 10-K. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments, which are necessary for a fair presentation of the consolidated financial position, the results of operations, changes in comprehensive income (loss), changes in stockholders' equity, and cash flows for the periods presented. All material intercompany transactions have been eliminated. The results of these interim periods may not be indicative of the results for the full year or for any other period.

The following table shows: 1) weighted average basic shares, 2) potentially dilutive weighted average common shares related to stock options and unvested restricted stock awards, and 3) weighted average diluted shares. Basic earnings per share ("EPS") are calculated by dividing net income by the weighted average number of common shares outstanding during each period, excluding unvested restricted stock awards. Diluted EPS are calculated using the weighted average number of potentially dilutive common shares. The number of potentially dilutive common shares included in the quarterly diluted EPS is computed using the average market prices during the three months included in the reporting period under the treasury stock method. The number of potentially dilutive common shares included in year-to-date diluted EPS is a year-to-date weighted average of potentially dilutive common shares included in each quarterly diluted EPS computation. In computing diluted EPS, we exclude anti-dilutive shares such as options whose exercise prices exceed the current common stock price, as they would not reduce EPS under the treasury stock method. We have two forms of outstanding common stock: common stock and unvested restricted stock awards. Holders of unvested restricted stock awards receive non-forfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings. Under the two-class method, the difference in EPS is nominal for these participating securities.

| | Three months ended | |
|---|---|---|
| (in thousands, except per share data) | March 31, 2024 | March 31, 2023 |
| Weighted average basic common shares outstanding | 16,081 | 15,970 |
| Potentially dilutive common shares related to: | | |
| Stock options | — | 14 |
| Unvested restricted stock awards | 11 | 15 |
| Weighted average diluted common shares outstanding | 16,092 | 15,999 |
| Net income | $ 2,922 | $ 9,440 |
| Basic EPS | $ 0.18 | $ 0.59 |
| Diluted EPS | $ 0.18 | $ 0.59 |
| Weighted average anti-dilutive common shares not included in the calculation of diluted EPS | 340 | 250 |

**Note 2: Recently Adopted and Issued Accounting Standards**

*Accounting Standards Adopted in 2024*

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The amendment reduces diversity in practice by clarifying that a separate contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. In addition, this ASU provided amended examples to illustrate that a restriction that is a characteristic of the equity security, which market participants would take into account when pricing them, would be considered in measuring fair value. This ASU also introduced new disclosure requirements. The amendments were effective prospectively for years beginning after

December 15, 2023. As discussed in Note 4, Investment Securities, in 2023 we sold our remaining shares of Visa Inc. Class B restricted common stock. As a result of the sale, this update had no impact our financial condition, results of operations or disclosures.

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*. For public companies, the amendment requires entities to amortize leasehold improvements associated with common control lease arrangements over the useful life of the improvements to the common control group, as opposed to the shorter of the remaining lease term and the useful life of the improvements for all other operating leases. The amendments were effective for years beginning after December 15, 2023, and may be adopted either prospectively or retrospectively. We currently do not have common control lease arrangements, and therefore the adoption of the amendments had no impact on our financial condition, results of operations or disclosures.

In March 2023, the FASB issued ASU No. 2023-02, *Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in low-income housing tax credit ("LIHTC") structures. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the consolidated statements of income as a component of income tax expense (benefit). The amendments will allow entities to elect to account for all other equity investments made primarily for the purpose of receiving income tax credits to using the proportional amortization method, regardless of the tax credit program through which the investment earns income tax credits, when certain conditions are met. The amendments were effective for fiscal years beginning after December 15, 2023, and may be adopted either on a modified retrospective basis or retrospectively. Other than investments in LIHTC funds, as disclosed in Note 4, Investment Securities, we currently have no other equity investments made primarily for the purpose of receiving income tax credits, and therefore the adoption of this ASU had no impact on our financial condition, results of operations or disclosures.

*Accounting Standards Not Yet Effective*

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*. The amendments are intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, enhanced interim disclosure requirements, clarifying circumstances in which an entity can disclose multiple segment measures of profit or loss, providing new segment disclosure requirements for entities with a single reportable segment, and requiring other disclosures. The amendments are effective for annual reporting periods beginning after December 15, 2023 (i.e., 2024 Form 10-K) and interim periods within fiscal years beginning after December 31, 2024, and shall be applied retrospectively to all prior periods presented in the financial statements. Early adoption is permitted. We currently have only one reportable segment and are evaluating the impact the amendments will have on our financial statement disclosures upon adoption.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures* . The amendments require disaggregated information about the effective tax rate reconciliation and additional disclosures on reconciling items and taxes paid that meet a quantitative threshold. The amendments are effective for annual reporting periods beginning after December 15, 2024, and may be adopted either prospectively or retrospectively. Early adoption is permitted. We are currently evaluating the impact of the amendments on our financial statement disclosures upon adoption.

**Note 3: Fair Value of Assets and Liabilities**

Fair Value Hierarchy and Fair Value Measurement

We group our assets and liabilities that are measured at fair value into three levels within the fair value hierarchy, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1: Valuations are based on unadjusted quoted prices in active markets for identical assets or liabilities.

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

Level 3: Valuations are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Values are determined using pricing models and discounted cash flow models and may include significant management judgment and estimation.

Transfers between levels of the fair value hierarchy are recognized through our monthly and/or quarterly valuation process in the reporting period during which the event or circumstances that caused the transfer occurred. No such transfers occurred in the years presented.

The following table summarizes our assets and liabilities that were required to be recorded at fair value on a recurring basis.

| (in thousands)<br>Description of Financial Instruments | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Measurement Categories: Changes in Fair Value Recorded In[1] |
|---|---|---|---|---|---|
| **March 31, 2024** | | | | | |
| Securities available-for-sale: | | | | | |
| Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies | $ 340,908 | $ — | $ 340,908 | $ — | OCI |
| SBA-backed securities | $ 17,148 | $ — | $ 17,148 | $ — | OCI |
| Debentures of government sponsored agencies | $ 66,688 | $ — | $ 66,688 | $ — | OCI |
| U.S. Treasury securities | $ 10,534 | $ 10,534 | $ — | $ — | OCI |
| Obligations of state and political subdivisions | $ 90,343 | $ — | $ 90,343 | $ — | OCI |
| Corporate bonds | $ 10,744 | $ — | $ 10,744 | $ — | OCI |
| Derivative financial assets (interest rate contracts) | $ 400 | $ — | $ 400 | $ — | NI |
| Derivative financial liabilities (interest rate contracts) | $ 142 | $ — | $ 142 | $ — | NI |
| **December 31, 2023** | | | | | |
| Securities available-for-sale: | | | | | |
| Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies | $ 352,472 | $ — | $ 352,472 | $ — | OCI |
| SBA-backed securities | $ 19,471 | $ — | $ 19,471 | $ — | OCI |
| Debentures of government sponsored agencies | $ 66,862 | $ — | $ 66,862 | $ — | OCI |
| U.S. Treasury securities | $ 10,623 | $ 10,623 | $ — | $ — | OCI |
| Obligations of state and political subdivisions | $ 91,882 | $ — | $ 91,882 | $ — | OCI |
| Corporate bonds | $ 10,718 | $ — | $ 10,718 | $ — | OCI |
| Derivative financial assets (interest rate contracts) | $ 287 | $ — | $ 287 | $ — | NI |
| Derivative financial liabilities (interest rate contracts) | $ 1,361 | $ — | $ 1,361 | $ — | NI |

[1] Other comprehensive income ("OCI") or net income ("NI").

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1) are used to determine the fair value of available-for-sale securities. Level 1 securities include U.S. Treasury securities. If quoted market prices are not available, we obtain pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity and credit spreads (Level 2). Level 2 securities include obligations of state and political subdivisions, U.S. agencies or government-sponsored agencies' debt securities, mortgage-backed securities, government agency-issued securities, and corporate bonds. As of March 31, 2024 and December 31, 2023, there were no Level 3 securities.

Held-to-maturity securities may be subject to an allowance for credit losses as a result of our evaluation of expected losses due to credit quality factors. We did not record any credit loss expense on held-to-maturity securities during the three months ended March 31, 2024 or March 31, 2023. Fair value of held-to-maturity securities is determined using the same techniques discussed above for available-for-sale securities.

On a recurring basis, derivative financial instruments are recorded at fair value, which is based on the income approach using observable Level 2 market inputs, reflecting market expectations of future interest rates as of the measurement date. Standard valuation techniques are used to calculate the present value of the future expected cash flows assuming an orderly transaction. Valuation adjustments may be made to reflect both our own credit risk and the counterparties' credit risk in determining the fair value of the derivatives. These unobservable inputs are not considered significant inputs to the fair value measurement overall. Level 2 inputs for the valuations are limited to observable market prices for Secured Overnight Financing Rate ("SOFR") and Overnight Index Swap ("OIS") rates (for the very short term), quoted prices for SOFR futures contracts, observable market prices for SOFR and OIS swap rates, and one-month and three-month SOFR basis spreads at commonly quoted intervals. Mid-market pricing of the inputs is used as a practical expedient in the fair value measurements. We project spot rates at reset days specified by each swap contract to determine future cash flows, then discount to present value using OIS curves as of the measurement date. When the value of any collateral placed with counterparties is less than the interest rate derivative liability, a credit valuation adjustment ("CVA") is applied to reflect the credit risk we pose to counterparties. We have used the spread between the Standard & Poor's BBB rated U.S. Bank Composite rate and SOFR for the closest maturity term corresponding to the duration of the swaps to derive the CVA. Because there is little to no counterparty risk, we did not incorporate credit adjustments from our assessment of the counterparty credit risk in determining fair value. For further discussion on our methodology for valuing our derivative financial instruments, refer to Note 9, Derivative Financial Instruments and Hedging Activities.

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as individually analyzed loans that are collateral dependent and other real estate owned ("OREO").

Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments as of March 31, 2024 and December 31, 2023, excluding financial instruments recorded at fair value on a recurring basis (summarized in the first table in this note). The carrying amounts in the following table are recorded in the consolidated statements of condition under the indicated captions. Further, we have not disclosed the fair value of financial instruments specifically excluded from disclosure requirements such as bank-owned life insurance policies ("BOLI"), lease obligations and non-maturity deposit liabilities. Additionally, we held shares of Federal Home Loan Bank ("FHLB") of San Francisco stock at cost as of March 31, 2024 and December 31, 2023. There were no impairments or changes resulting from observable price changes in orderly transactions for the identical or similar investments of the same issuer as of March 31, 2024 or December 31, 2023. See further discussion on values within Note 4, Investment Securities.

| | March 31, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Carrying Amounts | Fair Value | Fair Value Hierarchy | Carrying Amounts | Fair Value | Fair Value Hierarchy |
| Financial assets (recorded at amortized cost) | | | | | | |
| Cash and cash equivalents | $ 36,308 | $ 36,308 | Level 1 | $ 30,453 | $ 30,453 | Level 1 |
| Investment securities held-to-maturity | 915,068 | 795,909 | Level 2 | 925,198 | 814,830 | Level 2 |
| Loans, net of allowance for credit losses | 2,029,462 | 1,913,418 | Level 3 | 2,048,548 | 1,939,702 | Level 3 |
| Interest receivable | 11,678 | 11,678 | Level 2 | 12,752 | 12,752 | Level 2 |
| Financial liabilities (recorded at amortized cost) | | | | | | |
| Time deposits | 267,536 | 268,758 | Level 2 | 251,317 | 252,824 | Level 2 |
| FRBSF short-term borrowings under the BTFP | — | — | Level 2 | 26,000 | 25,998 | Level 2 |
| Interest payable | 3,130 | 3,130 | Level 2 | 2,752 | 2,752 | Level 2 |

The fair value of loans is based on exit price techniques and obtained from an independent third-party that uses its proprietary valuation model and methodology and may differ from the actual price from a prospective buyer. The discounted cash flow valuation approach reflects key inputs and assumptions that are unobservable, such as loan probability of default, loss given default, prepayment speed, and market discount rates.

The fair value of fixed-rate time deposits is estimated by discounting future contractual cash flows using discount rates that reflect the current observable market rates offered for time deposits of similar remaining maturities.

The value of off-balance-sheet financial instruments is estimated based on the fee income associated with the commitments, which in the absence of credit exposure, is considered to approximate their settlement value. The fair value of commitment fees was not material as of March 31, 2024 or December 31, 2023.

**Note 4: Investment Securities**

Our investment securities portfolio consists of U.S. Treasury securities, obligations of state and political subdivisions, U.S. federal government agencies, such as the Government National Mortgage Association ("GNMA") and Small Business Administration ("SBA"), and U.S. government-sponsored enterprises ("GSEs"), such as the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), Federal Farm Credit Banks Funding Corporation and FHLB, and U.S. Corporations. We also invest in residential and commercial mortgage-backed securities ("MBS"/"CMBS") and collateralized mortgage obligations ("CMOs") issued or guaranteed by the GSEs, as reflected in the following table.

A summary of the amortized cost, fair value and allowance for credit losses related to securities held-to-maturity as of March 31, 2024 and December 31, 2023 is presented below.

| **Held-to-maturity:** (in thousands) | Amortized Cost[1] | Allowance for Credit Losses | Net Carrying Amount | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
|---|---|---|---|---|---|---|
| **March 31, 2024** | | | | | | |
| Securities of U.S. government-sponsored enterprises: | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ 300,976 | $ — | $ 300,976 | $ — | $ (48,474) | $ 252,502 |
| CMOs issued by FHLMC | 224,676 | — | 224,676 | — | (26,902) | 197,774 |
| CMOs issued by FNMA | 98,951 | — | 98,951 | — | (6,009) | 92,942 |
| CMOs issued by GNMA | 50,695 | — | 50,695 | — | (5,436) | 45,259 |
| SBA-backed securities | 1,652 | — | 1,652 | — | (95) | 1,557 |
| Debentures of government-sponsored agencies | 146,202 | — | 146,202 | — | (22,942) | 123,260 |
| Obligations of state and political subdivisions | 61,916 | — | 61,916 | 4 | (8,022) | 53,898 |
| Corporate bonds | 30,000 | — | 30,000 | — | (1,283) | 28,717 |
| Total held-to-maturity | $ 915,068 | $ — | $ 915,068 | $ 4 | $ (119,163) | $ 795,909 |
| **December 31, 2023** | | | | | | |
| Securities of U.S. government-sponsored enterprises: | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ 306,261 | $ — | $ 306,261 | $ — | $ (44,396) | $ 261,865 |
| CMOs issued by FHLMC | 226,416 | — | 226,416 | 28 | (24,869) | 201,575 |
| CMOs issued by FNMA | 101,502 | — | 101,502 | — | (4,779) | 96,723 |
| CMOs issued by GNMA | 51,006 | — | 51,006 | — | (5,235) | 45,771 |
| SBA-backed securities | 1,853 | — | 1,853 | — | (90) | 1,763 |
| Debentures of government-sponsored agencies | 146,126 | — | 146,126 | — | (21,994) | 124,132 |
| Obligations of state and political subdivisions | 62,034 | — | 62,034 | 47 | (7,884) | 54,197 |
| Corporate bonds | 30,000 | — | 30,000 | — | (1,196) | 28,804 |
| Total held-to-maturity | $ 925,198 | $ — | $ 925,198 | $ 75 | $ (110,443) | $ 814,830 |

[1] Amortized cost and fair values exclude accrued interest receivable of $2.5 million and $3.6 million at March 31, 2024 and December 31, 2023, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.

Management measures expected credit losses on held-to-maturity securities collectively by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to MBSs and CMOs issued or guaranteed by the GSEs, and SBA-backed securities, we expect to receive all the contractual principal and interest on these securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. government. Accordingly, no allowance for credit losses has been recorded for these securities. With regard to securities issued by states and political subdivisions and corporate bonds, management considers: (i) issuer and/or guarantor credit ratings, (ii) historical probability of default and loss given default rates for given bond ratings and remaining maturity, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, (iv) internal credit review of the financial information, and (v) whether or not such securities have credit enhancements such as guarantees, contain a defeasance clause, or are pre-refunded by the issuers. Based on the comprehensive analysis, no credit losses are expected.

The following table summarizes the amortized cost of our portfolio of held-to-maturity securities issued by states and political subdivisions and corporate bonds by Moody's and/or Standard & Poor's bond ratings as of March 31, 2024 and December 31, 2023.

| | Obligations of state and political subdivisions | | Corporate bonds | |
|---|---|---|---|---|
| (in thousands) | March 31, 2024 | December 31, 2023 | March 31, 2024 | December 31, 2023 |
| Aaa / AAA | $ 42,474 | $ 42,577 | $ — | $ — |
| Aa2 / AA | 19,442 | 19,457 | — | — |
| A2 / A | — | — | 30,000 | 30,000 |
| Total | $ 61,916 | $ 62,034 | $ 30,000 | $ 30,000 |

A summary of the amortized cost, fair value and allowance for credit losses related to securities available-for-sale as of March 31, 2024 and December 31, 2023 is presented below.

| **Available-for-sale:** | | Gross Unrealized | | Allowance for | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost [1] | Gains | (Losses) | Credit Losses | Fair Value |
| **March 31, 2024** | | | | | |
| Securities of U.S. government-sponsored enterprises: | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ 79,460 | $ 2 | $ (10,073) | $ — | $ 69,389 |
| CMOs issued by FHLMC | 261,797 | — | (26,837) | — | 234,960 |
| CMOs issued by FNMA | 23,099 | — | (2,835) | — | 20,264 |
| CMOs issued by GNMA | 19,486 | — | (3,191) | — | 16,295 |
| SBA-backed securities | 18,805 | — | (1,657) | — | 17,148 |
| Debentures of government- sponsored agencies | 73,906 | — | (7,218) | — | 66,688 |
| U.S. Treasury securities | 11,928 | — | (1,394) | — | 10,534 |
| Obligations of state and political subdivisions | 101,911 | — | (11,568) | — | 90,343 |
| Corporate bonds | 11,992 | — | (1,248) | — | 10,744 |
| Total available-for-sale | $ 602,384 | $ 2 | $ (66,021) | $ — | $ 536,365 |
| **December 31, 2023** | | | | | |
| Securities of U.S. government-sponsored enterprises: | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ 81,937 | $ 2 | $ (9,516) | $ — | $ 72,423 |
| CMOs issued by FHLMC | 266,407 | — | (24,758) | — | 241,649 |
| CMOs issued by FNMA | 23,987 | — | (2,715) | — | 21,272 |
| CMOs issued by GNMA | 20,006 | — | (2,878) | — | 17,128 |
| SBA-backed securities | 21,126 | — | (1,655) | — | 19,471 |
| Debentures of government- sponsored agencies | 73,899 | — | (7,037) | — | 66,862 |
| U.S. Treasury securities | 11,923 | — | (1,300) | | 10,623 |
| Obligations of state and political subdivisions | 102,202 | 1 | (10,321) | — | 91,882 |
| Corporate bonds | 11,992 | — | (1,274) | — | 10,718 |
| Total available-for-sale | $ 613,479 | $ 3 | $ (61,454) | $ — | $ 552,028 |

[1] Amortized cost and fair value exclude accrued interest receivable of $2.3 million and $2.3 million at March 31, 2024 and December 31, 2023, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.

The amortized cost and fair value of investment debt securities by contractual maturity at March 31, 2024 and December 31, 2023 are shown below. Expected maturities may differ from contractual maturities if the issuers of the securities have the right to call or prepay obligations with or without call or prepayment penalties.

| | March 31, 2024 | | | | December 31, 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| | Held-to-Maturity | | Available-for-Sale | | Held-to-Maturity | | Available-for-Sale | |
| (in thousands) | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Within one year | $ 15,000 | $ 14,615 | $ 4,181 | $ 4,076 | $ — | $ — | $ 101 | $ 100 |
| After one but within five years | 72,200 | 69,109 | 249,923 | 228,662 | 87,887 | 84,541 | 226,669 | 208,444 |
| After five years through ten years | 304,877 | 259,599 | 62,426 | 54,421 | 304,976 | 261,654 | 95,552 | 85,447 |
| After ten years | 522,991 | 452,586 | 285,854 | 249,206 | 532,335 | 468,635 | 291,157 | 258,037 |
| Total | $ 915,068 | $ 795,909 | $ 602,384 | $ 536,365 | $ 925,198 | $ 814,830 | $ 613,479 | $ 552,028 |

There were no sales of investment securities in the first quarter of 2024 or 2023.

Three months ended

The reported values of pledged investment securities are shown in the following table.

| (in thousands) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Pledged to the State of California: | | |
| Secure public deposits in compliance with the Local Agency Security Program | $ 282,826 | $ 287,436 |
| Collateral for trust deposits | 659 | 666 |
| Collateral for Wealth Management and Trust Services checking account | 557 | 562 |
| Total investment securities pledged to the State of California | 284,042 | 288,664 |
| Bankruptcy trustee deposits pledged with Federal Reserve Bank | 1,003 | 1,151 |
| Pledged to FHLB Securities-Backed Credit Program | 296,614 | 383,484 |
| Pledged to the Federal Reserve "BTFP" | — | 265,660 |
| Pledged to the Federal Reserve Discount Window | 345,896 | — |
| Total pledged investment securities | $ 927,555 | $ 938,959 |

There were 317 and 313 securities in unrealized loss positions at March 31, 2024 and December 31, 2023, respectively. Those securities are summarized and classified according to the duration of the loss period in the tables below:

| **March 31, 2024** | < 12 continuous months | | ≥ 12 continuous months | | Total securities in a loss position | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| **Held-to-maturity:** | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ — | $ — | $ 252,501 | $ (48,474) | $ 252,501 | $ (48,474) |
| CMOs issued by FHLMC | 12,455 | (68) | 185,319 | (26,834) | 197,774 | (26,902) |
| CMOs issued by FNMA | 40,962 | (1,054) | 51,980 | (4,955) | 92,942 | (6,009) |
| CMOs issued by GNMA | 10,808 | (350) | 34,452 | (5,086) | 45,260 | (5,436) |
| SBA-backed securities | — | — | 1,556 | (95) | 1,556 | (95) |
| Debentures of government-sponsored agencies | — | — | 123,260 | (22,942) | 123,260 | (22,942) |
| Obligations of state and political subdivisions | 6,589 | (46) | 44,242 | (7,976) | 50,831 | (8,022) |
| Corporate bonds | — | — | 28,717 | (1,283) | 28,717 | (1,283) |
| Total held-to-maturity | 70,814 | (1,518) | 722,027 | (117,645) | 792,841 | (119,163) |
| **Available-for-sale:** | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | 3 | — | 69,152 | (10,073) | 69,155 | (10,073) |
| CMOs issued by FHLMC | 958 | (4) | 234,002 | (26,833) | 234,960 | (26,837) |
| CMOs issued by FNMA | — | — | 20,264 | (2,835) | 20,264 | (2,835) |
| CMOs issued by GNMA | — | — | 16,295 | (3,191) | 16,295 | (3,191) |
| SBA-backed securities | — | — | 17,148 | (1,657) | 17,148 | (1,657) |
| Debentures of government- sponsored agencies | — | — | 66,688 | (7,218) | 66,688 | (7,218) |
| U.S. Treasury securities | — | — | 10,534 | (1,394) | 10,534 | (1,394) |
| Obligations of state and political subdivisions | 557 | (2) | 89,786 | (11,566) | 90,343 | (11,568) |
| Corporate bonds | — | — | 10,744 | (1,248) | 10,744 | (1,248) |
| Total available-for-sale | 1,518 | (6) | 534,613 | (66,015) | 536,131 | (66,021) |
| Total securities at loss position | $ 72,332 | $ (1,524) | $ 1,256,640 | $ (183,660) | $ 1,328,972 | $ (185,184) |

| December 31, 2023 | < 12 continuous months | | ≥ 12 continuous months | | Total securities in a loss position | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair value | Unrealized loss | Fair value | Unrealized loss | Fair value | Unrealized loss |
| Held-to-maturity: | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | $ — | $ — | $ 261,865 | $ (44,396) | $ 261,865 | $ (44,396) |
| CMOs issued by FHLMC | 8,662 | (21) | 188,657 | (24,848) | 197,319 | (24,869) |
| CMOs issued by FNMA | 42,474 | (411) | 54,249 | (4,368) | 96,723 | (4,779) |
| CMOs issued by GNMA | 10,988 | (244) | 34,783 | (4,991) | 45,771 | (5,235) |
| SBA-backed securities | — | — | 1,763 | (90) | 1,763 | (90) |
| Debentures of government- sponsored agencies | — | — | 124,132 | (21,994) | 124,132 | (21,994) |
| Obligations of state and political subdivisions | — | — | 44,437 | (7,884) | 44,437 | (7,884) |
| Corporate Bonds | — | — | 28,804 | (1,196) | 28,804 | (1,196) |
| Total held-to-maturity | 62,124 | (676) | 738,690 | (109,767) | 800,814 | (110,443) |
| Available-for-sale: | | | | | | |
| MBS pass-through securities issued by FHLMC, FNMA and GNMA | — | — | 72,146 | (9,516) | 72,146 | (9,516) |
| CMOs issued by FHLMC | 1,235 | (7) | 240,414 | (24,751) | 241,649 | (24,758) |
| CMOs issued by FNMA | — | — | 21,272 | (2,715) | 21,272 | (2,715) |
| CMOs issued by GNMA | — | — | 17,128 | (2,878) | 17,128 | (2,878) |
| SBA-backed securities | — | — | 19,471 | (1,655) | 19,471 | (1,655) |
| Debentures of government- sponsored agencies | — | — | 66,862 | (7,037) | 66,862 | (7,037) |
| U.S. Treasury securities | — | — | 10,623 | (1,300) | 10,623 | (1,300) |
| Obligations of state and political subdivisions | 666 | (1) | 90,655 | (10,320) | 91,321 | (10,321) |
| Corporate Bonds | — | — | 10,718 | (1,274) | 10,718 | (1,274) |
| Total available-for-sale | 1,901 | (8) | 549,289 | (61,446) | 551,190 | (61,454) |
| Total securities at loss position | $ 64,025 | $ (684) | $ 1,287,979 | $ (171,213) | $ 1,352,004 | $ (171,897) |

As of March 31, 2024, the investment portfolio included 306 investment securities that had been in a continuous loss position for twelve months or more and 11 investment securities that had been in a loss position for less than twelve months.

Securities issued by government-sponsored agencies, such as FNMA and FHLMC, usually have implicit credit support from the U.S. federal government. However, since 2008, FNMA and FHLMC have been under government conservatorship and, therefore, contractual cash flows for these investments carry explicit guarantees by the U.S. federal government while FNMA and FHLMC remain under conservatorship. Securities issued by the SBA and GNMA have explicit credit guarantees by the U.S. federal government, which protects us from credit losses on the contractual cash flows of the securities.

Our investments in obligations of state and political subdivision bonds are deemed creditworthy after our comprehensive analysis of the issuers' latest financial information, credit ratings by major credit agencies, and/or credit enhancements.

No allowances for credit losses have been recognized on available-for-sale securities in an unrealized loss position, as management does not believe any of the securities are impaired due to credit risk factors at either March 31, 2024 or December 31, 2023. In addition, for any available-for-sale securities in an unrealized loss position at March 31, 2024 and December 31, 2023, the Bank assessed whether it intended to sell the securities, or if it was more likely than not that it would be required to sell the securities before recovery of its amortized cost basis, which would require a write-down to fair value through net income. Because the Bank did not intend to sell those securities that were in an unrealized loss position, and it was not more-likely-than-not that the Bank would be required to sell the securities before recovery of their amortized cost bases, the Bank determined that no write-down was necessary as of the reporting date.

On July 7, 2023, the Bank entered into various interest rate swap agreements with notional values totaling $101.8 million to hedge balance sheet interest rate sensitivity and protect selected securities in its available-for-sale

portfolio against changes in fair value related to changes in the benchmark interest rate. For additional details, refer to Note 9, Derivative Financial Instruments and Hedging Activities.

Non-Marketable Securities Included in Other Assets

***FHLB Capital Stock***

As a member of the FHLB, we are required to maintain a minimum investment in FHLB capital stock as determined by the Board of Directors of the FHLB. The minimum investment requirements can increase in the event we increase our total asset size or borrowings with the FHLB. Shares cannot be purchased or sold except between the FHLB and its members at the $100 per share par value. We held $16.7 million of FHLB stock included in other assets on the consolidated statements of condition at both March 31, 2024 and December 31, 2023. The carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and they do not have a readily determinable market value. Based on our analysis of FHLB's financial condition and certain qualitative factors, we determined that the FHLB stock was not impaired at March 31, 2024 and December 31, 2023. On April 25, 2024, FHLB announced a cash dividend for the first quarter of 2024 at an annualized dividend rate of 8.25% to be distributed in mid-May 2024. Cash dividends paid on FHLB capital stock are recorded as non-interest income.

For further information, refer to Note 8, Commitments and Contingencies.

***Low Income Housing Tax Credits***

We invest in low-income housing tax credit funds as a limited partner, which totaled $1.9 million and $2.0 million recorded in other assets as of March 31, 2024 and December 31, 2023, respectively. In the first three months of 2024, we recognized $133 thousand of low-income housing tax credits and other tax benefits, offset by $111 thousand of amortization expense of low-income housing tax credit investment, as a component of income tax expense. As of March 31, 2024, our unfunded commitments for these low-income housing tax credit funds totaled $343 thousand. We did not recognize any impairment losses on these low-income housing tax credit investments during the first three months of 2024 or 2023, as the value of the future tax benefits exceeds the carrying value of the investments.

**Note 5: Loans and Allowance for Credit Losses on Loans**

The following table presents the amortized cost of loans by portfolio class as of March 31, 2024 and December 31, 2023.

| (in thousands) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Commercial and industrial | $ 150,896 | $ 153,750 |
| Real estate: | | |
| Commercial owner-occupied | 328,560 | 333,181 |
| Commercial non-owner occupied | 1,236,633 | 1,219,385 |
| Construction | 71,494 | 99,164 |
| Home equity | 86,794 | 82,087 |
| Other residential | 113,479 | 118,508 |
| Installment and other consumer loans | 67,107 | 67,645 |
| Total loans, at amortized cost [1] | 2,054,963 | 2,073,720 |
| Allowance for credit losses on loans | (25,501) | (25,172) |
| Total loans, net of allowance for credit losses on loans | $ 2,029,462 | $ 2,048,548 |

[1] Amortized cost includes net deferred loan origination costs of $2.6 million and $2.7 million at March 31, 2024 and December 31, 2023, respectively. Amounts are also net of unrecognized purchase discounts of $1.9 million and $2.0 million at March 31, 2024 and December 31, 2023, respectively. Amortized cost excludes accrued interest, which totaled $6.3 million and $6.6 million at March 31, 2024 and December 31, 2023, respectively, and is included in interest receivable and other assets in the consolidated statements of condition.

Lending Risks

***Commercial and Industrial Loans*** - Commercial loans are generally made to established small and mid-sized businesses to provide financing for their growth and working capital needs, equipment purchases and acquisitions. Management examines historical, current, and projected cash flows to determine the ability of the

borrower to repay obligations as agreed. Commercial loans are made based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral and guarantor support. The cash flows of borrowers, however, may not occur as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed, such as accounts receivable and inventory, and typically include personal guarantees. We target stable businesses with guarantors who provide additional sources of repayment and have proven to be resilient in periods of economic stress. A weakened economy, and resultant decreased consumer and/or business spending, may have an effect on the credit quality of commercial loans.

***Commercial Real Estate Loans*** - Commercial real estate loans, which include income producing investment properties and owner-occupied real estate used for business purposes, are subject to underwriting standards and processes similar to commercial loans discussed above. We underwrite these loans to be repaid from cash flow from either the business or investment property and supported by real property collateral. Underwriting standards for commercial real estate loans include, but are not limited to, debt coverage and loan-to-value ratios. Furthermore, a large majority of our loans are guaranteed by the owners of the properties. Conditions in the real estate markets or downturn in the general economy may adversely affect our commercial real estate loans. In the event of a vacancy, we expect guarantors to carry the loans until they find a replacement tenant. The owner's substantial equity investment provides a strong economic incentive to continue to support the commercial real estate projects. As such, we have generally experienced a relatively low level of loss and delinquencies in this portfolio.

***Construction Loans*** - Construction loans are generally made to developers and builders to finance construction, renovation and occasionally land acquisitions in anticipation of near-term development. Construction loans include interest reserves that are used for the payment of interest during the development and marketing periods and are capitalized as part of the loan balance. When a construction loan is placed on nonaccrual status before the depletion of the interest reserve, we apply the interest funded by the interest reserve against the loan's principal balance. These loans are underwritten after evaluation of the borrower's financial strength, reputation, prior track record, and independent appraisals. We monitor all construction projects to determine whether they are on schedule, completed as planned and in accordance with the approved construction budgets. Significant events can affect the construction industry, including: the inherent volatility of real estate markets and vulnerability to delays due to weather, change orders, inability to obtain construction permits, labor or material shortages, and price changes. Estimates of construction costs and value associated with the completed project may be inaccurate. Repayment of construction loans is largely dependent on the ultimate success of the project.

***Consumer Loans*** - Consumer loans primarily consist of home equity lines of credit, other residential loans, floating homes, and indirect luxury auto loans, along with a small number of installment loans. Our other residential loans include tenancy-in-common fractional interest loans ("TIC") located almost entirely in San Francisco County. We originate consumer loans utilizing credit score information, debt-to-income ratio and loan-to-value ratio analysis. Diversification among consumer loan types, coupled with relatively small loan amounts that are spread across many individual borrowers, mitigates risk. We do not originate sub-prime residential mortgage loans, nor is it our practice to underwrite loans commonly referred to as "Alt-A mortgages," the characteristics of which are reduced documentation, borrowers with low FICO scores or collateral with high loan-to-value ratios.

Credit Quality Indicators

We use a risk rating system to evaluate asset quality, and to identify and monitor credit risk in individual loans, and in the loan portfolio. Our definitions of “Special Mention” risk graded loans, or worse, are consistent with those used by the Federal Deposit Insurance Corporation ("FDIC"). Our internally assigned grades are as follows:

***Pass and Watch*** - Loans to borrowers of acceptable or better credit quality. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Bank’s policy regarding debt-service-coverage ratios. These borrowers are capable of sustaining normal economic, market or operational setbacks without significant financial consequences. Negative external industry factors are generally not present. The loan may be secured, unsecured or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain. This category also includes “Watch” loans, where the primary source of repayment has been delayed. “Watch” is intended to be a transitional grade, with either an upgrade or downgrade within a reasonable period.

***Special Mention*** - Potential weaknesses that deserve close attention. If left uncorrected, those potential weaknesses may result in deterioration of the payment prospects for the asset. Special Mention assets do not present sufficient risk to warrant adverse classification.

***Substandard*** - Inadequately protected by either the current sound worth and paying capacity of the obligor or the collateral pledged, if any. A Substandard asset has well-defined weaknesses that jeopardize the liquidation of the debt. Substandard assets are characterized by the distinct possibility that we will sustain some loss if such weaknesses or deficiencies are not corrected. Well-defined weaknesses include adverse trends or developments of the borrower's financial condition, managerial weaknesses and/or significant collateral deficiencies.

***Doubtful*** - Critical weaknesses that make collection or liquidation in full improbable. There may be specific pending events that work to strengthen the asset; however, the amount or timing of the loss may not be determinable. Pending events generally occur within one year of the asset being classified as Doubtful. Examples include: merger, acquisition, or liquidation; capital injection; guarantee; perfecting liens on additional collateral; and refinancing. Such loans are placed on non-accrual status and usually are collateral-dependent.

We regularly review our credits for accuracy of risk grades whenever we receive new information and at each quarterly and year-end reporting period. Borrowers are generally required to submit financial information at regular intervals. Typically, commercial borrowers with lines of credit are required to submit financial information with reporting intervals ranging from monthly to annually depending on credit size, risk and complexity. In addition, investor commercial real estate borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. We monitor construction loans monthly. We review home equity and other consumer loans based on delinquency. We also review loans graded "Watch" or worse, regardless of loan type, no less than quarterly.

The following tables present the loan portfolio by loan portfolio class, origination/renewal year and internal risk rating as of March 31, 2024 and December 31, 2023. The current year vintage table reflects gross charge-offs by loan portfolio class and year of origination. Generally, existing term loans that were re-underwritten are reflected in the table in the year of renewal. Lines of credit that have a conversion feature at the time of origination, such as construction to perm loans, are presented by year of origination.

| (in thousands) | Term Loans - Amortized Cost by Origination Year | | | | | | Revolving Loans | |
|---|---|---|---|---|---|---|---|---|
| March 31, 2024 | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Amortized Cost | Total |
| **Commercial and industrial:** | | | | | | | | |
| Pass and Watch | $ 2,650 | $ 23,105 | $ 9,107 | $ 2,726 | $ 3,474 | $ 33,698 | $ 64,683 | $ 139,443 |
| Special Mention | — | — | — | — | — | 306 | 1,443 | 1,749 |
| Substandard | — | — | — | — | — | 2,191 | 7,513 | 9,704 |
| Total commercial and industrial | $ 2,650 | $ 23,105 | $ 9,107 | $ 2,726 | $ 3,474 | $ 36,195 | $ 73,639 | $ 150,896 |
| Gross current period charge-offs | $ — | $ — | $ — | $ — | $ — | $ — | $ (4) | $ (4) |
| **Commercial real estate, owner-occupied:** | | | | | | | | |
| Pass and Watch | $ 3,187 | $ 14,053 | $ 45,948 | $ 49,506 | $ 36,162 | $ 148,036 | $ 5 | $ 296,897 |
| Special Mention | — | 386 | — | 15,491 | 816 | 10,113 | — | 26,806 |
| Substandard | — | — | 2,201 | — | — | 2,656 | — | 4,857 |
| Total commercial real estate, owner-occupied | $ 3,187 | $ 14,439 | $ 48,149 | $ 64,997 | $ 36,978 | $ 160,805 | $ 5 | $ 328,560 |
| **Commercial real estate, non-owner occupied:** | | | | | | | | |
| Pass and Watch | $ 20,233 | $ 76,466 | $ 171,120 | $ 196,087 | $ 161,259 | $ 502,571 | $ 10,102 | $ 1,137,838 |
| Special Mention | — | — | 2,776 | 8,309 | 11,696 | 36,797 | — | 59,578 |
| Substandard | 278 | 872 | — | 2,174 | — | 35,893 | — | 39,217 |
| Total commercial real estate, non-owner occupied | $ 20,511 | $ 77,338 | $ 173,896 | $ 206,570 | $ 172,955 | $ 575,261 | $ 10,102 | $ 1,236,633 |

| (in thousands) | Term Loans - Amortized Cost by Origination Year | | | | | | Revolving Loans | |
|---|---|---|---|---|---|---|---|---|
| March 31, 2024 | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Amortized Cost | Total |
| **Construction:** | | | | | | | | |
| Pass and Watch | $ 13,915 | $ 7,661 | $ 17,794 | $ — | $ 19,310 | $ — | $ — | $ 58,680 |
| Special Mention | — | 12,814 | — | — | — | — | — | 12,814 |
| Total construction | $ 13,915 | $ 20,475 | $ 17,794 | $ — | $ 19,310 | $ — | $ — | $ 71,494 |
| **Home equity:** | | | | | | | | |
| Pass and Watch | $ — | $ — | $ — | $ — | $ — | $ 764 | $ 85,149 | $ 85,913 |
| Substandard | 82 | — | — | — | — | 177 | 622 | 881 |
| Total home equity | $ 82 | $ — | $ — | $ — | $ — | $ 941 | $ 85,771 | $ 86,794 |
| **Other residential:** | | | | | | | | |
| Pass and Watch | $ — | $ 17,765 | $ 20,010 | $ 13,295 | $ 25,462 | $ 36,947 | $ — | $ 113,479 |
| Total other residential | $ — | $ 17,765 | $ 20,010 | $ 13,295 | $ 25,462 | $ 36,947 | $ — | $ 113,479 |
| **Installment and other consumer:** | | | | | | | | |
| Pass and Watch | $ 3,379 | $ 20,119 | $ 13,769 | $ 10,129 | $ 4,489 | $ 14,078 | $ 1,003 | $ 66,966 |
| Substandard | — | — | — | 141 | — | — | — | 141 |
| Total installment and other consumer | $ 3,379 | $ 20,119 | $ 13,769 | $ 10,270 | $ 4,489 | $ 14,078 | $ 1,003 | $ 67,107 |
| Gross current period charge-offs | $ — | $ (14) | $ — | $ (3) | $ — | $ — | $ — | $ (17) |
| Total loans: | | | | | | | | |
| Pass and Watch | $ 43,364 | $ 159,169 | $ 277,748 | $ 271,743 | $ 250,156 | $ 736,094 | $ 160,942 | $ 1,899,216 |
| Total Special Mention | $ — | $ 13,200 | $ 2,776 | $ 23,800 | $ 12,512 | $ 47,216 | $ 1,443 | $ 100,947 |
| Total Substandard | $ 360 | $ 872 | $ 2,201 | $ 2,315 | $ — | $ 40,917 | $ 8,135 | $ 54,800 |
| Totals | $ 43,724 | $ 173,241 | $ 282,725 | $ 297,858 | $ 262,668 | $ 824,227 | $ 170,520 | $ 2,054,963 |
| Total gross current period charge-offs | $ — | $ (14) | $ — | $ (3) | $ — | $ — | $ (4) | $ (21) |

| (in thousands) | Term Loans - Amortized Cost by Origination Year | | | | | | Revolving Loans | |
|---|---|---|---|---|---|---|---|---|
| December 31, 2023 | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Amortized Cost | Total |
| **Commercial and industrial:** | | | | | | | | |
| Pass and Watch | $ 25,615 | $ 9,187 | $ 2,970 | $ 3,718 | $ 15,128 | $ 21,004 | $ 62,486 | $ 140,108 |
| Special Mention | — | — | — | — | 334 | — | 9,300 | 9,634 |
| Substandard | — | — | — | — | 1,311 | 2,697 | — | 4,008 |
| Total commercial and industrial | $ 25,615 | $ 9,187 | $ 2,970 | $ 3,718 | $ 16,773 | $ 23,701 | $ 71,786 | $ 153,750 |
| **Commercial real estate, owner-occupied:** | | | | | | | | |
| Pass and Watch | $ 13,128 | $ 41,808 | $ 49,887 | $ 37,708 | $ 40,994 | $ 114,018 | $ 56 | $ 297,599 |
| Special Mention | 1,431 | 4,498 | 15,636 | 820 | 286 | 8,902 | — | 31,573 |
| Substandard | — | 2,231 | — | — | — | 1,778 | — | 4,009 |
| Total commercial real estate, owner-occupied | $ 14,559 | $ 48,537 | $ 65,523 | $ 38,528 | $ 41,280 | $ 124,698 | $ 56 | $ 333,181 |
| **Commercial real estate, non-owner occupied:** | | | | | | | | |
| Pass and Watch | $ 76,718 | $ 172,028 | $ 196,340 | $ 150,831 | $ 139,860 | $ 368,675 | $ 9,832 | $ 1,114,284 |
| Special Mention | — | 2,790 | 9,498 | 11,776 | 15,708 | 41,602 | — | 81,374 |
| Substandard | 878 | 272 | 2,204 | — | — | 20,373 | — | 23,727 |
| Total commercial real estate, non-owner occupied | $ 77,596 | $ 175,090 | $ 208,042 | $ 162,607 | $ 155,568 | $ 430,650 | $ 9,832 | $ 1,219,385 |
| **Construction:** | | | | | | | | |
| Pass and Watch | $ 13,138 | $ 24,403 | $ 19,521 | $ 29,512 | $ — | $ — | $ — | $ 86,574 |
| Special Mention | 12,590 | — | — | — | — | — | — | 12,590 |
| Total construction | $ 25,728 | $ 24,403 | $ 19,521 | $ 29,512 | $ — | $ — | $ — | $ 99,164 |
| **Home equity:** | | | | | | | | |
| Pass and Watch | $ — | $ — | $ — | $ — | $ — | $ 734 | $ 80,773 | $ 81,507 |
| Substandard | — | — | — | — | — | 369 | 211 | 580 |
| Total home equity | $ — | $ — | $ — | $ — | $ — | $ 1,103 | $ 80,984 | $ 82,087 |
| **Other residential:** | | | | | | | | |
| Pass and Watch | $ 17,861 | $ 20,114 | $ 13,390 | $ 25,637 | $ 20,935 | $ 20,571 | $ — | $ 118,508 |
| Total other residential | $ 17,861 | $ 20,114 | $ 13,390 | $ 25,637 | $ 20,935 | $ 20,571 | $ — | $ 118,508 |
| **Installment and other consumer:** | | | | | | | | |
| Pass and Watch | $ 22,038 | $ 14,528 | $ 10,632 | $ 4,687 | $ 5,300 | $ 9,399 | $ 1,061 | $ 67,645 |
| Total installment and other consumer | $ 22,038 | $ 14,528 | $ 10,632 | $ 4,687 | $ 5,300 | $ 9,399 | $ 1,061 | $ 67,645 |
| **Total loans:** | | | | | | | | |
| Pass and Watch | $ 168,498 | $ 282,068 | $ 292,740 | $ 252,093 | $ 222,217 | $ 534,401 | $ 154,208 | $ 1,906,225 |
| Total Special Mention | $ 14,021 | $ 7,288 | $ 25,134 | $ 12,596 | $ 16,328 | $ 50,504 | $ 9,300 | $ 135,171 |
| Total Substandard | $ 878 | $ 2,503 | $ 2,204 | $ — | $ 1,311 | $ 25,217 | $ 211 | $ 32,324 |
| Totals | $ 183,397 | $ 291,859 | $ 320,078 | $ 264,689 | $ 239,856 | $ 610,122 | $ 163,719 | $ 2,073,720 |

The following table shows the amortized cost of loans by portfolio class, payment aging and non-accrual status as of March 31, 2024 and December 31, 2023.

**Loan Aging Analysis by Class**

| (in thousands) | Commercial and industrial | Commercial real estate, owner-occupied | Commercial real estate, non-owner occupied | Construction | Home equity | Other residential | Installment and other consumer | Total |
|---|---|---|---|---|---|---|---|---|
| March 31, 2024 | | | | | | | | |
| 30-59 days past due | $ 13 | $ 101 | $ 872 | $ 1,057 | $ 360 | $ — | $ 3 | $ 2,406 |
| 60-89 days past due | 390 | — | — | — | — | — | — | 390 |
| 90 days or more past due [1] | 29 | 140 | 10,292 | — | — | — | — | 10,461 |
| Total past due | 432 | 241 | 11,164 | 1,057 | 360 | — | 3 | 13,257 |
| Current | 150,464 | 328,319 | 1,225,469 | 70,437 | 86,434 | 113,479 | 67,104 | 2,041,706 |
| Total loans [1] | $ 150,896 | $ 328,560 | $ 1,236,633 | $ 71,494 | $ 86,794 | $ 113,479 | $ 67,107 | $ 2,054,963 |
| Non-accrual loans [2] | $ 2,220 | $ 416 | $ 3,045 | $ — | $ 473 | $ — | $ 141 | $ 6,295 |
| Non-accrual loans with no allowance | $ — | $ 416 | $ 872 | $ — | $ 473 | $ — | $ 141 | $ 1,902 |
| December 31, 2023 | | | | | | | | |
| 30-59 days past due | $ 2,991 | $ 618 | $ — | $ — | $ 43 | $ 83 | $ 195 | $ 3,930 |
| 60-89 days past due | 69 | — | 2,204 | — | — | — | 1 | 2,274 |
| 90 days or more past due [1] | 1,311 | 149 | — | — | — | — | — | 1,460 |
| Total past due | 4,371 | 767 | 2,204 | — | 43 | 83 | 196 | 7,664 |
| Current | 149,379 | 332,414 | 1,217,181 | 99,164 | 82,044 | 118,425 | 67,449 | 2,066,056 |
| Total loans [1] | $ 153,750 | $ 333,181 | $ 1,219,385 | $ 99,164 | $ 82,087 | $ 118,508 | $ 67,645 | $ 2,073,720 |
| Non-accrual loans [2] | $ 4,008 | $ 434 | $ 3,081 | $ — | $ 469 | $ — | $ — | $ 7,992 |
| Non-accrual loans with no allowance | $ 1,311 | $ 434 | $ 877 | $ — | $ 469 | $ — | $ — | $ 3,091 |

[1] There was one non-owner occupied commercial real estate loan 90 days past due and accruing interest as of March 31, 2024 that has been in extended renewal negotiations, but it is well-secured and expected to be restored to a current payment status in the near future. There were no non-performing loans over 90 days past due and accruing interest as of December 31, 2023.

[2] None of the non-accrual loans as of March 31, 2024 or December 31, 2023 were earning interest on a cash or accrual basis. We reversed $10 thousand in accrued interest income for loans that were placed on non-accrual status during the three months ended March 31, 2024. We reversed accrued interest income of $16 thousand for loans that were placed on non-accrual status during the three months ended March 31, 2023.

Collateral Dependent Loans

The following table presents the amortized cost basis of individually analyzed collateral-dependent loans, which were all on non-accrual status, by portfolio class at March 31, 2024 and December 31, 2023.

| | Amortized Cost by Collateral Type | | | | | |
|---|---|---|---|---|---|---|
| (in thousands) | Commercial Real Estate | Residential Real Estate | Blanket Lien | Other | Total [1] | Allowance for Credit Losses |
| March 31, 2024 | | | | | | |
| Commercial real estate, owner-occupied | $ 416 | $ — | $ — | $ — | $ 416 | $ — |
| Commercial real estate, non-owner occupied | 3,046 | — | — | — | 3,046 | 496 |
| Home equity | — | 473 | — | — | 473 | — |
| Installment and other consumer | — | — | — | 141 | 141 | — |
| Total | $ 3,462 | $ 473 | $ — | $ 141 | $ 4,076 | $ 496 |
| December 31, 2023 | | | | | | |
| Commercial and industrial | $ 1,311 | $ — | $ — | $ — | $ 1,311 | $ — |
| Commercial real estate, owner-occupied | 434 | — | — | — | 434 | — |
| Commercial real estate, non-owner occupied | 3,081 | — | | — | 3,081 | 408 |
| Home equity | — | 469 | — | — | 469 | — |
| Total | $ 4,826 | $ 469 | $ — | $ — | $ 5,295 | $ 408 |

[1] There were no collateral-dependent residential real estate mortgage loans in process of foreclosure or in substance repossessed at March 31, 2024 and December 31, 2023. The weighted average loan-to-value of real estate secured collateral dependent loans was approximately 82% at March 31, 2024 and 70% at December 31, 2023.

Loan Modifications to Borrowers Experiencing Financial Difficulty

The following table summarizes the amortized cost of loans as of March 31, 2024 that were modified during the three months ended March 31, 2024 by portfolio class and type of modification granted. There were no modifications of loans during the three months ended March 31, 2023 requiring disclosure.

| (in thousands) | Term Extension | Percent of Portfolio Class Total |
|---|---|---|
| **Three months ended March 31, 2024** | | |
| Commercial and industrial | $ 2,191 | 1.5 % |
| Home equity | 82 | 0.1 % |
| Total | $ 2,273 | |

As of March 31, 2024, there were no unfunded loan commitments for loans that were modified during the period presented.

The following table summarizes the financial effect of loan modifications presented in the table above during the three months ended March 31, 2024 by portfolio class.

| (in thousands) | Weighted-Average Term Extension (in years) |
|---|---|
| **Three months ended March 31, 2024** | |
| Commercial and industrial | 0.3 |
| Home equity | 15.0 |

The loan modifications did not significantly impact the determination of the allowance for credit losses on loans during the three months ended March 31, 2024.

The Bank closely monitors the performance of the modified loans to understand the effectiveness of its modification efforts. The following table summarizes the amortized cost and payment status of loans as of March 31, 2024 that were modified during the three months ended March 31, 2024 by portfolio class.

| (in thousands) | Current | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or More Past Due | Total | Non-Accrual |
|---|---|---|---|---|---|---|
| **Three months ended March 31, 2024** | | | | | | |
| Commercial and industrial | $ 2,191 | $ — | $ — | $ — | $ 2,191 | $ 2,191 |
| Home equity | 82 | — | — | — | 82 | 82 |
| Total | $ 2,273 | $ — | $ — | $ — | $ 2,273 | $ 2,273 |

There were no loans that defaulted (fully or partially charged-off or became 90 days or more past due) that were modified during the three months ended March 31, 2024.

Allocation of the Allowance for Credit Losses on Loans

The following table presents the details of the allowance for credit losses on loans segregated by loan portfolio class as of March 31, 2024 and December 31, 2023.

**Allocation of the Allowance for Credit Losses on Loans**

| (in thousands) | Commercial and industrial | Commercial real estate, owner-occupied | Commercial real estate, non-owner occupied | Construction | Home equity | Other residential | Installment and other consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| March 31, 2024 | | | | | | | | | |
| Modeled expected credit losses | $ 940 | $ 1,326 | $ 7,744 | $ 119 | $ 559 | $ 670 | $ 655 | $ — | $ 12,013 |
| Qualitative adjustments | 628 | 1,174 | 6,767 | 1,163 | 68 | 22 | 265 | 2,049 | 12,136 |
| Specific allocations | 159 | — | 1,193 | — | — | — | — | — | 1,352 |
| Total | $ 1,727 | $ 2,500 | $ 15,704 | $ 1,282 | $ 627 | $ 692 | $ 920 | $ 2,049 | $ 25,501 |
| December 31, 2023 | | | | | | | | | |
| Modeled expected credit losses | $ 897 | $ 1,270 | $ 7,380 | $ 185 | $ 482 | $ 619 | $ 634 | $ — | $ 11,467 |
| Qualitative adjustments | 622 | 1,205 | 6,327 | 1,647 | 70 | 33 | 342 | 2,038 | 12,284 |
| Specific allocations | 193 | 1 | 1,226 | — | — | 1 | — | — | 1,421 |
| Total | $ 1,712 | $ 2,476 | $ 14,933 | $ 1,832 | $ 552 | $ 653 | $ 976 | $ 2,038 | $ 25,172 |

Allowance for Credit Losses on Loans Rollforward

The following table discloses activity in the allowance for credit losses on loans for the periods presented.

**Allowance for Credit Losses on Loans Rollforward**

| (in thousands) | Commercial and industrial | Commercial real estate, owner-occupied | Commercial real estate, non-owner occupied | Construction | Home equity | Other residential | Installment and other consumer | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Three months ended March 31, 2024** | | | | | | | | | |
| Beginning balance | $ 1,712 | $ 2,476 | $ 14,933 | $ 1,832 | $ 552 | $ 653 | $ 976 | $ 2,038 | $ 25,172 |
| (Reversal) Provision | 19 | 24 | 771 | (550) | 75 | 39 | (39) | 11 | 350 |
| (Charge-offs) | (4) | — | — | — | — | — | (17) | — | (21) |
| Recoveries | — | — | — | — | — | — | — | — | — |
| Ending balance | $ 1,727 | $ 2,500 | $ 15,704 | $ 1,282 | $ 627 | $ 692 | $ 920 | $ 2,049 | $ 25,501 |
| **Three months ended March 31, 2023** | | | | | | | | | |
| Beginning balance | $ 1,794 | $ 2,487 | $ 12,676 | $ 1,937 | $ 558 | $ 595 | $ 868 | $ 2,068 | $ 22,983 |
| Provision (Reversal) | 147 | 153 | 25 | 74 | (20) | (18) | 25 | (36) | 350 |
| (Charge-offs) | (3) | — | — | — | — | — | (11) | — | (14) |
| Recoveries | 3 | — | — | 8 | — | — | — | — | 11 |
| Ending balance | $ 1,941 | $ 2,640 | $ 12,701 | $ 2,019 | $ 538 | $ 577 | $ 882 | $ 2,032 | $ 23,330 |

Pledged Loans

Our FHLB line of credit is secured under terms of a blanket collateral agreement by a pledge of certain qualifying loans with unpaid principal balances of $1.299 billion and $1.288 billion at March 31, 2024 and December 31, 2023, respectively. In addition, we pledge eligible TIC loans, which totaled $108.5 million and $110.4 million at March 31, 2024 and December 31, 2023, respectively, to secure our borrowing capacity with the Federal Reserve Bank ("FRB"). For additional information, see Note 6, Borrowings.

Related Party Loans

The Bank has, and expects to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal shareholders and their businesses or associates. These transactions, including loans, are granted on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with persons not related to us. Likewise, these transactions do not involve more than the normal risk of collectability or present other unfavorable features.

The following table shows changes in net loans to related parties for each of the three years ended March 31, 2024.
Related party loans totaled $5.8 million as of both March 31, 2024 and December 31, 2023. In addition, undisbursed commitments to related parties totaled $212 thousand as of both March 31, 2024 and December 31, 2023.

**Note 6: Borrowings and Other Obligations**

***Federal Home Loan Bank:*** The Bank had lines of credit with the FHLB totaling $951.2 million and $1.009 billion as of March 31, 2024 and December 31, 2023, respectively, based on eligible collateral of certain loans and investment securities.

***Federal Funds Lines of Credit:*** The Bank had unsecured lines of credit with correspondent banks for overnight borrowings totaling $125.0 million and $135.0 million as of March 31, 2024 and December 31, 2023, respectively. In general, interest rates on these lines approximate the federal funds target rate.

***Federal Reserve Bank:*** The Bank had a line of credit through the Discount Window at the Federal Reserve Bank of San Francisco ("FRBSF") totaling $350.0 million as of March 31, 2024, secured by investment securities and residential loans. As of December 31, 2023, the Bank had a line of credit through the Discount Window totaling $64.0 million, secured by residential loans, and a $270.2 million line under the Federal Reserve's temporary Bank Term Funding Program ("BTFP") based on the par values of pledged investment securities. When the BTFP program ended on March 11, 2024, the investment securities were used to collateralize borrowings through the Discount Window.

***Other Obligations:*** Finance lease liabilities totaling $260 thousand and $298 thousand as of March 31, 2024 and December 31, 2023, respectively, are included in borrowings and other obligations in the consolidated statements of condition. Refer to Note 8, Commitments and Contingencies, for additional information.

The carrying values and weighted average interest rates on borrowings and other obligations as of March 31, 2024 and December 31, 2023 are summarized in the following table.

| | March 31, 2024 | | December 31, 2023 | |
|---|---|---|---|---|
| (dollars in thousands) | Carrying Value | Weighted Average Rate | Carrying Value | Weighted Average Rate |
| FHLB short-term borrowings | $ — | — % | $ — | — % |
| Federal funds lines of credit | — | — % | — | — % |
| FRBSF federal funds purchased | — | — % | — | — % |
| FRBSF short-term borrowings under the BTFP | — | — % | 26,000 | 5.30 % |
| Other obligations (finance leases) | 260 | 2.14 % | 298 | 1.88 % |
| Total borrowings and other obligations | $ 260 | 2.14 % | $ 26,298 | 5.26 % |

**Note 7: Stockholders' Equity**

*Dividends*

On January 25, 2024, Bancorp declared a $0.25 per share cash dividend, paid February 15, 2024 to shareholders of record at the close of business on February 8, 2024. Subsequent to quarter end on April 25, 2024, Bancorp declared a $0.25 per share cash dividend, payable on May 16, 2024 to shareholders of record at the close of business on May 9, 2024.

*Share-Based Payments*

The fair value of stock options as of the grant date is recorded as stock-based compensation expense in the consolidated statements of comprehensive income over the requisite service period, which is generally the vesting period, with a corresponding increase in common stock. Stock-based compensation also includes compensation expense related to the issuance of restricted stock awards. The grant-date fair value of the restricted stock awards, which equals the grant date price, is recorded as compensation expense over the requisite service period with a corresponding increase in common stock as the shares vest. Stock options and restricted stock awards issued include a retirement eligibility clause whereby the requisite service period is satisfied at the retirement eligibility date. For those awards, we accelerate the recording of stock-based compensation when the award holder is eligible to retire. However, retirement eligibility does not affect the vesting of restricted stock or the exercisability of the stock options, which are based on the scheduled vesting period.

Performance-based stock awards (restricted stock) are issued to a selected group of employees. Stock award vesting is contingent upon the achievement of pre-established long-term performance goals set by the Compensation Committee of the Board of Directors. Performance is measured over a three-year period and cliff vested. These performance-based stock awards were granted at a maximum opportunity level, and based on the achievement of the pre-established goals, the actual payouts can range from 0% to 200% of the target award. For performance-based stock awards, an estimate is made of the number of shares expected to vest based on the probability that the performance criteria will be achieved to determine the amount of compensation expense to be recognized. The estimate is re-evaluated quarterly and total compensation expense is adjusted for any change in the current period.

We record excess tax benefits (deficiencies) resulting from the exercise of non-qualified stock options, the disqualifying disposition of incentive stock options and vesting of restricted stock awards as income tax benefits (expense) in the consolidated statements of comprehensive income with a corresponding decrease (increase) to current taxes payable.

The holders of unvested restricted stock awards are entitled to dividends on the same per-share ratio as holders of common stock. Tax benefits for dividends paid on unvested restricted stock awards are recorded as tax benefits in the consolidated statements of comprehensive income with a corresponding decrease to current taxes payable. Dividends on forfeited awards are included in stock-based compensation expense.

Stock options and restricted stock may be net settled in a cashless exercise by a reduction in the number of shares otherwise deliverable upon exercise or vesting in satisfaction of the exercise payment and/or applicable tax withholding requirements. Shares withheld under net settlement arrangements are available for future grants. The table below depicts the total number of shares, amount, and weighted average price withheld for cashless exercises for the periods presented.

| | Three Months Ended | |
|---|---|---|
| | March 31, 2024 | March 31, 2023 |
| Number of shares withheld | 3,338 | 2,847 |
| Total amount withheld (in thousands) | $ 55 | $ 82 |
| Weighted-average price | $ 16.62 | $ 28.74 |

*Share Repurchase Program*

On July 21, 2023, the Board of Directors approved the adoption of Bancorp's new share repurchase program for up to $25.0 million and expiring on July 31, 2025. There have been no repurchases to date in 2024 or in 2023.
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**Note 8: Commitments and Contingent Liabilities**

*Financial Instruments with Off-Balance Sheet Risk*

We make commitments to extend credit in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit in the form of loans or through standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because various commitments will expire without being fully drawn, the total commitment amount does not necessarily represent future cash requirements.

Our credit loss exposure is equal to the contractual amount of the commitment in the event of nonperformance by the borrower. We use the same credit underwriting criteria for all credit exposure. The amount of collateral obtained, if deemed necessary by us, is based on management's credit evaluation of the borrower. Collateral types pledged may include accounts receivable, inventory, other personal property and real property.

The contractual amount of unfunded loan commitments and standby letters of credit not reflected in the consolidated statements of condition are as follows:

| (in thousands) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| Commercial lines of credit | $ 250,602 | $ 259,989 |
| Revolving home equity lines | 216,387 | 218,935 |
| Undisbursed construction loans | 10,176 | 13,943 |
| Personal and other lines of credit | 9,132 | 9,136 |
| Standby letters of credit | 3,147 | 3,147 |
| Total unfunded loan commitments and standby letters of credit | $ 489,444 | $ 505,150 |

We record an allowance for credit losses on unfunded loan commitments at the balance sheet date based on estimates of the probability that these commitments will be drawn upon according to historical utilization experience of the different types of commitments and expected loss rates determined for pooled funded loans. The allowance for credit losses on unfunded commitments totaled $1.1 million at both March 31, 2024 and December 31, 2023, which is included in interest payable and other liabilities in the consolidated statements of condition. There was no provision for credit losses on unfunded loan commitments in the first quarter of 2024. The $174 thousand reversal of the provision for credit losses on unfunded loan commitments in the first quarter of 2023 was due primarily to a $37.4 million decrease in total unfunded commitments.

*Leases*

We lease premises under long-term non-cancelable operating leases with remaining terms of 30 days to 18 years, 5 months, most of which include escalation clauses and one or more options to extend the lease term, and some of

which contain lease termination clauses. Lease terms may include certain renewal options that were considered reasonably certain to be exercised.

We lease certain equipment under finance leases with initial terms of 3 years to 5 years. The equipment finance leases do not contain renewal options, bargain purchase options or residual value guarantees.

The following table shows the balances of operating and finance lease right-of-use assets and lease liabilities.

| (in thousands) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **Operating leases:** | | |
| Operating lease right-of-use assets | $ 21,553 | $ 20,316 |
| Operating lease liabilities | $ 24,150 | $ 22,906 |
| **Finance leases:** | | |
| Finance lease right-of-use assets | $ 608 | $ 608 |
| Accumulated amortization | (356) | (319) |
| Finance lease right-of-use assets, net[1] | $ 252 | $ 289 |
| Finance lease liabilities [2] | $ 260 | $ 298 |

[1] Included in premises and equipment in the consolidated statements of condition.

[2] Included in borrowings and other obligations in the consolidated statements of condition.

The following table shows supplemental disclosures of noncash investing and financing activities for the periods presented.

| | Three months ended | |
|---|---|---|
| (in thousands) | March 31, 2024 | March 31, 2023 |
| Right-of-use assets obtained in exchange for operating lease liabilities | $ 2,417 | $ — |

The following table shows components of operating and finance lease cost.

| | Three months ended | |
|---|---|---|
| (in thousands) | March 31, 2024 | March 31, 2023 |
| Operating lease cost [1] | $ 1,318 | $ 1,610 |
| Finance lease cost: | | |
| Amortization of right-of-use assets [2] | $ 37 | $ 37 |
| Interest on finance lease liabilities [3] | 1 | 2 |
| Total finance lease cost | $ 38 | $ 39 |
| Total lease cost | $ 1,356 | $ 1,649 |

[1] Included in occupancy and equipment expense in the consolidated statements of comprehensive income.

[2] Included in depreciation and amortization in the consolidated statements of comprehensive income.

[3] Included in interest on borrowings and other obligations in the consolidated statements of comprehensive income.

The following table shows the future minimum lease payments, weighted average remaining lease terms, and weighted average discount rates under operating and finance lease arrangements as of March 31, 2024. The discount rates used to calculate the present value of lease liabilities were based on the collateralized FHLB borrowing rates that were commensurate with lease terms and minimum payments on the lease commencement date.

| (in thousands) | March 31, 2024 | |
|---|---|---|
| Year | Operating Leases | Finance Leases |
| 2024 | $ 3,630 | $ 117 |
| 2025 | 4,295 | 108 |
| 2026 | 3,561 | 37 |
| 2027 | 3,291 | 5 |
| 2028 | 2,910 | — |
| Thereafter | 9,856 | — |
| Total minimum lease payments | 27,543 | 267 |
| Amounts representing interest (present value discount) | (3,393) | (7) |
| Present value of net minimum lease payments (lease liability) | $ 24,150 | $ 260 |
| Weighted average remaining term (in years) | 8.0 | 2.0 |
| Weighted average discount rate | 2.72 % | 2.14 % |

*Litigation Matters*

Bancorp may be party to legal actions that arise from time to time in the normal course of business. Bancorp's management is not aware of any pending legal proceedings to which either it or the Bank may be a party or has recently been a party that will have a material adverse effect on the financial condition or results of operations of Bancorp or the Bank.

The Bank is responsible for a proportionate share of certain litigation indemnifications provided to Visa U.S.A. ("Visa") by its member banks in connection with Visa's lawsuits related to anti-trust charges and interchange fees ("Covered Litigation"). We sold our remaining shares on July 13, 2023, however our proportionate share of the litigation indemnification liability does not change or transfer upon the sale of our Class B Visa shares to member banks or, per the terms of the sale, to the recent purchaser of our shares. Visa established an escrow account for the Covered Litigation that it periodically funds, which is expected to cover the settlement payment obligations.

Litigation is ongoing and until the court approval process is complete, there is no assurance that Visa will resolve the claims as contemplated by the amended class settlement agreement, and additional lawsuits may arise from individual merchants who opted out of the class settlement. However, until the escrow account is fully depleted and the conversion rate of Class B to Class A common stock is reduced to zero, no future cash settlement payments are required by the member banks, such as us, on the Covered Litigation. Therefore, we are not required to record any contingent liabilities for the indemnification related to the Covered Litigation, as we consider the probability of losses to be remote.

**Note 9: Derivative Financial Instruments and Hedging Activities**

The Bank is exposed to certain risks from both its business operations and changes in economic conditions. As part of our asset/liability and interest rate risk management strategy, we may enter into interest rate derivative contracts to modify repricing characteristics of certain of our interest-earning assets and interest-bearing liabilities. The Bank generally designates interest rate hedging agreements utilized in the management of interest rate risk as either fair value hedges or cash flow hedges.

Our credit exposure, if any, on interest rate swap asset positions is limited to the fair value (net of any collateral pledged to us) and interest payments of all swaps by each counterparty. Conversely, when an interest rate swap is in a liability position exceeding a certain threshold, we may be required to post collateral to the counterparty in an amount determined by the agreements. Collateral levels are monitored and adjusted on a regular basis for changes in interest rate swap values.

On July 7, 2023, the Bank entered into various interest rate swap agreements with notional values totaling $101.8 million split evenly between terms of 2.5 and 3.0 years to hedge balance sheet interest rate sensitivity and protect certain of our fixed rate available-for-sale securities against changes in fair value related to changes in the benchmark interest rate. The interest rate swaps involve the receipt of floating rate interest from a counterparty in exchange for us making fixed-rate interest payments over the lives of the agreements, without the exchange of the underlying notional values. The transactions were designated as partial term fair value hedges and structured such that the changes in the fair value of the interest rate swaps are expected to be perfectly effective in offsetting the changes in the fair value of the hedged items attributable to changes in the SOFR OIS swap rate, the designated benchmark interest rate. Because the hedges met the criteria for using the shortcut method, there is no need to periodically reassess effectiveness during the term of the hedges. For fair value designated hedges, the gains or losses on the hedging instruments as well as the offsetting loss or gain on the hedged items, are recognized in current earnings as their fair values change.

In addition, we had three interest rate swap agreements on certain loans with our customers, which are scheduled to mature at various dates ranging from June 2031 to July 2032. In December 2023, one interest rate swap, scheduled to mature in October 2037, was terminated as the hedged loan was paid off. The loan interest rate swaps were designated as fair value hedges and allowed us to offer long-term fixed-rate loans to customers without assuming the interest rate risk of a long-term asset. Converting our fixed-rate interest payments to floating-rate interest payments, generally benchmarked to the one-month U.S. dollar SOFR index, protects us against changes in the fair value of our loans associated with fluctuating interest rates. The notional amounts of the interest rate contracts are equal to the notional amounts of the hedged loans.

Information on our derivatives follows:

| (in thousands) | Asset derivatives | | Liability derivatives | |
|---|---|---|---|---|
| | March 31, 2024 | December 31, 2023 | March 31, 2024 | December 31, 2023 |
| Available-for-sale securities: | | | | |
| Interest rate swaps - notional amount | $ — | $ — | $ 101,770 | $ 101,770 |
| Interest rate swaps - fair value[1] | $ — | $ — | $ 142 | $ 1,359 |
| Loans receivable: | | | | |
| Interest rate contracts - notional amount | $ 8,366 | $ 6,441 | $ — | $ 2,157 |
| Interest rate contracts - fair value[1] | $ 400 | $ 287 | $ — | $ 2 |

[1] Refer to Note 3, Fair Value of Assets and Liabilities, for valuation methodology.

The following table presents the carrying amount and associated cumulative basis adjustment related to the application of fair value hedge accounting that is included in the carrying amount of hedged assets as of March 31, 2024 and December 31, 2023.

| (in thousands) | Carrying Amounts of Hedged Assets | | Cumulative Amounts of Fair Value Hedging Adjustments Included in the Carrying Amounts of the Hedged Assets | |
|---|---|---|---|---|
| | March 31, 2024 | December 31, 2023 | March 31, 2024 | December 31, 2023 |
| Available-for-sale securities [1] | $ 108,125 | $ 107,181 | $ (142) | $ (1,359) |
| Loans receivable [2] | $ 7,841 | $ 8,183 | $ (478) | $ (367) |

[1] Carrying value equals the amortized cost basis of the securities underlying the hedge relationship, which is the book value net of the fair value hedge adjustment. Amortized cost excludes accrued interest totaling $233 thousand and $222 thousand as of March 31, 2024 and December 31, 2023, respectively.

[2] Carrying value equals the amortized cost basis of the loans underlying the hedge relationship, which is the loan balance net of deferred loan origination fees and cost and the fair value hedge adjustment. Amortized cost excludes accrued interest, which was not material.

The following table presents the pretax net gains (losses) recognized in interest income related to our fair value hedges for the years presented.

| (in thousands) | Three months ended | |
|---|---|---|
| | March 31, 2024 | March 31, 2023 |
| **Interest on investment securities** [1] | | |
| Increase in fair value of interest rate swaps hedging available-for-sale securities | $ 1,217 | $ — |
| Hedged interest earned | 206 | — |
| Decrease in carrying value included in the hedged available-for-sale securities | (1,217) | — |
| Net gain (loss) recognized in interest income on investment securities | $ 206 | $ — |
| **Interest and fees on loans** [1] | | |
| Increase (decrease) in fair value of interest rate swaps hedging loans receivable | $ 115 | $ (221) |
| Hedged interest earned | 54 | 51 |
| (Decrease) increase in carrying value included in the hedged loans | (110) | 221 |
| Decrease in value of yield maintenance agreement | (2) | (2) |
| Net gain recognized in interest income on loans | $ 57 | $ 49 |

[1] Represents the income line item in the statement of comprehensive income in which the effects of fair value hedges are recorded.

Our derivative transactions with the counterparty are under an International Swaps and Derivative Association ("ISDA") master agreement that includes "right of set-off" provisions. "Right of set-off" provisions are legally enforceable rights to offset recognized amounts and there may be an intention to settle such amounts on a net basis. We do not offset such financial instruments for financial reporting purposes. Information on financial instruments that are eligible for offset in the consolidated statements of condition follows:

**Offsetting of Financial Assets and Derivative Assets**

| (in thousands) | Gross Amounts of Recognized Assets[1] | Gross Amounts Offset in the Statements of Condition | Net Amounts of Assets Presented in the Statements of Condition[1] | Gross Amounts Not Offset in the Statements of Condition | | Net Amount |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Received | |
| **March 31, 2024** | | | | | | |
| Counterparty | $ 400 | $ — | $ 400 | $ — | $ — | $ 400 |
| Total | $ 400 | $ — | $ 400 | $ — | $ — | $ 400 |
| **December 31, 2023** | | | | | | |
| Counterparty | $ 287 | $ — | $ 287 | $ — | $ — | $ 287 |
| Total | $ 287 | $ — | $ 287 | $ — | $ — | $ 287 |

**Offsetting of Financial Liabilities and Derivative Liabilities**

| (in thousands) | Gross Amounts of Recognized Assets[1] | Gross Amounts Offset in the Statements of Condition | Net Amounts of Assets Presented in the Statements of Condition[1] | Gross Amounts Not Offset in the Statements of Condition | | Net Amount |
|---|---|---|---|---|---|---|
| | | | | Financial Instruments | Cash Collateral Received | |
| **March 31, 2024** | | | | | | |
| Counterparty | 142 | — | 142 | (142) | — | — |
| Total | $ 142 | $ — | $ 142 | $ (142) | $ — | $ — |
| **December 31, 2023** | | | | | | |
| Counterparty | $ 1,361 | $ — | $ 1,361 | $ (287) | $ (330) | $ 744 |
| Total | $ 1,361 | $ — | $ 1,361 | $ (287) | $ (330) | $ 744 |

[1] Amounts exclude accrued interest on swaps.

For more information on how we account for our interest rate swaps, refer to Note 1 to the Consolidated Financial Statements included in our 2023 Form 10-K filed with the SEC on March 14, 2024.

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion of the financial condition and results of operations, which is unaudited, should be read in conjunction with the related unaudited consolidated financial statements in this Form 10-Q and with the audited consolidated financial statements and accompanying notes included in our 2023 Annual Report on Form 10-K. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

### Forward-Looking Statements

The discussion of financial results in this Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended, (the "1934 Act"). Those sections of the 1933 Act and 1934 Act provide a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their financial performance so long as they provide meaningful, cautionary statements identifying important factors that could cause actual results to differ significantly from projected results.

Our forward-looking statements include descriptions of plans or objectives of management for future operations, products or services, and forecasts of revenues, earnings or other measures of economic performance. Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often include the words "believe," "expect," "intend," "estimate" or words of similar meaning, or future or conditional verbs preceded by "will," "would," "should," "could" or "may."

Forward-looking statements are based on management's current expectations regarding economic, legislative, and regulatory issues that may impact Bancorp's earnings in future periods. Factors that could cause future results to vary materially from current management expectations include, but are not limited to, general economic conditions and the economic uncertainty in the United States and abroad, including economic or other disruptions to financial markets caused by acts of terrorism, wars or other conflicts, impacts from inflation, supply chain disruptions, changes in interest rates (including the actions taken by the Federal Reserve to control inflation), California's unemployment rate, deposit flows, real estate values, and expected future cash flows on loans and securities; the impact of adverse developments at other banks, including bank failures, that impact general sentiment regarding the stability and liquidity of banks; costs or effects of acquisitions; competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation; natural disasters (such as wildfires and earthquakes in our area); adverse weather conditions; interruptions of utility service in our markets for sustained periods; and other economic, competitive, governmental, regulatory and technological factors (including external fraud and cybersecurity threats) affecting our operations, pricing, products and services; and successful integration of acquisitions.

Important factors that could cause results or performance to differ materially from those expressed in our prior forward-looking statements are detailed in ITEM 1A, Risk Factors section of our 2023 Form 10-K as filed with the SEC, and ITEM 1A Risk Factors herein. Forward-looking statements speak only as of the date they are made. Bancorp undertakes no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

### Critical Accounting Estimates

Critical accounting estimates are those estimates made in accordance with generally accepted accounting principles that involve a significant level of estimation and uncertainty and have had or are reasonably likely to have a material impact on our financial condition and results of operations. We consider accounting estimates to be critical to our financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain, (ii) management could have applied different assumptions during the reported period, and (iii) changes in the accounting estimate are reasonably likely to occur in the future and could have a material impact on our financial statements. Our critical estimates include: *Allowance for Credit Losses on Loans and Unfunded Commitments, Fair Value Measurements, and Goodwill.*

***Goodwill***

Goodwill arises from the acquisition method of accounting for business combinations and represents the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Our annual impairment assessment is performed in the fourth quarter. However, with triggering events occurring in the first quarter of 2024, including a persistent depressed stock price as a result of changes in macroeconomic conditions, market volatility resulting from rising interest rates and the failure of several regional banks in 2023, coupled with a revised five-year strategic forecast for the Bank, we performed a quantitative assessment in the first quarter of 2024, similar to the analysis performed in fourth quarter 2023. The results of this assessment indicated the value of goodwill was not impaired as of March 31, 2024. For a detailed discussion of goodwill accounting and impairment assessment methodology, refer to Note 1, Summary of Significant Accounting Policies, and the Critical Accounting Estimates section of our 2023 Form 10-K filed with the SEC on March 14, 2024.

**Executive Summary**

We generated earnings of $2.9 million for the first quarter of 2024, compared to $610 thousand for the fourth quarter of 2023 and $9.4 million for the first quarter of 2023. Diluted earnings per share were $0.18 for the first quarter of 2024, compared to $0.04 for the preceding quarter and $0.59 for the same quarter a year ago. Net interest margin compression due to the rapid rise in interest rates this cycle is clearly evident in the comparison of 2024 and 2023 first quarter earnings. In addition, prior quarter results reflected a $5.9 million pretax loss from balance sheet restructuring.

The following are highlights of our operating and financial performance for the periods presented. Additional performance details can be found in the pages that follow.

- The first quarter tax-equivalent net interest margin stabilized at 2.50% from 2.53% the previous quarter. Climbing deposit rates continued to put pressure on the margin this quarter. While the average cost of deposits increased 23 basis points to 1.38% in the first quarter compared to a 21 basis point increase in the prior quarter, monthly trends since January show a clear slow down in the pace of increase. Although we reduced borrowings to zero and gained ground in higher yields on loans, the overall average earning asset balances decreased, limiting the positive impact on the margin.

- A $350 thousand provision for credit losses on loans in the first quarter, compared to a provision of $1.3 million in the previous quarter, brought the allowance for credit losses to 1.24% of total loans, compared to 1.21% as of December 31, 2023.

- Non-accrual loans declined to 0.31% of total loans at quarter end, from 0.39% at December 31, 2023, and net charge-offs were minimal. Classified loans increased to 2.67% of total loans from 1.56% last quarter, which we believe evidences our diligent monitoring of customers impacted by current economic conditions.

- Loan balances of $2.055 billion as of March 31, 2024, were relatively stable from $2.074 billion as of December 31, 2023, reflecting originations of $12.4 million and payoffs of $21.8 million. During the quarter, interest rates on loan originations averaged approximately 266 basis points above those that paid off. Loan amortization from scheduled repayments, partially offset by a net increase in utilization of credit lines was $9.4 million during the quarter.

- Total deposits of $3.284 billion as of March 31, 2024, were essentially flat, compared to $3.290 billion as of December 31, 2023. Non-interest bearing deposits increased $2.5 million representing 44.0% of total deposits as of March 31, 2024, compared to 43.8% as of December 31, 2023.

- Total borrowings was reduced to zero representing a $26.0 million decrease from December 31, 2023 and a $97.5 million quarter-over-quarter decrease in average balances, resulting in a $1.3 million decline in interest expense. Net available funding sources of $1.905 billion provided 208% coverage of an estimated $915.4 million in uninsured deposits, representing only 28% of total deposits at March 31, 2024.

- Return on average assets ("ROA") was 0.31% for the first quarter of 2024, compared to 0.06% for the fourth quarter of 2023, and return on average equity ("ROE") was 2.70%, compared to 0.57% for the prior quarter. The efficiency ratio for the first quarter of 2024 was 83.18%, compared to 91.94% for the prior quarter.

- Bancorp's and the Bank's total risk-based capital ratios increased during the quarter to 17.05% and 16.71%, respectively, as of March 31, 2024, well above regulatory requirements. Bancorp's tangible common equity to tangible assets ("TCE ratio") increased to 9.76% as of March 31, 2024, and the Bank's TCE ratio was 9.53%, consistent with prior quarter. While we do not intend to sell our held-to-maturity securities, the TCE ratio, net of after-tax unrealized losses on held-to-maturity securities as if the losses were realized was 7.67% as of March 31, 2024, compared to 7.80% as of December 31, 2023 (refer to the discussion and reconciliation of this non-GAAP financial measure in the section below entitled *Statement Regarding Use of Non-GAAP Financial Measures*).

- The Bank optimized its facilities by consolidating two commercial banking offices, closing the San Mateo office in April 2024. We expect the combination of both personnel and facilities pre-tax savings to total approximately $650 thousand in 2024 and $800 thousand in 2025. These savings will be deployed to self-fund talent acquisition aimed at loan growth initiatives.

- The Board of Directors declared a cash dividend of $0.25 per share on April 25, 2024, which represents the 76th consecutive quarterly dividend paid by Bancorp. The dividend is payable on May 16, 2024, to shareholders of record at the close of business on May 9, 2024.

**RESULTS OF OPERATIONS**

Highlights of the financial results are presented in the following tables:

| (dollars in thousands, except per share data) | Three months ended March 31, 2024 | December 31, 2023 | March 31, 2023 |
|---|---|---|---|
| **Selected operating data:** | | | |
| Net interest income | $ 22,694 | $ 24,264 | $ 29,899 |
| Provision for credit losses on loans | 350 | 1,300 | 350 |
| Reversal of credit losses on unfunded loan commitments | — | — | (174) |
| Non-interest income | 2,754 | (3,283) | 2,935 |
| Non-interest expense | 21,169 | 19,289 | 19,780 |
| Net income | 2,922 | 610 | 9,440 |
| **Net income per common share:** | | | |
| Basic | $ 0.18 | $ 0.04 | $ 0.59 |
| Diluted | $ 0.18 | $ 0.04 | $ 0.59 |
| **Performance and other financial ratios:** | | | |
| Return on average assets | 0.31 % | 0.06 % | 0.92 % |
| Return on average equity | 2.70 % | 0.57 % | 9.12 % |
| Tax-equivalent net interest margin | 2.50 % | 2.53 % | 3.04 % |
| Cost of deposits | 1.38 % | 1.15 % | 0.20 % |
| Cost of funds | 1.38 % | 1.27 % | 0.49 % |
| Efficiency ratio | 83.18 % | 91.94 % | 60.24 % |
| Net charge-offs (recoveries) | $ 21 | $ 387 | $ 3 |
| Cash dividend payout ratio on common stock[1] | 138.89 % | 625.00 % | 42.37 % |

| (dollars in thousands, except per share data) | March 31, 2024 | December 31, 2023 |
|---|---|---|
| **Selected financial condition data:** | | |
| Total assets | $ 3,767,176 | $ 3,803,903 |
| Investment securities | 1,451,433 | 1,477,226 |
| Loans, net | 2,029,462 | 2,048,548 |
| Deposits | 3,284,102 | 3,290,075 |
| Short-term borrowings and other obligations | 260 | 26,298 |
| Stockholders' equity | 436,680 | 439,062 |
| Book value per share | 26.81 | 27.17 |
| **Asset quality ratios:** | | |
| Allowance for credit losses on loans to total loans | 1.24 % | 1.21 % |
| Allowance for credit losses on loans to non-performing loans | 4.05x | 3.15x |
| Non-accrual loans to total loans | 0.31 % | 0.39 % |
| **Capital ratios:** | | |
| Equity to total assets ratio | 11.59 % | 11.54 % |
| Tangible common equity to tangible assets | 9.76 % | 9.73 % |
| Total capital (to risk-weighted assets) | 17.05 % | 16.89 % |
| Tier 1 capital (to risk-weighted assets) | 16.05 % | 15.91 % |
| Tier 1 capital (to average assets) | 10.92 % | 10.46 % |
| Common equity Tier 1 capital (to risk weighted assets) | 16.05 % | 15.91 % |

[1] Calculated as dividends on common shares divided by basic net income per common share.

**Net Interest Income**

Net interest income is the interest earned on loans, investments and other interest-earning assets minus the interest expense incurred on deposits and other interest-bearing liabilities. Net interest income is impacted by changes in general market interest rates and by changes in the composition of interest-earning assets and interest-bearing liabilities. Interest rate changes can create fluctuations in the net interest income and/or margin due to an imbalance in the timing of repricing and maturity of assets and liabilities. We manage interest rate risk exposure with the goal of minimizing the impact of interest rate volatility on net interest income. For more information, refer to Item 3. Quantitative and Qualitative Disclosure about Market Risk in this Form 10-Q.

Net interest margin is expressed as net interest income divided by average interest-earning assets. Net interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate incurred on total interest-bearing liabilities. Both of these measures are reported on a taxable-equivalent basis. Net interest margin is the higher of the two because it reflects interest income earned on assets funded with non-interest-bearing sources of funds, which include demand deposits and stockholders' equity.

Average Statements of Condition and Analysis of Net Interest Income

The following table compares interest income, average interest-earning assets, interest expense, and average interest-bearing liabilities for the periods presented. The tables also present net interest income, net interest margin and net interest rate spread for each period reported.

| | Three months ended March 31, 2024 | | | Three months ended December 31, 2023 | | | Three months ended March 31, 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| Assets | | | | | | | | | |
| Interest-earning deposits with banks [1] | $ 23,439 | $ 321 | 5.42 % | $ 84,864 | $ 1,170 | 5.40 % | $ 4,863 | $ 56 | 4.58 % |
| Investment securities [2, 3] | 1,529,985 | 8,880 | 2.32 % | 1,625,084 | 9,368 | 2.31 % | 1,851,743 | 10,194 | 2.20 % |
| Loans [1, 3, 4, 5] | 2,067,431 | 25,130 | 4.81 % | 2,072,654 | 25,081 | 4.73 % | 2,121,718 | 24,415 | 4.60 % |
| Total interest-earning assets [1] | 3,620,855 | 34,331 | 3.75 % | 3,782,602 | 35,619 | 3.68 % | 3,978,324 | 34,665 | 3.49 % |
| Cash and non-interest-bearing due from banks | 35,302 | | | 35,572 | | | 39,826 | | |
| Bank premises and equipment, net | 7,708 | | | 8,027 | | | 8,396 | | |
| Interest receivable and other assets, net | 147,405 | | | 128,587 | | | 137,114 | | |
| Total assets | $ 3,811,270 | | | $ 3,954,788 | | | $ 4,163,660 | | |
| Liabilities and Stockholders' Equity | | | | | | | | | |
| Interest-bearing transaction accounts | $ 215,001 | $ 261 | 0.49 % | $ 228,168 | $ 278 | 0.48 % | $ 272,353 | $ 254 | 0.38 % |
| Savings accounts | 230,133 | 371 | 0.65 % | 245,712 | 322 | 0.52 % | 329,299 | 170 | 0.21 % |
| Money market accounts | 1,150,637 | 8,449 | 2.95 % | 1,105,286 | 7,188 | 2.58 % | 952,479 | 1,085 | 0.46 % |
| Time accounts including CDARS | 264,594 | 2,280 | 3.47 % | 244,661 | 1,991 | 3.23 % | 126,030 | 223 | 0.72 % |
| Borrowings and other obligations [1] | 7,323 | 91 | 4.93 % | 104,855 | 1,380 | 5.15 % | 222,571 | 2,716 | 4.88 % |
| Total interest-bearing liabilities | 1,867,688 | 11,452 | 2.47 % | 1,928,682 | 11,159 | 2.30 % | 1,902,732 | 4,448 | 0.95 % |
| Demand accounts | 1,458,686 | | | 1,556,437 | | | 1,792,998 | | |
| Interest payable and other liabilities | 48,923 | | | 48,322 | | | 48,233 | | |
| Stockholders' equity | 435,973 | | | 421,347 | | | 419,697 | | |
| Total liabilities & stockholders' equity | $ 3,811,270 | | | $ 3,954,788 | | | $ 4,163,660 | | |
| Tax-equivalent net interest income/margin [1] | | $ 22,879 | 2.50 % | | $ 24,460 | 2.53 % | | $ 30,217 | 3.04 % |
| Reported net interest income/margin [1] | | $ 22,694 | 2.48 % | | $ 24,264 | 2.51 % | | $ 29,899 | 3.01 % |
| Tax-equivalent net interest rate spread | | | 1.28 % | | | 1.38 % | | | 2.54 % |

[1] Interest income/expense is divided by actual number of days in the period times 360 days to correspond to stated interest rate terms, where applicable.

[2] Yields on available-for-sale securities are calculated based on amortized cost balances rather than fair value, as changes in fair value are reflected as a component of stockholders' equity. Investment security interest is earned on 30/360 day basis monthly.

[3] Yields and interest income on tax-exempt securities and loans are presented on a taxable-equivalent basis using the Federal statutory rate of 21 percent.

[4] Average balances on loans outstanding include non-performing loans. The amortized portion of net loan origination fees is included in interest income on loans, representing an adjustment to the yield.

[5] Net loan origination costs in interest income totaled $375 thousand, $324 thousand, and $190 thousand for the three months ended March 31, 2024, December 31, 2023 and March 31, 2023, respectively.

The following table presents the effects of changes in average balances (volume) or changes in average rates on tax-equivalent net interest income for the periods indicated. Volume variances are equal to the increase or

decrease in average balances multiplied by prior period rates. Rate variances are equal to the increase or decrease in rates multiplied by prior period average balances. Mix variances are attributable to the change in yields or rates multiplied by the change in average balances, including one day less in the three months ended March 31, 2024, compared to the three months ended December 31, 2023 and one day more in the three months ended March 31, 2024, compared to the same period in 2023.

| | Three months ended March 31, 2024 compared to three months ended December 31, 2023 | | | | Three months ended March 31, 2024 compared to three months ended March 31, 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| (in thousands) | Volume | Yield/Rate | Mix | Total | Volume | Yield/Rate | Mix | Total |
| Interest-earning deposits with banks | $ (847) | $ 5 | $ (7) | $ (849) | $ 214 | $ 10 | $ 41 | $ 265 |
| Investment securities [1] | (548) | 64 | (4) | (488) | (1,771) | 553 | (96) | (1,314) |
| Loans [1] | (63) | 390 | (278) | 49 | (625) | 1,092 | 248 | 715 |
| Total interest-earning assets | (1,458) | 459 | (289) | (1,288) | (2,182) | 1,655 | 193 | (334) |
| Interest-bearing transaction accounts | (16) | 3 | (4) | (17) | (53) | 73 | (13) | 7 |
| Savings accounts | (20) | 78 | (9) | 49 | (51) | 355 | (103) | 201 |
| Money market accounts | 295 | 1,017 | (51) | 1,261 | 226 | 5,832 | 1,306 | 7,364 |
| Time accounts, including CDARS | 162 | 141 | (14) | 289 | 245 | 851 | 961 | 2,057 |
| Borrowings and other obligations | (1,284) | (63) | 58 | (1,289) | (2,627) | 20 | (18) | (2,625) |
| Total interest-bearing liabilities | (863) | 1,176 | (20) | 293 | (2,260) | 7,131 | 2,133 | 7,004 |
| Changes in tax-equivalent net interest income | $ (595) | $ (717) | $ (269) | $ (1,581) | $ 78 | $ (5,476) | $ (1,940) | $ (7,338) |

[1] Yields and interest income on tax-exempt securities and loans are presented on a taxable-equivalent basis using the federal statutory rate of 21%.

First Quarter of 2024 Compared to the Fourth Quarter of 2023

Net interest income totaled $22.7 million for the first quarter of 2024, compared to $24.3 million for the prior quarter. The $1.6 million decrease from the prior quarter was primarily related to an increase of $1.6 million in interest expense on deposits and a decrease of $1.3 million in interest on cash and investments. These were partially offset by a $1.3 million decrease in borrowing costs. Quarter-over-quarter, average interest-bearing deposit balances increased by $36.5 million to $1.860 billion, raising the cost of total deposits by 23 basis points to 1.38%. Average borrowings and other obligations decreased by $97.5 million to $7.3 million, and average investment security balances were down a similar amount.

The tax-equivalent net interest margin was 2.50% for the first quarter of 2024, compared to 2.53% for the prior quarter. The higher cost of deposits reduced the margin by 23 basis points, while higher loan yields added 15 basis points. The effect of lower wholesale borrowing balances, partially offset by lower interest-earning deposits with banks, added 5 basis points.

First Quarter of 2024 Compared to the First Quarter of 2023

Net interest income totaled $22.7 million for the three months ended March 31, 2024, compared to $29.9 million for the same period in the prior year. The $7.2 million decrease from the prior year was primarily due to a higher cost of deposits totaling $9.6 million, partially offset by lower borrowing costs of $2.6 million.

The tax-equivalent net interest margin was 2.50% for the three months ended March 31, 2024, compared to 3.04% for the same period in the prior year. The decrease was primarily attributed to higher deposit costs, reducing the margin by 107 basis points, partially offset by higher yields on loans, adding 29 basis points, and decreases in borrowings contributing 26 basis points.

Market Interest Rates

Market interest rates are, in part, based on the target federal funds interest rate (the interest rate banks charge each other for short-term borrowings) implemented by the Federal Reserve Open Market Committee ("FOMC").

In response to the evolving risks to economic activity caused by the COVID-19 pandemic, the FOMC made two emergency federal funds rate cuts totaling 150 basis points in March 2020. The federal funds rate range remained between 0.0% and 0.25% through the beginning of 2022, putting downward pressure on our asset yields and net interest margin. Beginning in March 2022, the FOMC began successive increases to the federal funds rate due to evolving inflation risks, international political unrest, and oil and other supply chain disruptions. As a result of seven

rate adjustments during 2022, the federal funds target rate range increased to between 4.25% and 4.50% at year-end 2022 and our net interest margin increased gradually over the course of the year. In 2023, on each of February 1st, March 22nd, May 3rd, and July 26th, the FOMC increased the target rate by 25 basis points to a range of 5.25% to 5.50%. Rising interest rates resulted in rapid increases in the cost of funds through rising deposit costs and increased average borrowings, putting pressure on the net interest margin. Federal Reserve policymakers continue to monitor inflation and economic developments and are considering rate changes during the balance of 2024. See ITEM 3. Quantitative and Qualitative Disclosure about Market Risk for further information.

**Provision for Credit Losses on Loans**

Management assesses the adequacy of the allowance for credit losses on loans quarterly based on several factors including growth of the loan portfolio, past events, current conditions, and reasonable and supportable forecasts to estimate expected losses over the contractual terms of our loans. The allowance for credit losses on loans is increased by provisions charged to expense and loss recoveries and decreased by loans charged off.

The following table shows the activity for the periods presented.

| | Three months ended | | |
|---|---|---|---|
| (dollars in thousands) | March 31, 2024 | December 31, 2023 | March 31, 2023 |
| Provision for credit losses on loans | $ 350 | $ 1,300 | $ 350 |

We recorded a $350 thousand provision for credit losses on loans in the first quarter. The provision was due primarily to adjustments to certain qualitative risk factors to account for continued negative trends in adversely graded loans for our non-owner occupied commercial real estate and commercial and industrial portfolios, adjustments to the discounted cash flow modeling assumptions related to estimated default timing, and a slight increase in Moody's Analytics' Baseline Forecast of California's unemployment rates, partially offset by the impact of a decrease in pooled loans and changes in loan mix.

We recorded a $1.3 million provision for credit losses on loans in the fourth quarter. The provision was due primarily to an increase in specific allowances related to a few loans that exhibited certain credit risk characteristics over time that were not indicative of pooled loans. Of the specific allowances, a portion was related to two loans with existing substandard risk ratings and collateral valuation issues caused by persistently higher than average vacancy rates. In addition, a portion was related to two loans that were placed on non-accrual status during the fourth quarter, where the estimated credit losses were derived using either discounted expected cash flows or adjusted collateral values and loss rates. A large portion of these specific allowances was previously recognized in the quantitative and qualitative estimated credit losses for pooled loans and shifted to the allowance for individually evaluated loans in the fourth quarter. Other elements of the provision included a $406 thousand loss on the note sale of a loan to an unrelated third party that was charged to the allowance concurrent with the sale, a decrease in loans, and a stable California unemployment rate forecast for the next four quarters. Net adjustments to qualitative factors in the fourth quarter did not materially affect the provision.

The provision totaling $350 thousand for the three months ended March 31, 2023 was due primarily to increases in qualitative risk factors to account for continued uncertainty about inflation and recession risks. Management believed that these risk factors were not adequately captured in the modeled quantitative portion of the allowance and took the more prudent approach to account for loan and collateral concentration risks, mainly in our construction and commercial real estate portfolios, and the need for heightened portfolio management in light of economic conditions at that time. In addition, a $19.8 million increase in loans contributed modestly to the provision. These increases were partially offset by the quantitative impact of an improvement in Moody's Analytics' baseline California unemployment rate forecasts at the time.

For more information, refer to Note 5, Loans and Allowance for Credit Losses on Loans, to the consolidated financial statements in this Form 10-Q.

**Non-interest Income**

The following table details the components of non-interest income.

| | Three months ended | | | Quarter over quarter | | Year over year | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | March 31, 2024 | December 31, 2023 | March 31, 2023 | Amount Change | Percent Change | Amount Change | Percent Change |
| Wealth management and trust services | $ 553 | $ 560 | 511 | $ (7) | (1.3)% | $ 42 | 8.2 % |
| Service charges on deposit accounts | 529 | 522 | 533 | 7 | 1.3 % | (4) | (0.8)% |
| Earnings on bank-owned life insurance, net | 435 | $ 364 | $ 705 | 71 | 19.5 % | (270) | (38.3)% |
| Debit card interchange fees, net | 408 | 373 | 447 | 35 | 9.4 % | (39) | (8.7)% |
| Dividends on Federal Home Loan Bank stock | 377 | 349 | 302 | 28 | 8.0 % | 75 | 24.8 % |
| Merchant interchange fees, net | 167 | 119 | 133 | 48 | 40.3 % | 34 | 25.6 % |
| Losses on sale of investment securities, net | — | (5,907) | — | 5,907 | — % | — | — % |
| Other income | 285 | 337 | 304 | (52) | (15.4)% | (19) | (6.3)% |
| Total non-interest income | $ 2,754 | $ (3,283) | $ 2,935 | $ 6,037 | (183.9)% | $ (181) | (6.2)% |

First Quarter of 2024 Compared to the Fourth Quarter of 2023

Non-interest income totaled $2.8 million for the first quarter of 2024, compared to a loss of $3.3 million for the prior quarter. The $6.0 million increase from the prior quarter was primarily attributed to a $5.9 million net loss on sale of available-for-sale investment securities in the prior quarter.

First Quarter of 2024 Compared to the First Quarter of 2023

Non-interest income totaled $2.8 million for the first quarter of 2024, materially unchanged from the same period of the prior year. The $181 thousand decrease from the prior year period was mostly attributable to a decrease in bank-owned life insurance benefit payments due to the recognition of a death benefit in 2023, partially offset by higher dividend rates paid on Federal Home Loan Bank stock and higher wealth management and trust services income in 2024.

**Non-interest Expense**

The following table details the components of non-interest expense.

| | Three months ended | | | Quarter over quarter | | Year over year | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | March 31, 2024 | December 31, 2023 | March 31, 2023 | Amount Change | Percent Change | Amount Change | Percent Change |
| Salaries and related benefits | $ 12,084 | $ 10,361 | $ 10,930 | $ 1,723 | 16.6 % | $ 1,154 | 10.6 % |
| Occupancy and equipment | 1,969 | 1,939 | 2,414 | 30 | 1.5 % | (445) | (18.4)% |
| Professional services | 1,078 | 921 | 1,123 | 157 | 17.0 % | (45) | (4.0)% |
| Data processing | 1,070 | 1,081 | 1,045 | (11) | (1.0)% | 25 | 2.4 % |
| Deposit network fees | 845 | 940 | 96 | (95) | (10.1)% | 749 | 780.2 % |
| Federal Deposit Insurance Corporation insurance | 435 | 454 | 289 | (19) | (4.2)% | 146 | 50.5 % |
| Information technology | 402 | 431 | 370 | (29) | (6.7)% | 32 | 8.6 % |
| Depreciation and amortization | 388 | 393 | 882 | (5) | (1.3)% | (494) | (56.0)% |
| Directors' expense | 317 | 319 | 321 | (2) | (0.6)% | (4) | (1.2)% |
| Amortization of core deposit intangible | 251 | 330 | 345 | (79) | (23.9)% | (94) | (27.2)% |
| Other real estate owned | — | — | 4 | — | N/A | (4) | (100.0)% |
| Other non-interest expense | | | | | | | |
| Advertising | 296 | 347 | 278 | (51) | (14.7)% | 18 | 6.5 % |
| Other expense | 2,034 | 1,773 | 1,683 | 261 | 14.7 % | 351 | 20.9 % |
| Total other non-interest expense | 2,330 | 2,120 | 1,961 | 210 | 9.9 % | 369 | 18.8 % |
| Total non-interest expense | $ 21,169 | $ 19,289 | $ 19,780 | $ 1,880 | 9.7 % | $ 1,389 | 7.0 % |

First Quarter of 2024 Compared to the Fourth Quarter of 2023

Non-interest expense totaled $21.2 million for the first quarter of 2024, compared to $19.3 million for the prior quarter, an increase of $1.9 million. Salaries and related benefits increased $1.7 million largely due to various factors, both in prior and current quarter. Last quarter, profit sharing, supplemental executive retirement plan and stock-based compensation accrual adjustments reduced expenses. In the first quarter of 2024, there were lower deferred loan origination costs, an increase to the 401(k) contribution matching associated with the usual reset and bonus payments at the beginning of the year, and increased salary costs due to new talent acquisition, partially offset by incentive adjustments. In addition, professional services expenses from certain legal, accounting, and consulting costs increased by $157 thousand.

First Quarter of 2024 Compared to the First Quarter of 2023

Non-interest expense totaled $21.2 million for the first quarter of 2024, compared to $19.8 million for the first quarter of 2023, an increase of $1.4 million. Significant fluctuations were as follows:

- Salaries and related benefits increased by $1.2 million largely due to the increase in full time equivalent employees to 330 from 311 at the same time in prior year.
- Deposit network fees increased by $749 thousand as customers sought additional FDIC insurance protection through reciprocal deposit networks.
- These increases were partially offset by decreases in occupancy and equipment and depreciation and amortization expenses of $445 thousand and $494 thousand, respectively, mainly from the acceleration of lease-related costs for branch closures in the first quarter of 2023. Beginning in 2024, the estimated annual pre-tax savings from branch closures are expected to be approximately $1.4 million.

**Provision for Income Taxes**

Income tax provisions reflect accruals for taxes at the applicable rates for federal income tax and California franchise tax based upon reported pre-tax income. Provisions also reflect permanent differences between income for tax and financial reporting purposes (such as earnings on tax exempt loans and municipal securities, bank-owned life insurance ("BOLI"), low-income housing tax credits, and stock-based compensation from the exercise of stock options, disqualifying dispositions of incentive stock options and vesting of restricted stock awards).

The provision for income taxes for the first quarter of 2024 totaled $1.0 million at an effective tax rate of 25.6%, compared to provision reversal of $218 thousand at a negative effective tax rate of (55.6)% in the prior quarter and $3.4 million at an effective tax rate of 26.7% in the same quarter last year. The increase in the provision for income taxes in the first quarter of 2024 reflected higher pre-tax income as compared to the prior quarter. The increase in the effective tax rate in the first quarter of 2024 was primarily due to the tax provision reversal recorded in the prior quarter that primarily resulted from a $5.9 million pre-tax loss on the sale of available-for-sale investment securities. The 110 basis point decrease in the effective tax rate in the first quarter of 2024, as compared to the same quarter a year ago, was primarily due to the larger proportional effect of permanent tax differences on lower pretax income. This decrease was partially offset by a reduction in the tax-exempt interest exclusion (due to a larger IRC Section 291(e) interest expense disallowance), compared to the prior period.

We file a consolidated return in the U.S. federal tax jurisdiction and a combined return in the state of California tax jurisdiction. There were no ongoing federal or state income tax examinations at the time of the issuance of this report. As of March 31, 2024, neither the Bank nor Bancorp had accruals for interest or penalties related to unrecognized tax benefits.

**FINANCIAL CONDITION SUMMARY**

**Cash, Cash Equivalents and Restricted Cash**

Total cash, cash equivalents and restricted cash were $36.3 million at March 31, 2024, an increase of $5.9 million compared to $30.5 million at December 31, 2023.

**Investment Securities**

The investment securities portfolio totaled $1.451 billion at March 31, 2024, a decrease of $25.8 million from $1.477 billion at December 31, 2023. The decrease was primarily the result of principal repayments totaling $20.3 million, a $4.6 million increase in pre-tax unrealized losses on available-for-sale investment securities, and $900 thousand in net amortization. Both the available-for-sale and held-to-maturity portfolios are eligible for pledging to FHLB or the Federal Reserve as collateral for borrowings. The portfolios are comprised of high credit quality investments with average effective durations of 4.41 on available-for-sale securities and 5.66 on held-to-maturity securities. Both portfolios generate cash flows monthly from interest, principal amortization and payoffs, which supports the Bank's liquidity. Those cash flows totaled $31.3 million in the first quarter of 2024. See Note 4, Investment Securities, for additional information.

The following table summarizes our investment in obligations of state and political subdivisions at March 31, 2024 and December 31, 2023.

| | March 31, 2024 | | | December 31, 2023 | | |
|---|---|---|---|---|---|---|
| (dollars in thousands) | Amortized Cost | Fair Value | % of Total State and Political Subdivisions | Amortized Cost | Fair Value | % of Total State and Political Subdivisions |
| Within California: | | | | | | |
| General obligation bonds | $ 24,165 | $ 19,964 | 14.8 % | $ 24,191 | $ 20,009 | 14.7 % |
| Revenue bonds | 3,504 | 2,926 | 2.1 | 3,507 | 2,917 | 2.1 |
| Total within California | 27,669 | 22,890 | 16.9 | 27,698 | 22,926 | 16.8 |
| Outside California: | | | | | | |
| General obligation bonds | 108,523 | 96,700 | 66.2 | 108,846 | 98,139 | 66.3 |
| Revenue bonds | 27,635 | 24,652 | 16.9 | 27,692 | 25,014 | 16.9 |
| Total outside California | 136,158 | 121,352 | 83.1 | 136,538 | 123,153 | 83.2 |
| Total obligations of state and political subdivisions | $ 163,827 | $ 144,242 | 100.0 % | $ 164,236 | $ 146,079 | 100.0 % |
| Percent of investment portfolio | 10.8 % | 10.8 % | | 10.7 % | 10.7 % | |

Of the total investment in obligations of state and political subdivisions, the largest concentrations outside of California are in Texas (37.1%), Washington (15.3%) and Wisconsin (9.0%). Our investment in obligations issued by municipal issuers in Texas are either guaranteed by the AAA rated Texas Permanent School Fund ("PSF") or backed by revenue sources from essential services (such as utilities and transportation).

Investments in states, municipalities and political subdivisions are subject to an initial pre-purchase credit assessment and ongoing monitoring. Key considerations include:

- The soundness of a municipality’s budgetary position and stability of its tax revenues
- Debt profile and level of unfunded liabilities, diversity of revenue sources, taxing authority of the issuer
- Local demographics/economics including unemployment data, largest taxpayers and local employers, income indices and home values
- For revenue bonds, the source and strength of revenue for municipal authorities including the obligor’s financial condition and reserve levels, annual debt service and debt coverage ratio, and credit enhancement (such as insurer’s strength and collateral in escrow accounts)
- Credit ratings by major credit rating agencies

**Loans and Credit Quality**

During the first three months of 2024, loans decreased by $18.8 million and totaled $2.055 billion as of March 31, 2024, compared to $2.074 billion as of December 31, 2023. Loan originations were $12.4 million for the three months ended March 31, 2024, compared to $53.8 million for the fourth quarter of 2023. While originations were muted, the pipeline has grown, and key opportunistic hires and new compensation plans have already accelerated calling activity, pipeline growth and diversification.

Loan payoffs were $21.8 million for the three months ended March 31, 2024, compared to $50.3 million for the fourth quarter of 2023. The largest portion of payoffs were the result of construction project completions, followed by refinances of loans not meeting our strategic and risk profile standards, and cash payoffs. There was no dominant overlying trend noted in the quarter.

Non-accrual loans totaled $6.3 million, or 0.31% of the loan portfolio, at March 31, 2024, compared to $8.0 million, or 0.39% at December 31, 2023. The $1.7 million decrease resulted from various payoffs and paydowns. Three loan relationships totaling $370 thousand moved to non-accrual status in the first quarter, partially offsetting the decrease. Of the total non-accrual loans as of March 31, 2024 approximately 50% were paying as agreed, with the remaining 50% closely monitored for payments, and 63% were real estate secured.
While Bank of Marin has continued its steadfast conservative underwriting practices and has not changed its credit standards or policies in reaction to current market conditions, our portfolio management and credit teams are exercising heightened awareness of the potential for credit quality weakening. Classified loans totaled $54.8 million as of March 31, 2024, compared to $32.3 million as of December 31, 2023. The increase of $22.5 million was due primarily to a migration of $24.4 million in loans from special mention to substandard risk ratings. The majority of these downgrades were due to protracted issues, therefore, these borrowers' financial conditions merit extra attention and proactive management. The three significant relationships downgraded are of different types and geographies. Two of these are commercial real estate loans that are fully secured and supported with owner-level personal guarantees that have ample liquidity, and we believe there is minimal loss potential in these credits. Only 1% of the additions were on non-accrual status as of March 31, 2024, with 11% of all classified loans on non-accrual status. Excluding the accruing loan over 90 days past due mentioned below, 98% of all classified loans were current on their payments as of March 31, 2024. Additions to classified loans were offset by $2.9 million in payoffs and paydowns.

Accruing loans past due 30 to 89 days totaled $1.9 million as of March 31, 2024, compared to $1.0 million as of December 31, 2023. We had one accruing non-owner-occupied commercial real estate loan over 90 days past due as of March 31, 2024 totaling $8.1 million that has been in extended renewal negotiations, but it is well-secured and expected to be restored to a current payment status in the near future.

Loans designated special mention, which are not considered adversely classified, decreased by $34.3 million to $100.9 million as of March 31, 2024, from $135.2 million as of December 31, 2023. The decrease was largely due to $24.4 million in downgrades from special mention to substandard mentioned above, $10.5 million in upgrades to pass risk ratings, and $1.8 million in net paydowns and payoffs, partially offset by $2.0 million in downgrades from pass risk ratings and $443 thousand in balance increases. Of the loans designated special mention, 98% were real estate secured. All but one of the loans, outside of not-for-profits, are guaranteed by owners or sponsors.

Net charge-offs for the first quarter of 2024 totaled $21 thousand, compared to net charge-offs of $387 thousand for the fourth quarter of 2023. The ratio of allowance for credit losses to total loans was 1.24% at March 31, 2024, compared to 1.21% at December 31, 2023.

For more information, refer to Note 5, Loans and Allowance for Credit Losses on Loans, to the consolidated financial statements in this Form 10-Q.

**Liabilities - Deposits and Borrowings**

During the first three months of 2024, total liabilities decreased by $34.3 million to $3.330 billion. Deposits totaled $3.284 billion at March 31, 2024, a decrease of $6.0 million, compared to $3.290 billion at December 31, 2023. The Bank had zero outstanding borrowings at March 31, 2024, compared to $26.0 million at December 31, 2023.

Non-interest bearing deposits made up 44.0% of total deposits at March 31, 2024, compared to 43.8% at December 31, 2023. Money market balances remained constant at 34.6% and time deposits increased from 7.6% to 8.1% of total deposits with a weighted average rate of 3.17% and average term of six months. Additionally, the Bank's competitive and balanced approach to relationship management and focused outreach supported the addition of nearly 1,200 new accounts during the first quarter, 34% of which were new relationships (excluding new reciprocal accounts).

During the first quarter of 2024, outstanding borrowings decreased by $26.0 million to zero at March 31, 2024, resulting from investment and loan cash flows. Although available as a liquidity source, we have not utilized brokered deposits. Net available funding sources, including unrestricted cash, unencumbered available-for-sale securities, and remaining borrowing capacity was $1.905 billion, or 58% of total deposits and 208% of estimated uninsured and/or uncollateralized deposits as of March 31, 2024.

**Capital Adequacy**

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

Management reviews capital ratios on a regular basis and produces a five-year capital plan semi-annually to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet our anticipated future needs. Stress tests are performed on capital ratios and include scenarios such as additional unrealized losses on the investment portfolio, additional deposit growth and potential share repurchases. For all periods presented, the Bank's ratios exceed the regulatory definition of "well capitalized" under the regulatory framework for prompt corrective action and Bancorp's ratios exceed the required minimum ratios to be considered a well-capitalized bank holding company. In addition, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action as of March 31, 2024. There are no conditions or events since that notification that management believes have changed the Bank's categories and we expect the Bank to remain well capitalized for prompt corrective action purposes.

Bancorp's TCE ratio was 9.76% at March 31, 2024, compared to 9.73% at December 31, 2023. Bancorp's TCE ratio, net of after tax unrealized losses on held-to-maturity securities, was 7.67%, compared to 7.80% at December 31, 2023. Management believes this non-GAAP measure is important because it reflects the level of capital available to withstand drastic changes in market conditions (refer to the discussion and reconciliation of this non-GAAP financial measure in the section below entitled *Statement Regarding Use of Non-GAAP Financial Measures*).

The Bancorp's and Bank's capital adequacy ratios as of March 31, 2024 and December 31, 2023 are presented in the following tables.

**Bancorp Capital Ratios**

| (dollars in thousands) | Actual | | Adequately Capitalized Threshold [1] | | Threshold to be a Well Capitalized Bank Holding Company | |
|---|---|---|---|---|---|---|
| **March 31, 2024** | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital (to risk-weighted assets) | $ 441,181 | 17.05 % | $ 271,680 | 10.50 % | $ 258,743 | 10.00 % |
| Tier 1 Capital (to risk-weighted assets) | $ 415,157 | 16.05 % | $ 219,931 | 8.50 % | $ 206,994 | 8.00 % |
| Tier 1 Leverage Capital (to average assets) | $ 415,157 | 10.92 % | $ 152,035 | 4.00 % | $ 190,043 | 5.00 % |
| Common Equity Tier 1 (to risk-weighted assets) | $ 415,157 | 16.05 % | $ 181,120 | 7.00 % | $ 168,183 | 6.50 % |
| **December 31, 2023** | | | | | | |
| Total Capital (to risk-weighted assets) | $ 440,842 | 16.89 % | $ 274,002 | 10.50 % | $ 260,954 | 10.00 % |
| Tier 1 Capital (to risk-weighted assets) | $ 415,224 | 15.91 % | $ 221,811 | 8.50 % | $ 208,763 | 8.00 % |
| Tier 1 Leverage Capital (to average assets) | $ 415,224 | 10.46 % | $ 158,771 | 4.00 % | $ 198,464 | 5.00 % |
| Common Equity Tier 1 (to risk-weighted assets) | $ 415,224 | 15.91 % | $ 182,668 | 7.00 % | $ 169,620 | 6.50 % |

**Bank Capital Ratios**

| (dollars in thousands) | Actual | | Adequately Capitalized Threshold [1] | | Threshold to be Well Capitalized under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **March 31, 2024** | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total Capital (to risk-weighted assets) | $ 432,306 | 16.71 % | $ 271,640 | 10.50 % | $ 258,705 | 10.00 % |
| Tier 1 Capital (to risk-weighted assets) | $ 406,282 | 15.70 % | $ 219,899 | 8.50 % | $ 206,964 | 8.00 % |
| Tier 1 Leverage Capital (to average assets) | $ 406,282 | 10.69 % | $ 152,026 | 4.00 % | $ 190,033 | 5.00 % |
| Common Equity Tier 1 (to risk-weighted assets) | $ 406,282 | 15.70 % | $ 181,094 | 7.00 % | $ 168,158 | 6.50 % |
| **December 31, 2023** | | | | | | |
| Total Capital (to risk-weighted assets) | $ 433,598 | 16.62 % | $ 273,986 | 10.50 % | $ 260,939 | 10.00 % |
| Tier 1 Capital (to risk-weighted assets) | $ 407,981 | 15.64 % | $ 221,798 | 8.50 % | $ 208,751 | 8.00 % |
| Tier 1 Leverage Capital (to average assets) | $ 407,981 | 10.28 % | $ 158,767 | 4.00 % | $ 198,459 | 5.00 % |
| Common Equity Tier 1 (to risk-weighted assets) | $ 407,981 | 15.64 % | $ 182,657 | 7.00 % | $ 169,610 | 6.50 % |

[1] Except for Tier 1 Leverage Capital, the adequately capitalized thresholds reflect the regulatory minimum plus a 2.5% capital conservation buffer as required under the *Basel III Capital Standards* in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses.

## Liquidity and Capital Resources

The goal of liquidity management is to provide adequate funds to meet loan demand and to fund operating activities and deposit withdrawals. We accomplish this goal by maintaining an appropriate level of liquid assets and formal lines of credit with the FHLB, FRBSF and correspondent banks that enable us to borrow funds as seen in the table below and discussed in Note 6 to the Consolidated Financial Statements in ITEM 1 of this report. Our Asset Liability Management Committee ("ALCO"), which is comprised of Bank directors and the Bank's Chief Executive Officer, is responsible for approving and monitoring our liquidity targets and strategies. The Bank has long-established minimum liquidity requirements that are regularly monitored using metrics and tools similar to those used by larger banks, such as the liquidity coverage ratio, and multi-scenario, long-horizon stress tests. Our contingency funding plan provides for early detection of potential liquidity issues in the market or the Bank and institutes prompt responses that may prevent or alleviate a liquidity crisis. Management monitors liquidity daily and regularly adjusts our position based on current and future liquidity needs. We also have relationships with third-party deposit networks and can adjust the placement of our deposits via reciprocal or one-way sales as part of our cash management strategy.

Net available contingent funding sources, including unrestricted cash, unencumbered available-for-sale securities and total available borrowing capacity was $1.905 billion, or 208% of estimated uninsured and/or uncollateralized deposits as of March 31, 2024.

The following table details the components of our contingent liquidity sources as of March 31, 2024.

| (in thousands) | Total Available | Amount Used | Net Availability |
|---|---|---|---|
| **Internal Sources** | | | |
| Unrestricted cash [1] | $ 13,452 | N/A | $ 13,452 |
| Unencumbered securities at market value | 464,959 | N/A | 464,959 |
| **External Sources** | | | |
| FHLB line of credit | 951,238 | $ — | 951,238 |
| FRB line of credit | 349,991 | — | 349,991 |
| Lines of credit at correspondent banks | 125,000 | — | 125,000 |
| **Total Liquidity** | $ 1,904,640 | $ — | $ 1,904,640 |

[1] Excludes cash items in transit.
Note: Brokered deposits available through third party networks are not included above.

We obtain funds from the repayment and maturity of loans, deposit inflows, investment securities sales, maturities and paydowns, federal funds purchases, FRB and FHLB advances, other borrowings, and cash flow from operations. Although available as a liquidity source, we have not needed to utilize brokered deposits. Our primary uses of funds are the origination of loans, the purchase of investment securities, withdrawals of deposits, maturity of certificates of deposit, repayment of borrowings, dividends to common stockholders, and operating expenses.

Customer deposits are a significant component of our daily liquidity position. The attraction and retention of new deposits depend upon the variety and effectiveness of our customer account products, service and convenience, rates paid to customers, and our financial strength. The cash cycles and unique business activities of some of our large commercial depositors may cause short-term fluctuations in their deposit balances held with us.

Our cash and cash equivalents increased $5.9 million in the first three months of 2024. The most significant sources of liquidity during the first three months of 2024 were proceeds from principal paydowns and maturities of investment securities of $20.3 million, and proceeds from loans collected net of originations totaling $18.7 million. In addition, $4.3 million in net cash was provided by operating activities.

Significant uses of liquidity during the first three months of 2024 were $26.0 million in repayments of short-term borrowings, $6.0 million in net withdrawals of deposits and $4.0 million in cash dividends paid on common stock to our shareholders. Refer to the Consolidated Statement of Cash Flows in this Form 10-Q for additional information on our sources and uses of liquidity. Management anticipates that our current strong liquidity position, as detailed in this report, and contingent funding sources outlined in the table above are adequate to support our operational needs.

Unfunded loan commitments, as discussed in Note 8 to the Consolidated Financial Statements in this Form 10-Q, totaled $489.4 million at March 31, 2024. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, principal paydowns of investment securities, and liquid assets.

Over the next twelve months, $251.4 million of time deposits will mature. We expect to replace these funds with new deposits or excess liquidity. We believe our emphasis on local deposits, combined with our immediately available funding sources, provides a very stable base for our liquidity needs.

We had no borrowings under our credit facilities of at March 31, 2024, and $26.0 million at December 31, 2023, as discussed in Note 6 to the Consolidated Financial Statements in ITEM 1 of this report.

Because Bancorp is a holding company and does not conduct regular banking operations, its primary sources of liquidity are dividends from the Bank. Under the California Financial Code, payment of a dividend from the Bank to Bancorp without advance regulatory approval is restricted to the lesser of the Bank's retained earnings or the amount of the Bank's net profits from the previous three fiscal years less the amount of dividends paid during that period. The primary uses of funds for Bancorp are shareholder dividends and ordinary operating expenses. Bancorp held $8.6 million in cash at March 31, 2024 and management anticipates that there will be sufficient capacity at the Bank to provide dividends to Bancorp to meet its funding requirements for the foreseeable future.

**Statement Regarding use of Non-GAAP Financial Measures**

Financial results are presented in accordance with GAAP and with reference to certain non-GAAP financial measures. Management believes that, given recent industry turmoil, the presentation of Bancorp's non-GAAP TCE ratio reflecting the after tax impact of unrealized losses on held-to-maturity securities provides useful supplemental information to investors because it reflects the level of capital remaining after a hypothetical liquidation of the entire securities portfolio. Because there are limits to the usefulness of this measure to investors, Bancorp encourages readers to consider its annual and quarterly consolidated financial statements and notes related thereto in their entirety, as filed with the Securities and Exchange Commission, and not to rely on any single financial measure. A reconciliation of the non-GAAP TCE ratio is presented below.

**Reconciliation of GAAP and Non-GAAP Financial Measures**

| (in thousands, unaudited) | | | March 31, 2024 | December 31, 2023 |
|---|---|---|---|---|
| **Tangible Common Equity - Bancorp** | | | | |
| Total stockholders' equity | | $ | 436,680 | 439,062 |
| Goodwill and core deposit intangible | | | (76,269) | (76,520) |
| Total TCE | a | | 360,411 | 362,542 |
| Unrealized losses on HTM securities, net of tax [1] | | | (83,931) | (77,739) |
| TCE, net of unrealized losses on HTM securities (non-GAAP) | b | $ | 276,480 | 284,803 |
| Total assets | | $ | 3,767,176 | 3,803,903 |
| Goodwill and core deposit intangible | | | (76,269) | (76,520) |
| Total tangible assets | c | | 3,690,907 | 3,727,383 |
| Unrealized losses on HTM securities, net of tax [1] | | | (83,931) | (77,739) |
| Total tangible assets, net of unrealized losses on HTM securities (non-GAAP) | d | $ | 3,606,976 | 3,649,644 |
| Bancorp TCE ratio | a / c | | 9.8 % | 9.7 % |
| Bancorp TCE ratio, net of unrealized losses on HTM securities (non-GAAP) | b / d | | 7.7 % | 7.8 % |

[1] Net unrealized losses on held-to-maturity securities as of March 31, 2024 and December 31, 2023 of $119.2 million and $110.4 million, respectively, as shown in Note 4, net of an estimated $35.2 million and $32.6 million, respectively, in deferred tax benefits based on a blended state and federal statutory tax rate of 29.56%.

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

Market risk is defined as the risk of loss arising from an adverse change in the market value (or prices) of financial instruments. A significant component of market risk is interest rate risk, which is inherent in our lending, investment, borrowing and deposit gathering activities. The Bank manages interest rate sensitivity to minimize the exposure of our net interest margin, earnings, and capital to changes in interest rates. Interest rate changes can create fluctuations in the net interest margin due to an imbalance in the timing of repricing, or maturity of assets or liabilities. Interest rate changes can also affect the market value of our financial instruments, such as available-for-sale securities and the related unrealized gains or losses, which affect our equity value.

To mitigate interest rate risk, the structure of our assets and liabilities is managed with the objective of correlating the effects of interest rate changes on loans and investments with those of deposits and borrowings. The Asset/Liability Management Policy sets limits on the acceptable amount of change to net interest income and the economic value of equity in different interest rate environments.

From time to time, we enter into interest rate swap contracts to mitigate the changes in the fair value of selected investment securities and specified long-term fixed-rate loans and firm commitments to enter into long-term fixed-rate loans caused by changes in interest rates. Refer to Note 9 to the Consolidated Financial Statements in this report.

ALCO and the Board of Directors review our exposure to interest rate risk at least quarterly. We use simulation models to measure interest rate risk and to evaluate strategies to improve profitability in the context of policy guidelines. A simplified statement of condition is prepared on a quarterly basis as a starting point, using instrument level data of our actual loans, investments, borrowings and deposits as inputs. If potential changes to net equity value and net interest income resulting from hypothetical interest rate changes are not within the limits established by the Board of Directors, management may adjust the asset and liability mix to bring the risk position within approved limits or take other actions. Governing policies are subject to review by regulators and are updated to incorporate their observations and adapt to changes in idiosyncratic and systemic risks. As of March 31, 2024, interest rate risk was within policy guidelines established by ALCO and the Board. One set of interest rates modeled and evaluated against flat interest rates and a static balance sheet is a series of immediate parallel shifts in the yield curve. Our most recent analysis of our interest rate sensitivity is provided in the following table as an example rather than an expectation of likely interest rate movements.

| Immediate Changes in Interest Rates (in basis points) | Estimated Change in Net Interest Income in Year 1, as Percent of Net Interest Income | Estimated Change in Net Interest Income in Year 2, as Percent of Net Interest Income |
|---|---|---|
| up 400 | (10.8) % | 0.7 % |
| up 300 | (7.9) % | 0.7 % |
| up 200 | (5.1) % | 0.7 % |
| up 100 | (2.3) % | 0.6 % |
| down 100 | 0.6 % | (0.9) % |
| down 200 | 2.5 % | 0.9 % |
| down 300 | 4.4 % | 2.6 % |
| down 400 | 7.0 % | 4.6 % |

Interest rate sensitivity is a function of the repricing characteristics of our assets and liabilities. The Bank runs a combination of scenarios and sensitivities in its attempt to capture the range of interest rate risk including the simulations mentioned above. As with any simulation model or other method of measuring interest rate risk, limitations are inherent in the process and dependent on assumptions. For example, lower deposit growth than modeled may cause the Bank to increase its borrowing position, thereby increasing its liability sensitivity. Additionally, assets and liabilities may react differently to changes in market interest rates in terms of both timing and responsiveness to market rate movements. Important deposit modeling assumptions include the speed of deposit run-off and the amount by which interest-bearing deposit rates increase or decrease when market interest rates change, otherwise known as the deposit beta. The above tables reflect deposit betas of up to 68%, averaging 40%, to rates paid on non-maturity interest-bearing deposits in rising rate scenarios and deposit betas of up to 60%, averaging 34%, to rates paid on non-maturity interest-bearing deposits in falling rate scenarios. The actual rates and timing of prepayments on loans and investment securities could vary significantly from the assumptions applied

in the various scenarios. Lastly, uneven changes in different tenors of U.S. Treasury rates that result in changes to the shape of the yield curve could produce different results from those presented in the table. Accordingly, the results presented should not be relied upon as indicative of actual results in the event of changing market interest rates.

**ITEM 4. Controls and Procedures**

Evaluation of Disclosure Controls and Procedures

Bank of Marin Bancorp and its subsidiary (the "Company") conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 (the “Act”)) as of the end of the period covered by this report. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information we are required to disclose in the reports that we file or submit under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in the reports that we file or submit under the Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2024, there were no significant changes that materially affected, or are reasonably likely to affect, our internal control over financial reporting. The term internal control over financial reporting, as defined by Rule 15d-15(f) of the Act, is a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

**PART II OTHER INFORMATION**

**ITEM 1 Legal Proceedings**

Refer to Note 12 to the Consolidated Financial Statements in Item 8 of our 2023 Form 10-K and Note 8 to the Consolidated Financial Statements in this Form 10-Q.

**ITEM 1A Risk Factors**

Our business is influenced by many factors that are difficult to predict, involve uncertainties that may materially affect actual results and are often beyond our control. In evaluating an investment in Bancorp's common stock, investors should consider, among other things, the risks previously disclosed in Part I, Item 1A, "Risk Factors" of our 2023 Form 10-K, and the information contained in this quarterly report on Form 10-Q and other reports and registration statements filed with the SEC, which are incorporated herein by reference. There have been no material changes to the risk factors disclosed in our 2023 Form 10-K.

**ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds**

There were no unregistered sales of equity securities during the period covered by this report.

**Issuer Purchases of Equity Securities**

On July 21, 2023, the Board of Directors approved the adoption of Bancorp's share repurchase program for up to $25.0 million and expiring on July 31, 2025. There were no repurchases under this program in either 2024 or 2023.

**ITEM 3 Defaults upon Senior Securities**

None.

**ITEM 4 Mine Safety Disclosures**

Not applicable.

**ITEM 5 Other Information**

Not applicable.

**ITEM 6 Exhibits**

The following exhibits are filed as part of this report or hereby incorporated by references to filings previously made with the SEC.

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | | Herewith |
|---|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date | |
| 3.01 | Articles of Incorporation, as amended | S-4 | 333-257025 | 3.01 | June 11, 2021 | |
| 3.02 | Bylaws, as amended | S-4 | 333-257025 | 3.02 | June 11, 2021 | |
| 4.01 | Description of Capital Stock | 10-K | 001-33572 | 4.01 | March 16, 2023 | |
| 10.01 | Employee Stock Ownership Plan | S-8 | 333-218274 | 4.1 | May 26, 2017 | |
| 10.02 | 2017 Employee Stock Purchase Plan | S-8 | 333-221219 | 4.1 | October 30, 2017 | |
| 10.03 | 2017 Equity Plan, as amended | S-8 | 333-227840 | 4.1 | October 15, 2018 | |
| 10.04 | 2020 Director Stock Plan | S-8 | 333-239555 | 4.1 | June 30, 2020 | |
| 10.05 | Form of Indemnification Agreement for Directors and Executive Officers, dated August 9, 2007 | 10-Q | 001-33572 | 10.06 | November 7, 2007 | |
| 10.06 | 2010 Annual Individual Incentive Compensation Plan, revised 2019 | 10-K | 001-33572 | 10.07 | March 15, 2021 | |
| 10.07 | Salary Continuation Agreement for executive officer Tani Girton, Chief Financial Officer, dated October 18, 2013 | 8-K | 001-33572 | 10.2 | November 4, 2014 | |
| 10.08 | 2007 Form of Change in Control Agreement | 8-K | 001-33572 | 10.1 | October 31, 2007 | |
| 10.09 | Director Deferred Fee Plan, dated December 17, 2020 | 10-K | 001-33572 | 10.13 | March 15, 2021 | |
| 10.10 | Employment Agreement with Timothy Myers, dated September 23, 2021 | 8-K | 001-33572 | 10.1 | September 24, 2021 | |
| 10.11 | Salary Continuation Agreement, as amended for executive officer Timothy Myers, Chief Executive Officer, dated January 1, 2022 | 8-K | 001-33572 | 10.1 | December 21, 2022 | |
| 10.12 | Salary Continuation Agreement for executive officer Nicolette Sloan, Head of Commercial Banking, dated January 1, 2022 | 8-K | 001-33572 | 10.2 | December 21, 2022 | |
| 10.13 | Salary Continuation Agreement for executive officer Msako Stewart, Chief Credit Officer, dated January 1, 2022 | 8-K | 001-33572 | 10.3 | December 21, 2022 | |
| 10.14 | Salary Continuation Agreement for executive officer Brandi Campbell, Head of Retail Banking, dated July 1, 2022 | 8-K | 001-33572 | 10.4 | December 21, 2022 | |
| 31.01 | Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 31.02 | Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 32.01 | Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 | | | | | Filed |
| 101.INS | Inline XBRL Instance Document | | | | | Filed |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document | | | | | Filed |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document | | | | | Filed |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document | | | | | Filed |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document | | | | | Filed |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document | | | | | Filed |

**SIGNATURES**

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

Bank of Marin Bancorp
(registrant)

| | |
|---|---|
| May 9, 2024 | */s/ Timothy D. Myers* |
| Date | Timothy D. Myers<br>President and Chief Executive Officer<br>(Principal Executive Officer) |
| May 9, 2024 | */s/ Tani Girton* |
| Date | Tani Girton<br>Executive Vice President &<br>Chief Financial Officer<br>(Principal Financial Officer) |
| May 9, 2024 | */s/ David A. Merck* |
| Date | David A. Merck<br>First Vice President & Controller<br>(Principal Accounting Officer) |