

REFINITIV

# DELTA REPORT

## 10-Q

BMRC - BANK OF MARIN BANCORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	1409
CHANGES	298
DELETIONS	570
ADDITIONS	541

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2023** **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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of **October 30, 2023** **April 30, 2024**, there were **16,139,321** **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)	(in thousands, except share data; unaudited)	September 30, 2023	December 31, 2022	(in thousands, except share data; unaudited)	March 31, 2024	December 31, 2023
Assets	Assets			Assets		

Cash, cash equivalents and restricted cash	Cash, cash equivalents and restricted cash	\$ 123,132	\$ 45,424
Investment securities:	Investment securities:		
Held-to-maturity, at amortized cost (net of zero allowance for credit losses at September 30, 2023 and December 31, 2022)		935,142	972,207
Available-for-sale, at fair value (net of zero allowance for credit losses at September 30, 2023 and December 31, 2022)		658,815	802,096

Investment securities:	
Investment securities:	
Held-to-maturity, at amortized cost (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023)	
Held-to-maturity, at amortized cost (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023)	
Held-to-maturity, at amortized cost (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023)	
Available-for-sale, at fair value (net of zero allowance for credit losses at March 31, 2024 and December 31, 2023)	

Total investment securities	Total investment securities	1,593,957	1,774,303
Loans, at amortized cost	Loans, at amortized cost	2,086,942	2,092,546
Allowance for credit losses on loans	Allowance for credit losses on loans	(24,260)	(22,983)
Loans, net of allowance for credit losses on loans	Loans, net of allowance for credit losses on loans	2,062,682	2,069,563
Goodwill	Goodwill	72,754	72,754
Bank-owned life insurance	Bank-owned life insurance	67,738	67,066
Operating lease right-of-use assets	Operating lease right-of-use assets	21,589	24,821
Bank premises and equipment, net	Bank premises and equipment, net	8,174	8,134
Core deposit intangible, net	Core deposit intangible, net	4,096	5,116
Other real estate owned		—	455

Interest receivable and other assets	
Interest receivable and other assets	

Interest receivable and other assets	Interest receivable and other assets	81,427	79,828
<b>Total assets</b>	<b>Total assets</b>	<b>\$4,035,549</b>	<b>\$4,147,464</b>

<b>Liabilities and Stockholders' Equity</b>	<b>Liabilities and Stockholders' Equity</b>	<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities</b>	<b>Liabilities</b>	<b>Liabilities</b>	
Deposits:	Deposits:	Deposits:	
Non-interest bearing	Non-interest bearing	\$1,642,244	\$1,839,114
Interest bearing			
Interest bearing:			
Transaction accounts			
Transaction accounts			
Transaction accounts	Transaction accounts	221,128	287,651

Savings accounts	Savings accounts	257,754	338,163
Money market accounts	Money market accounts	1,090,181	989,390
Time accounts	Time accounts	232,377	119,030
Total deposits	Total deposits	3,443,684	3,573,348
Short-term borrowings and other obligations		120,335	112,439
Borrowings and other obligations			
Operating lease liabilities			
Operating lease liabilities			
Operating lease liabilities	Operating lease liabilities	24,040	26,639
Interest payable and other liabilities	Interest payable and other liabilities	28,872	22,946
Total liabilities	Total liabilities	3,616,931	3,735,372
Commitments and contingent liabilities (Note 8)	Commitments and contingent liabilities (Note 8)		
Stockholders' Equity	Stockholders' Equity		
Preferred stock, no par value, Authorized - 5,000,000 shares, none issued	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 - 16,139,321 and 16,029,138 at September 30, 2023 and December 31, 2022, respectively		217,202	215,057
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			
Retained earnings	Retained earnings	277,996	270,781
Accumulated other comprehensive loss, net of taxes	Accumulated other comprehensive loss, net of taxes	(76,580)	(73,746)
Total stockholders' equity	Total stockholders' equity	418,618	412,092
Total liabilities and stockholders' equity	Total liabilities and stockholders' equity	\$4,035,549	\$4,147,464

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

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		BANK OF MARIN BANCORP	
		CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME	
		Three months ended	Nine months ended
BANK OF MARIN BANCORP			
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME			

BANK OF MARIN BANCORP						
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME						
BANK OF MARIN BANCORP						
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME						
Three months ended						
(in thousands, except per share amounts; unaudited)						
(in thousands, except per share amounts; unaudited)						
(in thousands, except per share amounts; unaudited)	(in thousands, except per share amounts; unaudited)	September 30, 2023	June 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest income	Interest income					
Interest income						
Interest income						
Interest and fees on loans						
Interest and fees on loans						
Interest and fees on loans	Interest and fees on loans	\$ 24,704	\$24,579	\$ 23,357	\$ 73,541	\$ 70,368
Interest on investment securities	Interest on investment securities	9,345	9,994	9,674	29,371	24,640
Interest on investment securities						
Interest on investment securities						
Interest on federal funds sold and due from banks						
Interest on federal funds sold and due from banks						
Interest on federal funds sold and due from banks	Interest on federal funds sold and due from banks	1,055	48	546	1,159	832
Total interest income	Total interest income	35,104	34,621	33,577	104,071	95,840
Total interest income						
Total interest income						
Interest expense						
Interest expense						
Interest on interest-bearing transaction accounts	Interest on interest-bearing transaction accounts	270	234	121	758	230
Interest on interest-bearing transaction accounts						
Interest on interest-bearing transaction accounts						
Interest on savings accounts						
Interest on savings accounts						
Interest on savings accounts	Interest on savings accounts	229	146	32	545	93
Interest on money market accounts	Interest on money market accounts	5,988	4,292	268	11,365	1,184
Interest on money market accounts						
Interest on money market accounts						

Interest on time accounts	Interest on time accounts	1,555	946	128	2,724	209
Interest on time accounts						
Interest on time accounts						
Interest on borrowings and other obligations						
Interest on borrowings and other obligations						
Interest on borrowings and other obligations	Interest on borrowings and other obligations	2,593	4,873	1	10,182	2
Total interest expense	Total interest expense	10,635	10,491	550	25,574	1,718
Total interest expense						
Total interest expense						
Net interest income	Net interest income	24,469	24,130	33,027	78,497	94,122
Provision for (reversal of) credit losses on loans		425	500	422	1,275	(63)
Net interest income						
Net interest income						
Provision for credit losses on loans						
Provision for credit losses on loans						
Provision for credit losses on loans						
Reversal of credit losses on unfunded loan commitments						
Reversal of credit losses on unfunded loan commitments						
Reversal of credit losses on unfunded loan commitments	Reversal of credit losses on unfunded loan commitments	—	(168)	—	(342)	(318)
Net interest income after provision for (reversal of) credit losses	Net interest income after provision for (reversal of) credit losses	24,044	23,798	32,605	77,564	94,503
Net interest income after provision for (reversal of) credit losses						
Net interest income after provision for (reversal of) credit losses						
Non-interest income	Non-interest income					
Wealth Management and Trust Services		515	559	507	1,585	1,737
Non-interest income						
Non-interest income						
Wealth management and trust services						
Wealth management and trust services						
Wealth management and trust services						
Service charges on deposit accounts	Service charges on deposit accounts	508	520	535	1,561	1,488
Service charges on deposit accounts						
Service charges on deposit accounts						

Earnings on bank-owned life insurance, net						
Earnings on bank-owned life insurance, net						
Earnings on bank-owned life insurance, net						
Debit card interchange fees, net	Debit card interchange fees, net	456	555	502	1,458	1,538
Earnings on bank-owned life insurance, net		371	362	222	1,438	933
Debit card interchange fees, net						
Debit card interchange fees, net						
Dividends on Federal Home Loan Bank stock						
Dividends on Federal Home Loan Bank stock						
Dividends on Federal Home Loan Bank stock	Dividends on Federal Home Loan Bank stock	324	290	251	916	759
Merchant interchange fees, net	Merchant interchange fees, net	117	127	141	377	430
Gains (losses) on sale of investment securities, net		14	—	(63)	14	(63)
Merchant interchange fees, net						
Merchant interchange fees, net						
Losses on sale of investment securities, net of gains						
Losses on sale of investment securities, net of gains						
Losses on sale of investment securities, net of gains						
Other income						
Other income						
Other income	Other income	293	326	628	923	1,496
Total non-interest income	Total non-interest income	2,598	2,739	2,723	8,272	8,318
Total non-interest income						
Total non-interest income						
Non-interest expense						
Non-interest expense						
Non-interest expense	Non-interest expense					
Salaries and related benefits	Salaries and related benefits	10,741	11,416	10,557	33,087	32,446
Salaries and related benefits						
Salaries and related benefits						
Occupancy and equipment	Occupancy and equipment	1,973	1,980	1,941	6,367	5,739
Occupancy and equipment						
Occupancy and equipment						
Professional services						
Professional services						



Professional services						
Data processing	Data processing	1,009	922	1,093	2,976	3,569
Professional services		757	797	736	2,677	2,314
Depreciation and amortization		423	400	414	1,705	1,259
Data processing						
Data processing						
Deposit network fees						
Deposit network fees						
Deposit network fees						
Federal Deposit Insurance Corporation insurance						
Federal Deposit Insurance Corporation insurance						
Federal Deposit Insurance Corporation insurance	Federal Deposit Insurance Corporation insurance	469	666	300	1,424	886
Information technology	Information technology	411	357	573	1,138	1,519
Information technology						
Information technology						
Depreciation and amortization						
Depreciation and amortization						
Depreciation and amortization						
Directors' expense						
Directors' expense						
Directors' expense						
Amortization of core deposit intangible	Amortization of core deposit intangible	335	340	370	1,020	1,124
Directors' expense		272	300	233	893	838
Charitable contributions		20	638	49	707	605
Amortization of core deposit intangible						
Amortization of core deposit intangible						
Other real estate owned						
Other real estate owned						
Other real estate owned	Other real estate owned	—	44	350	48	355
Other expense	Other expense	3,337	2,805	2,062	8,150	6,305
Other expense						
Other expense						
Total non-interest expense						
Total non-interest expense						
Total non-interest expense	Total non-interest expense	19,747	20,665	18,678	60,192	56,959
Income before provision for income taxes	Income before provision for income taxes	6,895	5,872	16,650	25,644	45,862
Income before provision for income taxes						

Income before provision for income taxes							
Provision for income taxes							
Provision for income taxes							
Provision for income taxes	Provision for income taxes	1,600	1,321	4,476	6,359	12,157	
Net income	Net income	\$ 5,295	\$ 4,551	\$ 12,174	\$ 19,285	\$ 33,705	
Net income							
Net income							
Net income per common share:							
Net income per common share:							
Net income per common share:	Net income per common share:						
Basic	Basic	\$ 0.33	\$ 0.28	\$ 0.76	\$ 1.21	\$ 2.12	
Basic							
Basic							
Diluted							
Diluted							
Diluted	Diluted	\$ 0.33	\$ 0.28	\$ 0.76	\$ 1.20	\$ 2.11	
Weighted average shares:	Weighted average shares:						
Weighted average shares:							
Weighted average shares:							
Basic							
Basic							
Basic	Basic	16,028	16,009	15,939	16,002	15,912	
Diluted	Diluted	16,036	16,016	15,974	16,017	15,959	
Comprehensive (loss) income:							
Diluted							
Diluted							
Comprehensive income:							
Comprehensive income:							
Comprehensive income:							
Net income							
Net income							
Net income	Net income	\$ 5,295	\$ 4,551	\$ 12,174	\$ 19,285	\$ 33,705	
Other comprehensive (loss) income:	Other comprehensive (loss) income:						
Other comprehensive (loss) income:							
Other comprehensive (loss) income:							
Change in net unrealized gains or losses on available-for-sale securities	Change in net unrealized gains or losses on available-for-sale securities	(13,792)	(10,928)	(31,816)	(8,507)	(97,094)	
Reclassification adjustment for losses (gains) on available-for-sale securities included in net income							
		2,793	—	63	2,793	63	
Reclassification adjustment for gains or losses for fair value hedge							
		367	—	—	367	—	

Net unrealized losses on securities transferred from available-for-sale to held-to-maturity						
		—	—	—	—	(14,847)
Change in net unrealized gains or losses on available-for-sale securities						
Change in net unrealized gains or losses on available-for-sale securities						
Reclassification adjustment for realized losses on available-for-sale securities in net income						
Reclassification adjustment for realized losses on available-for-sale securities in net income						
Reclassification adjustment for realized losses on available-for-sale securities in net income						
Reclassification adjustment for gains or losses on fair value hedges						
Reclassification adjustment for gains or losses on fair value hedges						
Reclassification adjustment for gains or losses on fair value hedges						
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity						
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity						
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	411	451	510	1,325	1,126
Other comprehensive (loss) income, before tax	Other comprehensive (loss) income, before tax	(10,221)	(10,477)	(31,243)	(4,022)	(110,752)
Other comprehensive (loss) income, before tax						
Other comprehensive (loss) income, before tax						
Deferred tax (benefit) expense						
Deferred tax (benefit) expense						
Deferred tax (benefit) expense	Deferred tax (benefit) expense	(3,021)	(3,097)	(9,236)	(1,188)	(32,741)
Other comprehensive (loss) income, net of tax	Other comprehensive (loss) income, net of tax	(7,200)	(7,380)	(22,007)	(2,834)	(78,011)
Total comprehensive (loss) income						
		\$ (1,905)	\$ (2,829)	\$ (9,833)	\$ 16,451	\$ (44,306)

Other comprehensive (loss) income, net of tax
Other comprehensive (loss) income, net of tax
<b>Total comprehensive income</b>
<b>Total comprehensive income</b>
<b>Total comprehensive income</b>

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

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<p align="center"><b>BANK OF MARIN BANCORP</b>  <b>CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY</b>  For the three months ended <b>September 30, 2023</b>, <b>March 31, 2024</b> and <b>2022</b> <b>2023</b></p>
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(in thousands, except share data; unaudited)	(in thousands, except share data; unaudited)	Accumulated					(in thousands, except share data; unaudited)	Accumulated Other					
		Common Stock		Other				Common Stock		Comprehensive (Loss)			
				Comprehensive						Income, (Loss)			
		Retained Earnings	Net of Taxes	Total	Retained Earnings	Net of Taxes		Total					
Three months ended September 30, 2023													
Balance at July 1, 2023	16,107,192	\$216,589	\$276,732	\$	(69,380)	\$423,941							
Three months ended March 31, 2024							Three months ended March 31, 2024						
Balance at January 1, 2024													
Net income	Net income	—	—	5,295	—	5,295							
Other comprehensive loss, net of tax	Other comprehensive loss, net of tax	—	—	—	(7,200)	(7,200)							
Stock issued under employee stock purchase plan	Stock issued under employee stock purchase plan	879	15	—	—	15							
Stock issued under employee stock purchase plan													
Stock issued under employee stock purchase plan													
Stock issued under employee stock ownership plan	Stock issued under employee stock ownership plan	5,800	120	—	—	120							
Restricted stock granted	Restricted stock granted	12,550	—	—	—	—							
Restricted stock surrendered for tax withholdings upon vesting													

Restricted stock forfeited / cancelled	Restricted stock forfeited / cancelled	(850)	—	—	—	—
Stock-based compensation - stock options	Stock-based compensation - stock options	—	21	—	—	21
Stock-based compensation - restricted stock	Stock-based compensation - restricted stock	—	209	—	—	209
Cash dividends paid on common stock (\$0.25 per share)	Cash dividends paid on common stock (\$0.25 per share)	—	—	(4,031)	—	(4,031)
Stock issued in payment of director fees	Stock issued in payment of director fees	13,750	248	—	—	248
Stock issued in payment of director fees						
Stock issued in payment of director fees						
Balance at September 30, 2023		16,139,321	\$217,202	\$277,996	\$ (76,580)	\$418,618
Balance at March 31, 2024						
Three months ended September 30, 2022						
Balance at July 1, 2022		16,009,600	\$213,864	\$253,737	\$ (58,028)	\$409,573
Balance at March 31, 2024						
Balance at March 31, 2024						
Three months ended March 31, 2023						
Balance at January 1, 2023						
Net income	Net income	—	—	12,174	—	12,174
Other comprehensive loss, net of tax		—	—	—	(22,007)	(22,007)
Other comprehensive income, net of tax						
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings						
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings						
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	363	—	—	—	—

Stock issued under employee stock purchase plan	Stock issued under employee stock purchase plan	574	16	—	—	16
Stock issued under employee stock ownership plan	Stock issued under employee stock ownership plan	13,000	404	—	—	404
Restricted stock granted	Restricted stock surrendered for tax withholdings upon vesting					
Stock-based compensation - stock options	Stock-based compensation - stock options					
Stock-based compensation - stock options	Stock-based compensation - stock options	—	106	—	—	106
Stock-based compensation - restricted stock	Stock-based compensation - restricted stock	—	151	—	—	151
Cash dividends paid on common stock (\$0.25 per share)	Cash dividends paid on common stock (\$0.25 per share)	—	—	(4,004)	—	(4,004)
Stock purchased by directors under director stock plan	Stock purchased by directors under director stock plan	515	16	—	—	16
Stock issued in payment of director fees	Stock issued in payment of director fees					
Stock issued in payment of director fees	Stock issued in payment of director fees					
Stock issued in payment of director fees	Stock issued in payment of director fees	4,996	163	—	—	163
Balance at September 30, 2022		16,029,048	\$214,720	\$261,907	\$ (80,035)	\$396,592
Balance at March 31, 2023						
Balance at March 31, 2023						
Balance at March 31, 2023						

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 nine months ended September 30, 2023 and 2022					
	Common Stock		Accumulated Other Comprehensive (Loss)		
	Shares	Amount	Retained Earnings	Income, Net of Taxes	Total
(in thousands, except share data; unaudited)					
	Nine months ended September 30, 2023				
Balance at January 1, 2023	16,029,138	\$ 215,057	\$ 270,781	\$ (73,746)	412,092

Net income	—	—	19,285	—	19,285
Other comprehensive loss, net of tax	—	—	—	(2,834)	(2,834)
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	11,530	230	—	—	230
Stock issued under employee stock purchase plan	2,035	36	—	—	36
Stock issued under employee stock ownership plan	39,800	967	—	—	967
Restricted stock granted	61,978	—	—	—	—
Restricted stock surrendered for tax withholdings upon vesting	(2,498)	(70)	—	—	(70)
Restricted stock forfeited / cancelled	(21,024)	—	—	—	—
Stock-based compensation - stock options	—	159	—	—	159
Stock-based compensation - restricted stock	—	425	—	—	425
Cash dividends paid on common stock (\$0.75 per share)	—	—	(12,070)	—	(12,070)
Stock issued in payment of director fees	18,362	398	—	—	398
Balance at September 30, 2023	16,139,321 \$	217,202 \$	277,996 \$	(76,580) \$	418,618
Nine months ended September 30, 2022					
Balance at January 1, 2022	15,929,243 \$	212,524 \$	239,868 \$	(2,024) \$	450,368
Net income	—	—	33,705	—	33,705
Other comprehensive loss, net of tax	—	—	—	(78,011)	(78,011)
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	40,674	821	—	—	821
Stock issued under employee stock purchase plan	1,510	46	—	—	46
Stock issued under employee stock ownership plan	38,000	1,233	—	—	1,233
Restricted stock granted	46,672	—	—	—	—
Restricted stock surrendered for tax withholdings upon vesting	(1,169)	(40)	—	—	(40)
Restricted stock forfeited / cancelled	(13,267)	—	—	—	—
Stock-based compensation - stock options	—	221	—	—	221
Stock-based compensation - restricted stock	—	421	—	—	421
Cash dividends paid on common stock (\$0.73 per share)	—	—	(11,666)	—	(11,666)
Stock purchased by directors under director stock plan	515	16	—	—	16
Stock issued in payment of director fees	10,145	355	—	—	355
Stock repurchased, including commissions	(23,275)	(877)	—	—	(877)
Balance at September 30, 2022	16,029,048 \$	214,720 \$	261,907 \$	(80,035) \$	396,592
The accompanying notes are an integral part of these consolidated financial statements (unaudited).					

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BANK OF MARIN BANCORP					
CONSOLIDATED STATEMENTS OF CASH FLOWS					
For the nine three months ended September 30, 2023 March 31, 2024 and 2022 2023					
(in thousands; unaudited)	(in thousands; unaudited)	2023	2022	(in thousands; unaudited)	2024 2023
<b>Cash Flows from Operating Activities:</b>	<b>Cash Flows from Operating Activities:</b>	<b>Cash Flows from Operating Activities:</b>			
Net income	Net income	\$ 19,285	\$ 33,705		
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:				

Provision for (reversal of) credit losses on loans	1,275	(63)
Provision for credit losses on loans		
Provision for credit losses on loans		
Provision for credit losses on loans		
Reversal of credit losses on unfunded loan commitments	Reversal of credit losses on unfunded loan commitments	(342) (318)
Noncash contribution expense to employee stock ownership plan		
Noncash contribution expense to employee stock ownership plan		
Noncash contribution expense to employee stock ownership plan	Noncash contribution expense to employee stock ownership plan	967 1,233
Noncash director compensation expense	Noncash director compensation expense	398 355
Stock-based compensation expense	Stock-based compensation expense	584 642
Amortization of core deposit intangible	Amortization of core deposit intangible	1,020 1,124
Amortization of investment security premiums, net of accretion of discounts	Amortization of investment security premiums, net of accretion of discounts	5,529 7,139
(Accretion of discounts) amortization of premiums on acquired loans, net		(461) 143
Accretion of discounts on acquired loans, net		
Net change in deferred loan origination costs/fees	Net change in deferred loan origination costs/fees	(800) (2,484)
Write-down of other real estate owned		40 345
(Gains) losses on sale of investment securities, net		(14) 63
Net change in deferred loan origination costs/fees		
Net change in deferred loan origination costs/fees		
Depreciation and amortization	Depreciation and amortization	1,705 1,259
Depreciation and amortization		
Depreciation and amortization		
Loss on disposal of premises and equipment		



Earnings on bank-owned life insurance policies	Earnings on bank-owned life insurance policies	(1,438)	(933)
Earnings on bank-owned life insurance policies			
Earnings on bank-owned life insurance policies			
Net changes in interest receivable and other assets			
Net changes in interest receivable and other assets			
Net changes in interest receivable and other assets	Net changes in interest receivable and other assets	196	2,230
Net changes in interest payable and other liabilities	Net changes in interest payable and other liabilities	6,928	(5,489)
Total adjustments	Total adjustments	15,587	5,246
Net cash provided by operating activities	Net cash provided by operating activities	34,872	38,951
<b>Cash Flows from Investing Activities:</b>			
<b>Cash Flows from Investing Activities:</b>			
<b>Cash Flows from Investing Activities:</b>			
Purchase of held-to-maturity securities		—	(293,720)
Purchase of available-for-sale securities		—	(243,459)
Proceeds from sale of available-for-sale securities		79,840	10,664
Proceeds from paydowns/maturities of held-to-maturity securities			
Proceeds from paydowns/maturities of held-to-maturity securities			
Proceeds from paydowns/maturities of held-to-maturity securities	Proceeds from paydowns/maturities of held-to-maturity securities	37,046	33,198
Proceeds from paydowns/maturities of available-for-sale securities	Proceeds from paydowns/maturities of available-for-sale securities	50,749	112,793
Proceeds from sale of Visa Inc. Class B restricted common stock		2,807	—
Decrease in loans receivable, net		6,634	97,935
Proceeds from bank-owned life insurance policies		766	350
Increase (decrease) in loans receivable, net			
Increase (decrease) in loans receivable, net			
Increase (decrease) in loans receivable, net			
Purchase of bank-owned life insurance policies			
Purchase of premises and equipment	Purchase of premises and equipment	(1,737)	(762)
Proceeds from sale of other real estate owned		420	—

Purchase of premises and equipment			
Purchase of premises and equipment			
Cash paid for low income housing tax credit investment	Cash paid for low income housing tax credit investment	(39)	(30)
Net cash provided by (used in) investing activities		176,486	(283,031)
Cash paid for low income housing tax credit investment			
Cash paid for low income housing tax credit investment			
Net cash provided by investing activities			
Cash Flows from Financing Activities:			
Cash Flows from Financing Activities:			
Cash Flows from Financing Activities:			
Net (decrease) increase in deposits		(129,664)	94,160
Proceeds from short-term borrowings, net		8,000	—
Net decrease in deposits (Repayment of) proceeds from short-term borrowings, net			
Repayment of finance lease obligations	Repayment of finance lease obligations	(112)	(96)
Proceeds from stock options exercised	Proceeds from stock options exercised	230	821
Restricted stock surrendered for tax withholdings upon vesting	Restricted stock surrendered for tax withholdings upon vesting	(70)	(40)
Cash dividends paid on common stock	Cash dividends paid on common stock	(12,070)	(11,666)
Stock repurchased, including commissions		—	(1,250)
Proceeds from stock issued under employee and director stock purchase plans			
Proceeds from stock issued under employee and director stock purchase plans			
Proceeds from stock issued under employee and director stock purchase plans	Proceeds from stock issued under employee and director stock purchase plans	36	62
Net cash (used in) provided by financing activities		(133,650)	81,991
Net cash used in financing activities			
Net cash used in financing activities			
Net cash used in financing activities			
Net increase (decrease) in cash, cash equivalents and restricted cash	Net increase (decrease) in cash, cash equivalents and restricted cash	77,708	(162,089)
Cash, cash equivalents and restricted cash at beginning of period	Cash, cash equivalents and restricted cash at beginning of period	45,424	347,641

Cash, cash equivalents and restricted cash at end of period	Cash, cash equivalents and restricted cash at end of period	\$ 123,132	185,552
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<b>Supplemental disclosure of cash flow information:</b>	<b>Supplemental disclosure of cash flow information:</b>
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Cash paid in interest	\$ 23,036	\$ 1,716
Cash paid in income taxes	\$ —	\$ 11,075

Interest paid on deposits and borrowings	
Interest paid on deposits and borrowings	
Interest paid on deposits and borrowings	
Income taxes paid, net of refunds	

<b>Supplemental disclosure of noncash investing and financing activities:</b>	<b>Supplemental disclosure of noncash investing and financing activities:</b>
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Change in net unrealized gains or losses on available-for-sale securities	Change in net unrealized gains or losses on available-for-sale securities	\$ (8,140)	\$ (97,094)
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Change in net unrealized gains or losses on available-for-sale securities	
Change in net unrealized gains or losses on available-for-sale securities	

Securities transferred from available-for-sale to held-to-maturity, at fair value	\$ —	\$ 357,482
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Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity	
--	--

Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity	
--	--

Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity	Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity	\$ 1,325	\$ 1,126
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Bank-owned life insurance benefit receivable	
Bank-owned life insurance benefit receivable	
Bank-owned life insurance benefit receivable	

Stock issued to employee stock ownership plan	\$ 967	\$ 1,233
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<b>Restricted cash:</b>	<b>Restricted cash:</b>	\$ —	\$ 2,996
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<b>Restricted cash:</b>	<b>Restricted cash:</b>
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1 Restricted cash includes reserve requirements held with the Federal Reserve Bank of San Francisco and other cash pledged. In response to the COVID-19 pandemic, 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 2022 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.

Attributed earnings. Under the two class method, the difference in L.P. is nominal for these participating countries.					
		Three months ended		Nine months ended	
		Three months ended		Three months ended	
		Three months ended		Three months ended	
		Three months ended		Three months ended	
(in thousands, except per share data)					
(in thousands, except per share data)					
(in thousands, except per share data)	(in thousands, except per share data)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Weighted average basic common shares outstanding	Weighted average basic common shares outstanding	16,028	15,939	16,002	15,912
Weighted average basic common shares outstanding					
Weighted average basic common shares outstanding					
Potentially dilutive common shares related to:					
Potentially dilutive common shares related to:					
Potentially dilutive common shares related to:	Potentially dilutive common shares related to:				
Stock options	Stock options	—	22	5	33
Stock options					
Stock options					
Unvested restricted stock awards					
Unvested restricted stock awards					
Unvested restricted stock awards	Unvested restricted stock awards	8	13	10	14
Weighted average diluted common shares outstanding	Weighted average diluted common shares outstanding	16,036	15,974	16,017	15,959
Weighted average diluted common shares outstanding					

Weighted average diluted common shares outstanding									
Net income									
Net income									
Net income	Net income	\$	5,295	\$	12,174	\$	19,285	\$	33,705
Basic EPS	Basic EPS	\$	0.33	\$	0.76	\$	1.21	\$	2.12
Basic EPS									
Basic EPS									
Diluted EPS									
Diluted EPS									
Diluted EPS	Diluted EPS	\$	0.33	\$	0.76	\$	1.20	\$	2.11
Weighted average anti-dilutive common shares not included in the calculation of diluted EPS	Weighted average anti-dilutive common shares not included in the calculation of diluted EPS		362		237		368		213
Weighted average anti-dilutive common shares not included in the calculation of diluted EPS									
Weighted average anti-dilutive common shares not included in the calculation of diluted EPS									

## Note 2: Recently Adopted and Issued Accounting Standards

### Accounting Standards Adopted in 2023 2024

In March 2022, the FASB issued ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendment eliminated the recognition measurement guidance for troubled debt restructured ("TDR") loans and instead enhanced disclosure requirements for certain loan modifications when a borrower is experiencing financial difficulty. In addition, the amendment required that an entity include in its vintage disclosures the current period gross loan charge-offs by year of origination. We early adopted the current period charge-off disclosures in the first quarter of 2022. We adopted the loan modification provisions as

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of January 1, 2023 using a modified retrospective method. The cumulative-effect adjustment to retained earnings was considered immaterial. Refer to Note 5, Loans and Allowance for Credit Losses on Loans, for additional information.

In March 2022, the FASB issued ASU No. 2022-01, *Derivatives and Hedging (Topic 815): Fair Value Hedging - Portfolio Layer Method*. Among other things, the ASU renamed the "last-of-layer" method to the "portfolio layer" method and made fair value hedging more accessible for hedge accounting of interest rate risk for portfolios and financial assets. For example, the guidance permits an entity to apply the same portfolio hedging method to both prepayable and non-prepayable financial assets, thereby providing for consistency between accounting for similar hedges. We adopted the amendments on January 1, 2023, which had no effect on our existing hedge accounting, disclosures, financial condition or results of operations.

In March 2020, the FASB issued Accounting Standards Update ("ASU") No. 2020-04, *Reference Rate Reform (Topic 848)*. The amendments in this ASU are elective and provide optional guidance for a limited period of time to ease the potential burden of accounting for, or recognizing the effects of reference rate reform. The amendments in this ASU provide optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. Topic 848 was further amended in January 2021 with ASU No. 2021-01, which provided additional guidance on certain optional expedients and scope of derivative instruments, and in December 2022 with ASU 2022-06, which extended the sunset date of Topic 848 to December 31, 2024 given the UK Financial Conduct Authority ("FCA") March 2021 announcement that the intended cessation date of certain tenors of USD LIBOR would be June 30, 2023. An entity may elect the amendments in these updates at an interim period with adoption methods varying based on transaction type. As of September 30, 2023, we had four interest rate swap contracts with notional values totaling \$11.3 million that were indexed to LIBOR, which transitioned to the Secured Overnight Financing Rate ("SOFR") effective July 1, 2023. The transition to SOFR did not have a material impact to either our financial condition or results of operations.

### Accounting Standards Not Yet Effective

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 introduces introduced new disclosure requirements. The amendments are were effective prospectively for years beginning after December 15, 2023. Early adoption is permitted for both interim and annual financial statements.

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December 15, 2023. As discussed in Note 4, Investment Securities, on July 13, 2023 in 2023 we sold our remaining shares of Visa Inc. Class B restricted common stock. As a result of the sale, this update will not 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 are were effective for years beginning after December 15, 2023, and may be adopted either prospectively or retrospectively. Early adoption is permitted for both interim and annual financial statements. We currently do not have common control lease arrangements, and therefore do not anticipate that the adoption of the amendments will had no impact on our financial condition, and results of operations, 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,

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when certain conditions are met. The amendments are 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 do not anticipate that 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 impact have on our financial condition 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 results 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 operations, 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.

		Quoted Prices in Active Markets for Identical Assets				Significant Other Inputs Unobservable Inputs Measurement Categories: Changes in Fair Value									
(in thousands)	(in thousands)	Carrying Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)	Recorded In:	(in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measurement Categories: Changes in Fair Value Recorded In:			
Description of Financial Instruments	Description of Financial Instruments						Description of Financial Instruments								
<b>September 30, 2023</b>															
<b>March 31, 2024</b>															
Securities available-for-sale:	Securities available-for-sale:														
Securities available-for-sale:															
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies															
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies															

Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	\$384,933	\$ —	\$ 384,933	\$ —	OCI	\$ 340,908	\$ —	\$ 340,908	\$ —	OCI	OCI	
SBA-backed securities	SBA-backed securities	\$ 28,223	\$ —	\$ 28,223	\$ —	OCI	SBA-backed securities	\$17,148	\$ —	\$ 17,148	\$ —	OCI	OCI
Debentures of government sponsored agencies	Debentures of government sponsored agencies	\$117,166	\$ —	\$ 117,166	\$ —	OCI	Debentures of government sponsored agencies	\$66,688	\$ —	\$ 66,688	\$ —	OCI	OCI
U.S. Treasury securities	U.S. Treasury securities	\$10,215	\$ —	\$ 10,215	\$ —	OCI	U.S. Treasury securities	\$10,534	\$ 10,534	\$ —	\$ —	OCI	OCI
Obligations of state and political subdivisions	Obligations of state and political subdivisions	\$ 83,722	\$ —	\$ 83,722	\$ —	OCI							
Obligations of state and political subdivisions	Obligations of state and political subdivisions							\$90,343	\$ —	\$ 90,343	\$ —	OCI	
Corporate bonds	Corporate bonds	\$ 34,556	\$ —	\$ 34,556	\$ —	OCI	Corporate bonds	\$10,744	\$ —	\$ 10,744	\$ —	OCI	OCI
Derivative financial assets (interest rate contracts - loans)	Derivative financial assets (interest rate contracts - loans)	\$ 854	\$ —	\$ 854	\$ —	NI							
Derivative financial assets (interest rate contracts - AFS securities)	Derivative financial assets (interest rate contracts - AFS securities)	\$ 367	\$ —	\$ 367	\$ —	NI							
<b>December 31, 2022</b>													
Derivative financial assets (interest rate contracts)	Derivative financial assets (interest rate contracts)												
Derivative financial assets (interest rate contracts)	Derivative financial assets (interest rate contracts)												
Derivative financial assets (interest rate contracts)	Derivative financial assets (interest rate contracts)						\$ 400	\$ —	\$ 400	\$ —		NI	
Derivative financial liabilities (interest rate contracts)	Derivative financial liabilities (interest rate contracts)						\$ 142	\$ —	\$ 142	\$ —		NI	
<b>December 31, 2023</b>													
Securities available-for-sale:	Securities available-for-sale:												
Securities available-for-sale:	Securities available-for-sale:												



Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies													
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies													
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	\$ 475,505	\$ —	\$ 475,505	\$ —	OCI	\$ 352,472	\$ —	\$ 352,472	\$ —	OCI	OCI	
SBA-backed securities	SBA-backed securities	\$ 44,355	\$ —	\$ 44,355	\$ —	OCI	SBA-backed securities	\$ 19,471	\$ —	\$ 19,471	\$ —	OCI	OCI
Debentures of government sponsored agencies	Debentures of government sponsored agencies	\$ 135,106	\$ —	\$ 135,106	\$ —	OCI	Debentures of government sponsored agencies	\$ 66,862	\$ —	\$ 66,862	\$ —	OCI	OCI
U.S. Treasury securities	U.S. Treasury securities	\$ 10,269	\$ 10,269	\$ —	\$ —	OCI	U.S. Treasury securities	\$ 10,623	\$ 10,623	\$ —	\$ —	OCI	OCI
Obligations of state and political subdivisions	Obligations of state and political subdivisions	\$ 102,123	\$ —	\$ 102,123	\$ —	OCI							
Obligations of state and political subdivisions													
Obligations of state and political subdivisions													
Corporate bonds	Corporate bonds	\$ 33,276	\$ —	\$ 33,276	\$ —	OCI	Corporate bonds	\$ 10,718	\$ —	\$ 10,718	\$ —	OCI	OCI
Asset-backed securities		\$ 1,462	\$ —	\$ 1,462	\$ —	OCI							
Derivative financial assets (interest rate contracts - loans)		\$ 602	\$ —	\$ 602	\$ —	NI							
Derivative financial assets (interest rate contracts)													
Derivative financial assets (interest rate contracts)													
Derivative financial assets (interest rate contracts)													
Derivative financial liabilities (interest rate contracts)													
Derivative financial liabilities (interest rate contracts)													
Derivative financial liabilities (interest rate contracts)													

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 asset-backed securities, 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 September 30, 2023 March 31, 2024 and December 31, 2022 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 nine three months ended September 30, 2023 March 31, 2024 or September 30, 2022 March 31, 2023. Fair value of held-to-maturity securities is determined using the same techniques discussed above for available-for-sale securities.

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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

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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 in 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").

OREO is classified as Level 3 and represents collateral acquired through foreclosure and is initially recorded at fair value as established by a current appraisal of the collateral. Subsequent to foreclosure, OREO is carried at the lower of cost or fair value, less estimated costs to sell. On July 12, 2023, the Bank completed the sale of its only OREO property.

The following table presents the carrying value of assets measured at fair value on a non-recurring basis and that were held in the consolidated statements of condition at each respective period end, by level within the fair value hierarchy as of September 30, 2023 and December 31, 2022.

(in thousands)	Carrying Value	Quoted Prices in Active Markets for		Significant Other Observable Inputs	Significant Unobservable Inputs
		Identical Assets (Level 1)		(Level 2)	(Level 3)
<b><u>September 30, 2023</u></b>					
Other real estate owned	\$ —	\$ —		\$ —	—
<b><u>December 31, 2022</u></b>					
Other real estate owned	\$ 455	\$ —		\$ —	455

(in thousands) Carrying Value Quoted Prices in Active Markets for Identical Assets (Level 1) Significant Other Observable Inputs (Level 2) Significant Unobservable Inputs (Level 3)

Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments as of September 30, 2023 March 31, 2024 and December 31, 2022 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 September 30, 2023 March 31, 2024 and December 31, 2022, and Visa Inc. Class B common stock with no carrying value, as of December 31, 2022, which was sold entirely in July of 2023. December 31, 2023. There were no impairment impairments or changes resulting from observable price changes in

The See further discussion on values are discussed in within Note 4, Investment Securities.

The See further discussion on values are discussed in within Note 4, Investment Securities.																		
		September 30, 2023			December 31, 2022				March 31, 2024				December 31, 2023					
		Carrying	Fair		Carrying	Fair			Fair Value				Fair Value					
(in thousands)	(in thousands)	Amounts	Value	Hierarchy	Amounts	Value	Hierarchy	(in thousands)	Carrying	Amounts	Fair Value	Hierarchy	Carrying	Amounts	Fair Value	Hierarchy		
Financial assets (recorded at amortized cost):																		
Financial assets (recorded at amortized cost)																		
Cash and cash equivalents																		
Cash and cash equivalents																		
Cash and cash equivalents	Cash and cash equivalents	\$ 123,132	\$ 123,132	Level 1	\$ 45,424	\$ 45,424	Level 1	\$ 36,308	\$ 36,308	Level 1	1	\$ 30,453	\$ 30,453	Level 1	1			
Investment securities held-to-maturity	Investment securities held-to-maturity	935,142	783,216	Level 2	972,207	845,239	Level 2	915,068	795,909	795,909	Level 2	2	925,198	814,830	814,830	Level 2	2	
Loans, net of allowance for credit losses	Loans, net of allowance for credit losses	2,062,682	1,949,647	Level 3	2,069,563	1,993,866	Level 3	2,029,462	1,913,418	Level 3	2	2,048,548	1,939,702	Level 3	2			
Interest receivable	Interest receivable	11,714	11,714	Level 2	13,069	13,069	Level 2	11,678	11,678	11,678	Level 2	2	12,752	12,752	12,752	Level 2	2	
Financial liabilities (recorded at amortized cost):																		
Financial liabilities (recorded at amortized cost)																		
Time deposits	Time deposits	232,377	233,757	Level 2	119,030	118,333	Level 2											
Federal Home Loan Bank short-term borrowings	Federal Home Loan Bank short-term borrowings	—	—	Level 2	112,000	112,000	Level 2											
Federal Reserve Bank - Bank Term Funding Program ("BTFP")	Federal Reserve Bank - Bank Term Funding Program ("BTFP")	120,000	119,882	Level 2	—	—	Level 2											
Time deposits																		
Time deposits																		
FRBSF short-term borrowings under the BTFP																		
FRBSF short-term borrowings under the BTFP																		
FRBSF short-term borrowings under the BTFP																		

Interest payable	Interest payable	1,643	1,643	Level 2	75	75	Level 2
Interest payable							
Interest payable					3,130	3,130	Level 2
						2,752	2,752
							Level 2

Fair 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

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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.

Fair 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.

Due to the short-term nature of the FHLB borrowings outstanding as of December 31, 2022, the carrying value approximated fair value.

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The fair value of the borrowings under the BTFP is estimated by discounting the contractual cash flow using the program's period end financing rate.

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 September 30, 2023 March 31, 2024 or December 31, 2022 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 is presented below.

Held-to-maturity:		Held-to-maturity:		Gross Unrealized		Fair Value
Held-to-maturity:		Amortized Cost 1	Allowance for Credit Losses	Net Carrying Amount		
Held-to-maturity:						
(in thousands)	(in thousands)			Gains	(Losses)	
September 30, 2023		Amortized Cost 1	Allowance for Credit Losses	Net Carrying Amount		Fair Value
(in thousands)						
(in thousands)						
March 31, 2024						
March 31, 2024						
March 31, 2024						
Securities of U.S. government-sponsored enterprises:						
Securities of U.S. government-sponsored enterprises:						
Securities of U.S. government-sponsored enterprises:	Securities of U.S. government-sponsored enterprises:					

MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$	311,595	\$	—	\$	311,595	\$	—	\$	(61,870)	\$	249,725
MBS pass-through securities issued by FHLMC, FNMA and GNMA													
MBS pass-through securities issued by FHLMC, FNMA and GNMA													
CMOs issued by FHLMC													
CMOs issued by FHLMC													
CMOs issued by FHLMC	CMOs issued by FHLMC		228,194		—		228,194		71		(33,448)		194,817
CMOs issued by FNMA	CMOs issued by FNMA		104,031		—		104,031		—		(9,125)		94,906
CMOs issued by FNMA													
CMOs issued by FNMA													
CMOs issued by GNMA													
CMOs issued by GNMA													
CMOs issued by GNMA	CMOs issued by GNMA		51,268		—		51,268		155		(4,816)		46,607
SBA-backed securities	SBA-backed securities		1,853		—		1,853		—		(140)		1,713
SBA-backed securities													
SBA-backed securities													
Debentures of government-sponsored agencies													
Debentures of government-sponsored agencies													
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies		146,050		—		146,050		—		(28,893)		117,157
Obligations of state and political subdivisions	Obligations of state and political subdivisions		62,151		—		62,151		—		(12,066)		50,085
Obligations of state and political subdivisions													
Obligations of state and political subdivisions													
Corporate bonds													
Corporate bonds													
Corporate bonds	Corporate bonds		30,000		—		30,000		—		(1,794)		28,206
Total held-to-maturity	Total held-to-maturity	\$	935,142	\$	—	\$	935,142	\$	226	\$	(152,152)	\$	783,216
December 31, 2022													
Total held-to-maturity													
Total held-to-maturity													
December 31, 2023													
December 31, 2023													
December 31, 2023													
Securities of U.S. government-sponsored enterprises:													

Securities of U.S. government-sponsored enterprises:									
Securities of U.S. government-sponsored enterprises:	Securities of U.S. government-sponsored enterprises:								
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$	331,281	\$	—	\$	331,281	\$	—
								\$	(50,147)
								\$	281,134
MBS pass-through securities issued by FHLMC, FNMA and GNMA									
MBS pass-through securities issued by FHLMC, FNMA and GNMA									
CMOs issued by FHLMC									
CMOs issued by FHLMC									
CMOs issued by FHLMC	CMOs issued by FHLMC		235,971		—		235,971		59
									(29,503)
									206,527
CMOs issued by FNMA	CMOs issued by FNMA		111,904		—				—
							111,904		(5,419)
									106,485
CMOs issued by FNMA									
CMOs issued by FNMA									
CMOs issued by GNMA									
CMOs issued by GNMA									
CMOs issued by GNMA	CMOs issued by GNMA		52,356		—		52,356		11
									(3,076)
									49,291
SBA-backed securities	SBA-backed securities		2,372		—		2,372		—
									(133)
									2,239
SBA-backed securities									
SBA-backed securities									
Debentures of government-sponsored agencies									
Debentures of government-sponsored agencies									
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies		145,823		—		145,823		—
									(26,467)
									119,356
Obligations of state and political subdivisions	Obligations of state and political subdivisions		62,500		—		62,500		—
									(10,741)
									51,759
Obligations of state and political subdivisions									
Obligations of state and political subdivisions									
Corporate bonds									
Corporate bonds									
Corporate bonds	Corporate bonds		30,000		—		30,000		—
									(1,552)
									28,448
Total held-to-maturity	Total held-to-maturity	\$	972,207	\$	—	\$	972,207	\$	70
								\$	(127,038)
								\$	845,239
Amortized cost and fair values exclude accrued interest receivable of \$2.6 million and \$3.7 million at September 30, 2023 and December 31, 2022, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.									
Total held-to-maturity									
Total held-to-maturity									

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.

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Moody's / S&P		Obligations of state and political subdivisions		Corporate bonds	
		Obligations of state and political subdivisions			
		Obligations of state and political subdivisions			
		Obligations of state and political subdivisions			
(in thousands)					
(in thousands)					
(in thousands)	(in thousands)	September 30, 2023	December 31, 2022	September 30, 2023	December 31, 2022
Aaa / AAA	Aaa / AAA	\$ 42,680	\$ 42,986	\$ —	\$ —
Aaa / AAA					
Aaa / AAA					
Aa2 / AA					
Aa2 / AA					
Aa2 / AA	Aa2 / AA	19,471	19,514	—	—
A2 / A	A2 / A	—	—	30,000	30,000
A2 / A					
A2 / A					
Total	Total	\$ 62,151	\$ 62,500	\$ 30,000	\$ 30,000
Total					
Total					

Available-for-sale:	Available-for-sale:	Amortized Cost <sub>1</sub>	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value

(in thousands)	(in thousands)			Gains	(Losses)		(in thousands)			Gains	(Losses)
<b>September 30, 2023</b>											
<b>March 31, 2024</b>											
Securities of U.S. government-sponsored enterprises:	Securities of U.S. government-sponsored enterprises:										
Securities of U.S. government-sponsored enterprises:											
Securities of U.S. government-sponsored enterprises:											
MBS pass-through securities issued by FHLMC, FNMA and GNMA											
MBS pass-through securities issued by FHLMC, FNMA and GNMA											
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$ 84,654	\$ 2	\$(13,263)	\$ —	\$ 71,393					
CMOs issued by FHLMC	CMOs issued by FHLMC	307,119	—	(37,236)	—	269,883					
CMOs issued by FNMA	CMOs issued by FNMA	30,832	—	(4,012)	—	26,820					
CMOs issued by GNMA	CMOs issued by GNMA	20,505	—	(3,668)	—	16,837					
SBA-backed securities	SBA-backed securities	31,389	—	(3,166)	—	28,223					
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies	129,137	—	(11,971)	—	117,166					
U.S. Treasury securities	U.S. Treasury securities	11,918	—	(1,703)	—	10,215					
U.S. Treasury securities											
U.S. Treasury securities											
Obligations of state and political subdivisions	Obligations of state and political subdivisions	102,493	—	(18,771)	—	83,722					
Corporate bonds	Corporate bonds	36,991	—	(2,435)	—	34,556					
Total available-for-sale	Total available-for-sale	\$ 755,038	\$ 2	\$(96,225)	\$ —	\$ 658,815					
<b>December 31, 2022</b>											



Total available-for-sale							
Total available-for-sale							
December 31, 2023							
Securities of U.S. government-sponsored enterprises:	Securities of U.S. government-sponsored enterprises:						
Securities of U.S. government-sponsored enterprises:							
Securities of U.S. government-sponsored enterprises:							
MBS pass-through securities issued by FHLMC, FNMA and GNMA							
MBS pass-through securities issued by FHLMC, FNMA and GNMA							
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$109,736	\$ 3	\$(12,133)	\$ —	\$ 97,606	
CMOs issued by FHLMC	CMOs issued by FHLMC	347,437	—	(33,682)	—	313,755	
CMOs issued by FNMA	CMOs issued by FNMA	36,172	—	(3,852)	—	32,320	
CMOs issued by GNMA	CMOs issued by GNMA	35,120	—	(3,296)	—	31,824	
SBA-backed securities	SBA-backed securities	47,724	2	(3,371)	—	44,355	
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies	149,114	—	(14,008)	—	135,106	
U.S. Treasury securities	U.S. Treasury securities	11,904	—	(1,635)	—	10,269	
U.S. Treasury securities							
U.S. Treasury securities							
Obligations of state and political subdivisions	Obligations of state and political subdivisions	116,855	29	(14,761)	—	102,123	
Corporate bonds	Corporate bonds	36,990	—	(3,714)	—	33,276	
Asset-backed securities	Asset-backed securities	1,553	—	(91)	—	1,462	

Total available- for-sale	Total available- for-sale	\$892,605	\$ 34	\$(90,543)	\$ —	\$802,096
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1 Amortized cost and fair value exclude accrued interest receivable of \$2.7 million and \$3.2 million at September 30, 2023 and December 31, 2022, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.

Total available-for-sale	
Total available-for-sale	
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.	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.

As part of our ongoing review of our investment securities portfolio, we reassessed the classification of certain securities issued by government sponsored agencies. In March 2022, we transferred \$357.5 million of these securities from available-for-sale to held-to-maturity at fair value. We intend and have the ability to hold these securities to maturity. The net unrealized pre-tax loss of \$14.8 million that remained and the related accumulated other comprehensive loss are accreted to interest income over the remaining lives of the securities. Because these entries offset each other, there was no impact to net income.

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The amortized cost and fair value of investment debt securities by contractual maturity at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **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.

(in thousands)		September 30, 2023				December 31, 2022				March 31, 2024				December 31, 2023			
		Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale	
		Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	Within one year	\$ —	\$ —	\$ 25,103	\$ 24,205	\$ 450	\$ 446	\$ 1,254	\$ 1,239								
After one but within five years	After one but within five years	88,242	83,291	327,723	297,206	87,418	83,663	335,813	307,843								
After five years through ten years	After five years through ten years	304,952	247,742	99,406	85,685	262,072	222,280	185,997	166,273								
After ten years	After ten years	541,948	452,183	302,806	251,719	622,267	538,850	369,541	326,741								
Total	Total	\$935,142	\$783,216	\$755,038	\$658,815	\$972,207	\$845,239	\$892,605	\$802,096								

Sales There were no sales of investment securities and gross gains and losses are shown in the following table:

(in thousands)	Three months ended		Nine months ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Available-for-sale:				
Sales proceeds	\$ 79,840	\$ 10,664	\$ 79,840	\$ 10,664
Gross realized gains	5	17	5	17
Gross realized losses	(2,798)	(80)	(2,798)	(80)
Sale of equity securities: 1				
Sales proceeds	2,807	—	2,807	—
Gross realized gain	2,807	—	2,807	—

1 Refer to VISA Inc. Class B Common Stock section below for more information.

In October 2023, the Bank sold \$55.0 million of available-for-sale securities for a pretax net loss of \$2.1 million (or \$1.5 million after tax). Management did not have the intent and was not required to sell these securities at the reporting date. Therefore, no impairment loss was recognized in the third first quarter of 2024 or 2023.

Three months ended

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

(in thousands)	September December		(in thousands)	March 31, 2024	December 31, 2023
	(in thousands)	30, 2023 31, 2022			
Pledged to the State of California:	Pledged to the State of California:				
Secure public deposits in compliance with the Local Agency Security Program	Secure public deposits in compliance with the Local Agency Security Program				
Secure public deposits in compliance with the Local Agency Security Program	Secure public deposits in compliance with the Local Agency Security Program				
Secure public deposits in compliance with the Local Agency Security Program	Secure public deposits in compliance with the Local Agency Security Program	\$ 203,936 \$ 231,307			
Collateral for trust deposits	Collateral for trust deposits	649 669			
Collateral for Wealth Management and Trust Services checking account	Collateral for Wealth Management and Trust Services checking account	547 564			

Total investment securities pledged to the State of California	Total investment securities pledged to the State of California	205,132	232,540
Bankruptcy trustee deposits pledged with Federal Reserve Bank	Bankruptcy trustee deposits pledged with Federal Reserve Bank	1,321	1,686
Pledged to FHLB Securities-Backed Credit Program	Pledged to FHLB Securities-Backed Credit Program	386,713	—
Pledged to the Federal Reserve BTFP	Pledged to the Federal Reserve BTFP	269,961	—
Pledged to the Federal Reserve "BTFP"	Pledged to the Federal Reserve "BTFP"		
Pledged to the Federal Reserve Discount Window	Pledged to the Federal Reserve Discount Window		
Total pledged investment securities	Total pledged investment securities	\$ 863,127	\$ 234,226

There were 331,317 and 407,313 securities in unrealized loss positions at September 30, 2023, March 31, 2024, and December 31, 2022, December 31, 2023, respectively. Those securities are summarized and classified according to the duration of the loss period in the tables below:

		< 12 continuous months		≥ 12 continuous months		Total securities in a loss position	
September 30, 2023		Fair value		Unrealized loss		Unrealized loss	
March 31, 2024		Fair value		Unrealized loss		Unrealized loss	
		Fair value		Unrealized loss		Unrealized loss	
(in thousands)		(in thousands)		(in thousands)		(in thousands)	
Held-to-maturity:		Fair value		Unrealized loss		Unrealized loss	
MBS pass-through securities issued by FHLMC, FNMA and GNMA							
MBS pass-through securities issued by FHLMC, FNMA and GNMA							

MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$	—	\$	—	\$	249,726	\$	(61,870)	\$	249,726	\$	(61,870)
CMOs issued by FHLMC	CMOs issued by FHLMC		4,311		(68)		181,530		(33,380)		185,841		(33,448)
CMOs issued by FNMA	CMOs issued by FNMA		41,398		(2,413)		53,508		(6,712)		94,906		(9,125)
CMOs issued by GNMA	CMOs issued by GNMA		11,481		(154)		25,859		(4,662)		37,340		(4,816)
SBA-backed securities	SBA-backed securities		—		—		1,713		(140)		1,713		(140)
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies		—		—		117,157		(28,893)		117,157		(28,893)
Obligations of state and political subdivisions	Obligations of state and political subdivisions		3,034		(43)		47,051		(12,023)		50,085		(12,066)
Corporate bonds	Corporate bonds		—		—		28,206		(1,794)		28,206		(1,794)
Total held-to-maturity	Total held-to-maturity		60,224		(2,678)		704,750		(149,474)		764,974		(152,152)
Available-for-sale:	Available-for-sale:												
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA		—		—		70,980		(13,263)		70,980		(13,263)
MBS pass-through securities issued by FHLMC, FNMA and GNMA													
CMOs issued by FHLMC	CMOs issued by FHLMC		—		—		269,883		(37,236)		269,883		(37,236)
CMOs issued by FNMA	CMOs issued by FNMA		—		—		26,820		(4,012)		26,820		(4,012)
CMOs issued by GNMA	CMOs issued by GNMA		—		—		16,837		(3,668)		16,837		(3,668)
SBA-backed securities	SBA-backed securities		—		—		28,223		(3,166)		28,223		(3,166)

Debtentures of government-sponsored agencies	Debtentures of government-sponsored agencies	—	—	117,166	(11,971)	117,166	(11,971)
U.S. Treasury securities	U.S. Treasury securities	—	—	10,215	(1,703)	10,215	(1,703)
Obligations of state and political subdivisions	Obligations of state and political subdivisions	1,196	(36)	82,526	(18,735)	83,722	(18,771)
Obligations of state and political subdivisions							
Obligations of state and political subdivisions							
Corporate bonds	Corporate bonds	—	—	34,556	(2,435)	34,556	(2,435)
Asset-backed securities		—	—	—	—	—	—
Total available-for-sale							
Total available-for-sale							
Total available-for-sale	Total available-for-sale	1,196	(36)	657,206	(96,189)	658,402	(96,225)
Total securities at loss position	Total securities at loss position	\$61,420	\$ (2,714)	\$1,361,956	\$ (245,663)	\$1,423,376	\$ (248,377)

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		< 12 continuous months		≥ 12 continuous months		Total securities in a loss position						
December 31, 2022												
December 31, 2023				December 31, 2023		< 12 continuous months		≥ 12 continuous months		Total securities in a loss position		
		Unrealized		Unrealized		Unrealized						
(in thousands)	(in thousands)	Fair value	loss	Fair value	loss	Fair value	loss	(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity:	Held-to-maturity:											
MBS pass-through securities issued by FHLMC, FNMA and GNMA												
MBS pass-through securities issued by FHLMC, FNMA and GNMA												
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$ 62,627	\$ (5,960)	\$218,507	\$ (44,187)	\$ 281,134	\$ (50,147)					

CMOs issued by FHLMC	CMOs issued by FHLMC	78,144	(5,874)	113,796	(23,629)	191,940	(29,503)
CMOs issued by FNMA	CMOs issued by FNMA	106,485	(5,419)	—	—	106,485	(5,419)
CMOs issued by GNMA	CMOs issued by GNMA	27,570	(1,676)	10,331	(1,400)	37,901	(3,076)
SBA-backed securities	SBA-backed securities	2,239	(133)	—	—	2,239	(133)
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies	38,645	(2,530)	80,711	(23,937)	119,356	(26,467)
Obligations of state and political subdivisions	Obligations of state and political subdivisions	15,155	(589)	36,603	(10,152)	51,758	(10,741)
Corporate Bonds	Corporate Bonds	28,448	(1,552)	—	—	28,448	(1,552)
Total held-to-maturity	Total held-to-maturity	359,313	(23,733)	459,948	(103,305)	819,261	(127,038)
Available-for-sale:	Available-for-sale:						
MBS pass-through securities issued by FHLMC, FNMA and GNMA	MBS pass-through securities issued by FHLMC, FNMA and GNMA	44,630	(4,501)	52,235	(7,632)	96,865	(12,133)
MBS pass-through securities issued by FHLMC, FNMA and GNMA							
CMOs issued by FHLMC	CMOs issued by FHLMC	169,760	(15,144)	143,995	(18,538)	313,755	(33,682)
CMOs issued by FNMA	CMOs issued by FNMA	4,790	(235)	27,529	(3,617)	32,319	(3,852)
CMOs issued by GNMA	CMOs issued by GNMA	8,214	(374)	23,612	(2,922)	31,826	(3,296)
SBA-backed securities	SBA-backed securities	37,845	(3,228)	6,133	(143)	43,978	(3,371)
Debentures of government-sponsored agencies	Debentures of government-sponsored agencies	19,054	(946)	116,052	(13,062)	135,106	(14,008)
U.S. Treasury securities	U.S. Treasury securities	—	—	10,269	(1,635)	10,269	(1,635)

Obligations of state and political subdivisions	Obligations of state and political subdivisions	70,402	(9,459)	28,711	(5,302)	99,113	(14,761)
Corporate Bonds	Corporate Bonds	—	—	33,276	(3,714)	33,276	(3,714)
Asset-backed securities	Asset-backed securities	—	—	1,462	(91)	1,462	(91)
Total available-for-sale							
Total available-for-sale							
Total available-for-sale	Total available-for-sale	354,695	(33,887)	443,274	(56,656)	797,969	(90,543)
Total securities at loss position	Total securities at loss position	\$714,008	\$ (57,620)	\$903,222	\$ (159,961)	\$1,617,230	\$ (217,581)

As of September 30, 2023 March 31, 2024, the investment portfolio included 323 306 investment securities that had been in a continuous loss position for twelve months or more and 8 11 investment securities that had been in a loss position for less than twelve months.

Securities issued by government-sponsored enterprises, agencies, such as FNMA and FHLMC, usually have implicit credit support by 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. 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 investment investments in obligations of state and political subdivisions subdivision bonds are deemed credit worthy 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 did does not believe any of the securities were are impaired due to credit risk factors at either September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023. In addition, for any available-for-sale securities in an unrealized loss position at September 30, 2023 March 31, 2024 and December 31, 2022 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

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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 September 30, 2023 March 31, 2024 and December 31, 2022 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. On October 26, 2023, April 25, 2024, FHLB announced a cash dividend for the third first quarter of 2023 2024 at an annualized dividend rate of 8.25% to be distributed on November 9, 20 mid-May 2024. 23. Cash dividends paid on FHLB capital stock are recorded as non-interest income.

##### VISA Inc. Class B Common Stock

As a member bank of Visa U.S.A., we held 10,439 shares of Visa Inc. Class B common stock at December 31, 2022. These shares had a carrying value of zero and were restricted from resale to non-member banks of Visa U.S.A. until their conversion into Class A (voting) shares upon the termination of Visa Inc.'s Covered Litigation escrow account. Because



of the restriction and the uncertainty on the conversion rate to Class A shares, these shares lacked a readily determinable fair value. On July 13, 2023, the Bank sold the entirety of its remaining investment in Visa Inc. Class B restricted common stock for a \$2.8 million gain.

For further information, on the Covered Litigation, 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 \$2.1 million \$1.9 million and \$2.5 million \$2.0 million recorded in other assets as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. In the first nine three months of 2023, 2024, we recognized \$450 \$133 thousand of low-income housing tax credits and other tax benefits, offset by \$377 \$111 thousand of amortization expense of low-income housing tax credit investment, as a component of income tax expense. As of September 30, 2023 March 31, 2024, our unfunded commitments for these low-income housing tax credit funds totaled \$346 \$343 thousand. We did not recognize any impairment losses on these low-income housing tax credit investments during the first nine three months of 2023 2024 or 2022, 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

(in thousands)	September 30, 2023	December 31, 2022
Commercial and industrial	\$ 174,096	\$ 173,547
Real estate:		
Commercial owner-occupied	346,307	354,877
Commercial non-owner occupied	1,190,813	1,191,889
Construction	109,305	114,373
Home equity	83,267	88,748
Other residential	116,674	112,123
Installment and other consumer loans	66,480	56,989
Total loans, at amortized cost <sup>1</sup>	2,086,942	2,092,546
Allowance for credit losses on loans	(24,260)	(22,983)
Total loans, net of allowance for credit losses on loans	\$ 2,062,682	\$ 2,069,563

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(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 <sup>1</sup>	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

<sup>1</sup> Amortized cost includes net deferred loan origination costs of \$2.6 million and \$1.8 million \$2.7 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Amounts are also net of unrecognized purchase discounts of \$2.2 million \$1.9 million and \$2.6 million \$2.0 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively. Amortized cost excludes accrued interest, which totaled \$6.3 million and \$6.1 million \$6.6 million at September 30, 2023 March 31, 2024 and December 31, 2022 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

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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

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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.

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**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 a well-defined weakness or weaknesses that jeopardize(s) 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/origination/renewal** year and internal risk rating as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **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)	(in thousands)	Term Loans - Amortized Cost by Origination Year						Revolving Loans	
		2023	2022	2021	2020	2019	Prior	Cost	Amortized
September 30, 2023									
March 31, 2024									
March 31, 2024									
March 31, 2024									
		2024	2023	2022	2021	2020	Prior	Total	
<b>Commercial and industrial:</b>	<b>Commercial and industrial:</b>								
Pass and Watch	Pass and Watch								
Pass and Watch	Pass and Watch								
Special Mention	Special Mention								
Substandard	Substandard								
Total commercial and industrial	Total commercial and industrial								
Gross current period charge-offs	Gross current period charge-offs								
Commercial real estate, owner-occupied:	Commercial real estate, owner-occupied:								
Commercial real estate, owner-occupied:	Commercial real estate, owner-occupied:								
Commercial real estate, owner-occupied:	Commercial real estate, owner-occupied:								
Pass and Watch	Pass and Watch								
Pass and Watch	Pass and Watch								
Special Mention	Special Mention								
Substandard	Substandard								

Total commercial real estate, owner-occupied	Total commercial real estate, owner-occupied	\$11,430	\$ 54,861	\$ 66,044	\$ 39,001	\$ 44,334	\$130,637	\$ —	\$ 346,307
Total commercial real estate, owner-occupied									
Total commercial real estate, owner-occupied									
Commercial real estate, non-owner occupied:	Commercial real estate, non-owner occupied:								
Commercial real estate, non-owner occupied:									
Commercial real estate, non-owner occupied:									
Pass and Watch									
Pass and Watch									
Pass and Watch	Pass and Watch	\$30,200	\$174,327	\$198,342	\$152,318	\$144,112	\$399,022	\$ —	\$1,098,321
Special Mention	Special Mention	—	2,802	9,545	11,857	15,801	28,881	—	68,886
Substandard	Substandard	—	—	2,209	—	—	21,397	—	23,606
Total commercial real estate, non-owner occupied	Total commercial real estate, non-owner occupied	\$30,200	\$177,129	\$210,096	\$164,175	\$159,913	\$449,300	\$ —	\$1,190,813
Total commercial real estate, non-owner occupied									
Total commercial real estate, non-owner occupied									

(in thousands)	(in thousands)	Term Loans - Amortized Cost by Origination Year							Revolving Loans	
								Prior	Amortized Cost	Total
September 30, 2023		2023	2022	2021	2020	2019				
March 31, 2024										
March 31, 2024										
March 31, 2024		2024	2023	2022	2021	2020		Prior		Total
Construction: Construction:										
Pass and	Pass and									
Watch	Watch	\$ 17,173	\$ 44,236	\$ 18,827	\$ 29,069	\$	—	\$	—	\$ 109,305
Pass and Watch										
Pass and Watch										
Special										
Mention										
Total construction										

Total construction											
Total	Total										
construction	construction	\$ 17,173	\$ 44,236	\$ 18,827	\$ 29,069	\$ —	\$ —	\$ —	\$ —	\$ 109,305	
Home equity: Home equity:											
Home equity:											
Home equity:											
Pass and Watch											
Pass and Watch											
Pass and	Pass and										
Watch	Watch	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 711	\$ 81,954	\$ 82,665	
Substandard											
Substandard											
Substandard	Substandard	—	—	—	—	—	—	189	413	602	
Total home	Total home										
equity	equity	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 900	\$ 82,367	\$ 83,267	
Other Other											
residential: residential:											
Other residential:											
Other residential:											
Pass and Watch											
Pass and Watch											
Pass and	Pass and										
Watch	Watch	\$ 13,224	\$ 20,218	\$ 13,673	\$ 26,487	\$ 21,075	\$ 21,997	\$ —	\$ 116,674		
Total other	Total other										
residential	residential	\$ 13,224	\$ 20,218	\$ 13,673	\$ 26,487	\$ 21,075	\$ 21,997	\$ —	\$ 116,674		
Total other residential											
Total other residential											
Installment and other											
consumer:											
Installment and other											
consumer:											
Installment	Installment										
and other	and other										
consumer:	consumer:										
Pass and	Pass and										
Watch	Watch	\$ 18,666	\$ 15,071	\$ 11,374	\$ 4,971	\$ 5,483	\$ 9,930	\$ 985	\$ 66,480		
Pass and Watch											
Pass and Watch											
Substandard											
Substandard											
Substandard											
Total	Total										
installment	installment										
and other	and other										
consumer	consumer	\$ 18,666	\$ 15,071	\$ 11,374	\$ 4,971	\$ 5,483	\$ 9,930	\$ 985	\$ 66,480		
Gross current Gross current											
period charge-	period charge-										
offs	offs	\$ (7)	\$ (5)	\$ —	\$ (4)	\$ —	\$ (1)	\$ (5)	\$ (22)		
Total loans: Total loans:											
Pass and Watch											
Pass and Watch											
Pass and	Pass and										
Watch	Watch	\$121,269	\$311,141	\$295,841	\$255,665	\$227,103	\$573,253	\$150,609	\$1,934,881		

Total Special	Total Special									
Mention	Mention	\$ 1,447	\$ 7,349	\$ 25,324	\$ 12,682	\$ 17,777	\$ 39,613	\$ 8,172	\$ 112,364	
Total	Total									
Substandard	Substandard	\$ —	\$ 2,533	\$ 2,209	\$ 918	\$ 3,834	\$ 26,125	\$ 4,078	\$ 39,697	
Totals	Totals	\$122,716	\$321,023	\$323,374	\$269,265	\$248,714	\$638,991	\$162,859	\$2,086,942	
Totals										
Totals										
Total gross	Total gross									
current period	current period									
charge-offs	charge-offs	\$ (7)	\$ (5)	\$ —	\$ (4)	\$ (3)	\$ (4)	\$ (6)	\$ (29)	
(in thousands)	(in thousands)									
		Term Loans - Amortized Cost by Origination Year						Revolving Loans		
								Amortized		
December 31, 2022		2022	2021	2020	2019	2018	Prior	Cost	Total	
December 31, 2023										
December 31, 2023										
December 31, 2023		2023	2022	2021	2020	2019	Prior	Total		
Commercial and industrial:	Commercial and industrial:									
Pass and Watch										
Pass and Watch										
Pass and Watch	Pass and Watch	\$ 15,349	\$ 6,679	\$ 7,603	\$ 19,982	\$ 5,362	\$ 24,954	\$ 84,655	\$ 164,584	
Special Mention	Special Mention	275	—	—	2,272	3,836	—	402	6,785	
Substandard	Substandard	—	—	1,252	—	—	625	301	2,178	
Total commercial and industrial	Total commercial and industrial	\$ 15,624	\$ 6,679	\$ 8,855	\$ 22,254	\$ 9,198	\$ 25,579	\$ 85,358	\$ 173,547	
Commercial real estate, owner-occupied:	Commercial real estate, owner-occupied:									
Commercial real estate, owner-occupied:										
Commercial real estate, owner-occupied:										
Pass and Watch										
Pass and Watch										
Pass and Watch	Pass and Watch	\$ 54,188	\$ 52,080	\$ 40,369	\$ 44,798	\$ 29,856	\$104,377	\$ —	\$ 325,668	
Special Mention	Special Mention	—	16,199	—	304	5,255	4,493	—	26,251	
Substandard	Substandard	—	—	—	1,160	—	1,699	—	2,859	
Doubtful		—	—	99	—	—	—	—	99	
Total commercial real estate, owner-occupied										
Total commercial real estate, owner-occupied										
Total commercial real estate, owner-occupied										
Total commercial real estate, owner-occupied	Total commercial real estate, owner-occupied	\$ 54,188	\$ 68,279	\$ 40,468	\$ 46,262	\$ 35,111	\$110,569	\$ —	\$ 354,877	

Commercial real estate, non-owner occupied:	Commercial real estate, non-owner occupied:										
Pass and Watch											
Pass and Watch											
Pass and Watch	Pass and Watch	\$ 177,822	\$ 211,228	\$ 155,278	\$ 160,670	\$ 129,166	\$ 308,509	\$ 57	\$ 1,142,730		
Special Mention	Special Mention	—	1,172	12,097	3,934	678	9,290	—	27,171		
Substandard	Substandard	—	2,264	—	—	—	19,724	—	21,988		
Total commercial real estate, non-owner occupied	Total commercial real estate, non-owner occupied	\$ 177,822	\$ 214,664	\$ 167,375	\$ 164,604	\$ 129,844	\$ 337,523	\$ 57	\$ 1,191,889		
Construction:	Construction:										
Pass and Watch	Pass and Watch	\$ 49,262	\$ 19,393	\$ 28,861	\$ 7,745	\$ 9,112	\$ —	\$ —	\$ 114,373		
Pass and Watch											
Pass and Watch											
Special Mention											
Total construction											
Total construction											
Total construction	Total construction	\$ 49,262	\$ 19,393	\$ 28,861	\$ 7,745	\$ 9,112	\$ —	\$ —	\$ 114,373		
Home equity:	Home equity:										
Pass and Watch	Pass and Watch	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 883	\$ 86,971	\$ 87,854		
Pass and Watch											
Pass and Watch											
Substandard											
Substandard											
Substandard	Substandard	—	—	—	—	—	480	414	894		
Total home equity	Total home equity	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,363	\$ 87,385	\$ 88,748		
Other residential:	Other residential:										
Pass and Watch	Pass and Watch	\$ 21,154	\$ 14,547	\$ 29,018	\$ 21,890	\$ 11,064	\$ 14,450	\$ —	\$ 112,123		
Pass and Watch											
Pass and Watch											
Total other residential											
Total other residential											
Total other residential	Total other residential	\$ 21,154	\$ 14,547	\$ 29,018	\$ 21,890	\$ 11,064	\$ 14,450	\$ —	\$ 112,123		
Installment and other consumer:	Installment and other consumer:										
Pass and Watch	Pass and Watch	\$ 20,054	\$ 13,022	\$ 5,727	\$ 6,492	\$ 4,181	\$ 6,478	\$ 944	\$ 56,898		
Pass and Watch											
Pass and Watch											

Substandard		—	—	—	—	—	91	—	91
Total installment and other consumer									
Total installment and other consumer									
Total installment and other consumer	Total installment and other consumer	\$ 20,054	\$ 13,022	\$ 5,727	\$ 6,492	\$ 4,181	\$ 6,569	\$ 944	\$ 56,989
Total loans:	Total loans:								
Total loans:									
Total loans:									
Pass and Watch									
Pass and Watch									
Pass and Watch	Pass and Watch	\$337,829	\$316,949	\$266,856	\$261,577	\$188,741	\$459,651	\$172,627	\$2,004,230
Total Special Mention	Total Special Mention	\$ 275	\$ 17,371	\$ 12,097	\$ 6,510	\$ 9,769	\$ 13,783	\$ 402	\$ 60,207
Total Substandard	Total Substandard	\$ —	\$ 2,264	\$ 1,252	\$ 1,160	\$ —	\$ 22,619	\$ 715	\$ 28,010
Total Doubtful	Total Doubtful	\$ —	\$ —	\$ 99	\$ —	\$ —	\$ —	\$ —	\$ 99
Totals	Totals	\$338,104	\$336,584	\$280,304	\$269,247	\$198,510	\$496,053	\$173,744	\$2,092,546
Totals									
Totals									

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The following table shows the amortized cost of loans by portfolio class, payment aging and non-accrual status as of **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023**.

Loan Aging Analysis by Class																		
	Commercial		Commercial															
	Commercial	real estate,	real estate,															
(in	(in	and	owner-	non-owner		Home	Other	and other		(in	Commercial	estate, owner-	Commercial real estate,		Home	Other	Installment	
thousands)	thousands)	industrial	occupied	occupied	Construction	equity	residential	consumer	Total	thousands)	and industrial	occupied	non-owner occupied	Construction	equity	residential	consumer	Total
September 30, 2023																		
March 31, 2024										March 31, 2024								
30-59 days past due	30-59 days past due	\$ 1,321	\$ —	\$ 797	\$ —	\$ —	\$ —	\$ 97	\$ 2,215									
60-89 days past due	60-89 days past due	—	—	901	—	196	—	1	1,098									
90 days or more past due	90 days or more past due	—	3,992	—	—	4	—	—	3,996									
90 days or more past due 1	90 days or more past due 1																	



Total past due	Total past due	1,321	3,992	1,698	—	200	—	98	7,309
Current	Current	172,775	342,315	1,189,115	109,305	83,067	116,674	66,382	2,079,633
Total loans 1	Total loans 1	\$174,096	\$346,307	\$1,190,813	\$109,305	\$83,267	\$116,674	\$66,480	\$2,086,942
Non- accrual loans 2	Non- accrual loans 2	\$ —	\$ 4,281	\$ 901	\$ —	\$ 490	\$ —	\$ —	\$ 5,672
Non- accrual loans with no allowance	Non- accrual loans with no allowance	\$ —	\$ 4,281	\$ 901	\$ —	\$ 490	\$ —	\$ —	\$ 5,672
December 31, 2022									

December 31, 2023	December 31, 2023
----------------------	----------------------

30-59 days past due	30-59 days past due	\$ 3	\$ —	\$ —	\$ —	\$ 319	\$ 93	\$ 5	420
60-89 days past due	60-89 days past due	—	—	—	—	244	—	—	244
90 days or more past due	90 days or more past due	264	—	—	—	414	—	—	678
90 days or more past due 1	90 days or more past due 1								
Total past due	Total past due	267	—	—	—	977	93	5	1,342
Current	Current	173,280	354,877	1,191,889	114,373	87,771	112,030	56,984	2,091,204
Total loans 1	Total loans 1	\$173,547	\$354,877	\$1,191,889	\$114,373	\$88,748	\$112,123	\$56,989	\$2,092,546
Non- accrual loans 2	Non- accrual loans 2	\$ —	\$ 1,563	\$ —	\$ —	\$ 778	\$ —	\$ 91	\$ 2,432
Non- accrual loans with no allowance	Non- accrual loans with no allowance	\$ —	\$ 1,563	\$ —	\$ —	\$ 778	\$ —	\$ 91	\$ 2,432

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 more than ninety days and accruing interest as of September 30, 2023 and December 31, 2022December 31, 2023.

2 None of the non-accrual loans as of September 30, 2023 March 31, 2024 or December 31, 2022 December 31, 2023 were earning interest on a cash or accrual basis. We reversed \$131 thousand and \$158 \$10 thousand in accrued interest income for loans that were placed on non-accrual status for during the three and nine months ended September 30, 2023 March 31, 2024. We reversed accrued interest income of \$39 thousand and \$47 \$16 thousand for loans that were placed on non-accrual status during the three and nine months ended September 30, 2022, respectively. March 31, 2023.

## Collateral Dependent Loans

The following table presents the amortized cost basis of individually analyzed collateral-dependent loans, which are were all on non-accrual status, by portfolio class at September 30, 2023 March 31, 2024 and December 31, 2022December 31, 2023.

Amortized Cost by Collateral Type	Amortized Cost by Collateral Type
Amortized Cost by Collateral Type	Amortized Cost by Collateral Type

(in thousands)												
(in thousands)												
		Residential				Allowance						
(in	(in	Commercial	Real			for Credit	Commercial					
thousands)	thousands)	Real Estate	Estate	Other	Total 1	Losses	Real Estate	Residential Real Estate	Blanket Lien	Other	Total 1	Allowance for Credit Losses
<u>September 30, 2023</u>												
<u>March 31, 2024</u>												
<u>March 31, 2024</u>												
<u>March 31, 2024</u>												
Commercial real estate, owner-occupied												
Commercial real estate, owner-occupied												
Commercial real estate, owner-occupied	Commercial real estate, owner-occupied	\$	4,281	\$	—	\$	—	\$	4,281	\$	—	
Commercial real estate, non-owner-occupied	Commercial real estate, non-owner-occupied		901		—		—		901		—	
Home equity	Home equity		—		490		—		490		—	
Home equity												
Home equity												
Installment and other consumer												
Installment and other consumer												
Installment and other consumer												
Total												
<u>December 31, 2023</u>												
Commercial and industrial												
Commercial and industrial												
Commercial and industrial												
Commercial real estate, owner-occupied												
Commercial real estate, non-owner-occupied												
Home equity												
Total	Total	\$	5,182	\$	490	\$	—	\$	5,672	\$	—	
<u>December 31, 2022</u>												
Commercial real estate, owner-occupied							\$	1,563	\$	—	\$	—
Home equity								—		778		—

Installment and other consumer	—	—	91	91	—
Total	Total	\$ 1,563	\$ 778	\$ 91	\$ 2,432

Total	
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1 There were no collateral-dependent residential real estate mortgage loans in process of foreclosure or in substance repossessed at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023. The weighted average loan-to-value of real estate secured collateral dependent loans was approximately 61% 82% at September 30, 2023 March 31, 2024 and 42% 70% at December 31, 2022 December 31, 2023.

### Loan Modifications to Borrowers Experiencing Financial Difficulty

We adopted ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* on January 1, 2023, as described in Note 2, Recently Adopted and Issued Accounting Standards. The amendments eliminated the accounting guidance for troubled debt restructurings and enhanced disclosures related to certain types of loan modifications for borrowers experiencing financial difficulty, including principal forgiveness, interest rate reductions, other-than-insignificant payment delays, and/or term extensions which are intended to minimize the economic loss and avoid foreclosure or repossession of collateral.

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The following table summarizes the amortized cost of loans as of September 30, 2023 March 31, 2024 that were modified during the three and nine months ended September 30, 2023 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
<b>Three months ended September 30, 2023</b>		
Commercial and industrial	\$ 391	0.2 %
Commercial owner-occupied	1,056	0.3 %
Total	\$ 1,447	
<b>Nine months ended September 30, 2023</b>		
Commercial and industrial	\$ Term Extension391	Total 0.2 %
Commercial owner-occupied	1,056	0.3 %
Total	\$ 2,197	1.5 %
Home equity	82	0.1 %
Total	\$ 2,273	

As of September 30, 2023 March 31, 2024, there were no unfunded loan commitments for loans that were modified during the periods period presented.

The following table summarizes the financial effect of loan modifications presented in the table above during the three and nine months ended September 30, 2023 March 31, 2024 by portfolio class.

(in thousands)	Weighted-Average Term Extension (in years)
<b>Three months ended September 30, 2023 March 31, 2024</b>	
Commercial and industrial	2.3 0.3
Commercial owner-occupied Home equity	2.5 15.0

The loan modifications did not significantly impact the determination of the allowance for credit losses on loans during the three and nine months ended September 30, 2023 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 September 30, 2023 March 31, 2024 that were modified during the three and nine months ended September 30, 2023 March 31, 2024 by portfolio class.

(in thousands)	(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total	Non-Accrual
<b>Three months ended September 30, 2023</b>						



December  
31, 2023

### Allowance for Credit Losses on Loans Rollforward

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

Beginning balance	
Beginning balance	

Provision	Provision									
(Reversal)	(Reversal)	265	(81)	299	38	12	5	83	(199)	422
(Charge-offs)	(Charge-offs)	(9)	—	—	—	—	—	(1)	—	(10)
(Charge-offs)										
(Charge-offs)										
Recoveries	Recoveries	3	—	—	9	—	—	—	—	12
Ending balance	Ending balance	\$ 1,958	\$ 2,536	\$ 12,738	\$ 1,784	\$ 542	\$ 590	\$ 815	\$ 2,000	\$ 22,963

Allowance for Credit Losses on Loans Rollforward																		
(in thousands)	Commercial real estate, owner-occupied									Total								
	Commercial and industrial	Commercial real estate, investor	Construction	Home equity	Other residential	Installment and other consumer		Unallocated										
<b><u>Nine months ended September 30, 2023</u></b>																		
Beginning balance	\$	1,794	\$	2,487	\$	12,676	\$	1,937	\$	558	\$	595	\$	868	\$	2,068	\$	22,983
Provision (Reversal)		16		43		948		56		7		10		104		91		1,275
Charge-offs		(7)		—		—		—		—		—		(22)		—		(29)
Recoveries		5		—		—		25		—		—		1		—		31
Ending balance	\$	1,808	\$	2,530	\$	13,624	\$	2,018	\$	565	\$	605	\$	951	\$	2,159	\$	24,260
<b><u>Nine months ended September 30, 2022</u></b>																		
Beginning balance	\$	1,709	\$	2,776	\$	12,739	\$	1,653	\$	595	\$	644	\$	621	\$	2,286	\$	23,023
Provision (Reversal)		248		(240)		(1)		106		(53)		(54)		217		(286)		(63)
Charge-offs		(9)		—		—		—		—		—		(23)		—		(32)
Recoveries		10		—		—		25		—		—		—		—		35
Ending balance	\$	1,958	\$	2,536	\$	12,738	\$	1,784	\$	542	\$	590	\$	815	\$	2,000	\$	22,963

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## 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 **\$1.299 billion** \$1.288 billion at **September 30, 2023** March 31, 2024 and **December 31, 2022** December 31, 2023, respectively. In addition, we pledge eligible TIC loans, which totaled \$108.5 million and **\$105.0 million** \$110.4 million at **September 30, 2023** March 31, 2024 and **December 31, 2022** 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 **\$6.3** \$5.8 million at **September 30, 2023** as of both March 31, 2024 and **\$6.4 million** at **December 31, 2022** December 31, 2023. In addition, undisbursed commitments to related parties totaled **\$562** \$212 thousand at as of both **September 30, 2023** March 31, 2024 and **December 31, 2022** December 31, 2023.

## Note 6: Short-Term Borrowings and Other Obligations

**Federal Home Loan Bank – As of September 30, 2023 and December 31, 2022, the Bank:** The Bank had **total** lines of credit with the FHLB totaling **\$1.023 billion** \$951.2 million and **\$711.6 million** \$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 – 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 **\$150.0 million** at **September 30, 2023** and **December 31, 2022** December 31, 2023, respectively. In general, interest rates on these lines approximate the federal funds target rate.

**Federal Reserve Bank – Bank:** The Bank has had a line of credit with through the Discount Window at the Federal Reserve Bank of San Francisco ("FRBSF") totaling \$350.0 million as of March 31, 2024, secured by certain investment securities and residential loans. At September 30, 2023 and December 31, 2022 As of December 31, 2023, the Bank had total borrowing capacity under this a line of \$57.3 million credit through the Discount Window totaling \$64.0 million, secured by residential loans, and \$58.7 million, respectively. In addition, a \$270.2 million line under the Federal Reserve's BTFP facility, the Reserve's temporary Bank could borrow up to an additional \$274.6 million Term Funding Program ("BTFP") based on the par value values of pledged investment securities. When the BTFP program ended on March 11, 2024, the investment securities as of September 30, 2023 were used to collateralize borrowings through the Discount Window.

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**Other Obligations – Obligations:** Finance lease liabilities totaling \$335 \$260 thousand and \$439 \$298 thousand at September 30, 2023 as of March 31, 2024 and December 31, 2022 December 31, 2023, respectively, are included in short-term borrowings and other obligations in the consolidated statements of condition. See Refer to Note 8, Commitments and Contingencies, for additional information.

**Outstanding balances** The carrying values and weighted average interest rates on short-term borrowings and other obligations as of September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are summarized in the following table.

(dollars in thousands)	September 30, 2023		December 31, 2022	
	Outstanding Balance	Weighted Average Rate	Outstanding Balance	Weighted Average Rate
FHLB - short-term borrowings	\$ —	— %	\$ 112,000	4.65 %
Federal funds lines of credit	—	— %	—	— %
FRBSF - federal funds purchased	—	— %	—	— %
FRBSF - short-term borrowings under the BTFP	120,000	5.42 %	—	— %
Other obligations (finance leases)	335	2.01 %	439	1.86 %
Total short-term borrowings and other obligations	\$ 120,335	5.41 %	\$ 112,439	4.64 %

(dollars in thousands)	March 31, 2024		December 31, 2023	
	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 July 21, 2023 January 25, 2024, Bancorp declared a \$0.25 per share cash dividend, paid August 11, 2023 February 15, 2024 to shareholders of record at the close of business on August 4, 2023 February 8, 2024. Subsequent to quarter end on October 20, 2023 April 25, 2024, Bancorp declared a \$0.25 per share cash dividend, payable on November 10, 2023 May 16, 2024 to shareholders of record at the close of business on November 3, 2023 May 9, 2024.

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### 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 (loss) 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. Beginning in 2018, stock option 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. During the nine months ended September 30, 2023, we withheld 3,132 shares totaling \$86 thousand at a weighted-average price of \$27.57 for cashless exercises. During the nine months ended September 30, 2022, we withheld 11,505 shares totaling \$393 thousand at a weighted-average price of \$34.13 for cashless exercises. 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

Bancorp had an approved share repurchase program with \$34.7 million remaining that expired on July 31, 2023. On July 21, 2023, the Board of Directors approved the adoption of Bancorp's new share repurchase program which replaced the existing one at that time, for up to \$25.0 million and expiring on July 31, 2025. There have been no repurchases to date in 2024 or in 2023.

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:



	September December			
(in thousands)	(in thousands)	30, 2023	31, 2022	(in thousands)
				March 31, 2024
				December 31, 2023
Commercial lines of credit	Commercial lines of credit	\$ 260,117	\$ 292,204	
Revolving home equity lines	Revolving home equity lines	220,148	218,907	
Undisbursed construction loans	Undisbursed construction loans	17,881	43,179	
Personal and other lines of credit	Personal and other lines of credit	9,268	10,842	
Standby letters of credit	Standby letters of credit	2,757	1,738	
Total unfunded loan commitments and standby letters of credit	Total unfunded loan commitments and standby letters of credit	\$ 510,171	\$ 566,870	

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 \$1.5 million as of September 30, 2023 and December 31, 2022 December 31, 2023, respectively, which is included in interest payable and other liabilities in the consolidated statements of condition. We recorded There was no provision for credit losses on unfunded loan commitments in the third quarters first quarter of 2023 and 2022. 2024. The \$342 \$174 thousand reversal of the provision for credit losses on unfunded loan commitments in the nine months first quarter of 2023 was due primarily to a \$37.4 million decrease in total unfunded commitments, compared to a \$318 thousand provision reversal in the nine months of 2022, due to improved economic forecasts at the time. commitments.

#### Leases

We lease premises under long-term non-cancelable operating leases with remaining terms of 7 months 30 days to 18 years, 85 months, most of which include escalation clauses and one or more options to extend the lease term, and some of

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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.

	September December			
(in thousands)	(in thousands)	30, 2023	31, 2022	(in thousands)
				March 31, 2024
				December 31, 2023
Operating leases:	Operating leases:			
Operating lease right-of-use assets	Operating lease right-of-use assets	\$ 21,589	\$ 24,821	
Operating lease right-of-use assets	Operating lease right-of-use assets			

Operating lease right-of-use assets

Operating lease liabilities	Operating lease liabilities	\$ 24,040	\$ 26,639
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Finance leases:

Finance leases:

Finance lease right-of-use assets

Finance lease right-of-use assets

Finance lease right-of-use assets	Finance lease right-of-use assets	\$ 608	\$ 616
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Accumulated amortization	Accumulated amortization	(282)	(187)
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Finance lease right-of-use assets, net:	Finance lease right-of-use assets, net:	\$ 326	\$ 429
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Finance lease liabilities <sup>2</sup>	Finance lease liabilities <sup>2</sup>	\$ 335	\$ 439
--	--	--------	--------

<sup>1</sup> Included in premises and equipment in the consolidated statements of condition.

<sup>1</sup> Included in premises and equipment in the consolidated statements of condition.

<sup>2</sup> Included in borrowings and other obligations in the consolidated statements of condition.

<sup>2</sup> Included in borrowings and other obligations in the consolidated statements of condition.

<sup>2</sup> Included in borrowings and other obligations in the consolidated statements of condition.

<sup>2</sup> 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.

(in thousands)	Nine months ended	
	September 30, 2023	September 30, 2022
Right-of-use assets obtained in exchange for operating lease liabilities, net of tenant improvement allowances received	\$ 572	\$ 4,989
Right-of-use assets obtained in exchange for finance lease liabilities	\$ 7	\$ 41

(in thousands)	Three months ended	
	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		Three months ended		Three months ended	
(in thousands)		(in thousands)		(in thousands)	
Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>	
Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>	
Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>		Operating lease cost <sup>1</sup>	
		Three months ended		Nine months ended	
(in thousands)		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Operating lease cost		\$ 1,289	\$ 1,328	\$ 4,221	\$ 3,907
Variable lease cost		—	—	—	—
Total operating lease cost:		\$ 1,289	\$ 1,328	\$ 4,221	\$ 3,907
Finance lease cost:					
Finance lease cost:					
Finance lease cost:	Finance lease cost:				
Amortization of right-of-use assets:	Amortization of right-of-use assets:	\$ 37	\$ 31	\$ 111	\$ 93
Amortization of right-of-use assets <sup>2</sup>					
Amortization of right-of-use assets <sup>2</sup>					
Interest on finance lease liabilities <sup>3</sup>					
Interest on finance lease liabilities <sup>3</sup>					
Interest on finance lease liabilities:	Interest on finance lease liabilities:	2	1	5	2
Total finance lease cost	Total finance lease cost	\$ 39	\$ 32	\$ 116	\$ 95
Total finance lease cost					
Total finance lease cost					
Total lease cost	Total lease cost	\$ 1,328	\$ 1,360	\$ 4,337	\$ 4,002
Total lease cost					
Total lease cost					
<sup>1</sup> Included in occupancy and equipment expense in the consolidated statements of comprehensive income.					
<sup>1</sup> Included in occupancy and equipment expense in the consolidated statements of comprehensive income.					
<sup>1</sup> 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.	2 Included in depreciation and amortization 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.	3 Included in interest on borrowings and other obligations 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 **September 30, 2023** **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)	September 30, 2023		March 31, 2024	
Year	Year	Operating Leases	Finance Leases	
2023		\$ 1,268	\$ 39	
2024	2024	4,753	155	
2025	2025	4,112	108	
2026	2026	3,373	38	
2027	2027	3,097	5	
2028				
Thereafter	Thereafter	10,017	—	
Total minimum lease payments	Total minimum lease payments	26,620	345	
Amounts representing interest (present value discount)	Amounts representing interest (present value discount)	(2,580)	(10)	
Present value of net minimum lease payments (lease liability)	Present value of net minimum lease payments (lease liability)	\$24,040	\$335	
Weighted average remaining term (in years)	Weighted average remaining term (in years)	7.4	2.4	Weighted average remaining term (in years)
Weighted average discount rate	Weighted average discount rate	2.38 %	2.01 %	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 the 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 gain/gains or loss/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 four three interest rate swap agreements on certain loans with our customers, which are scheduled to mature at various dates ranging from January 2026 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:

Asset Derivatives	Liability Derivatives
Asset derivatives	Asset derivatives Liability derivatives



Loans receivable	Loans receivable
2	2
\$ 10,266	\$ 11,319
\$ (960)	\$ (726)

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 \$136 thousand as of September 30, 2023.

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,	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.
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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**. **hedges for the years presented.**

		Three months ended		Nine months ended	
		Three months ended		Three months ended	
		Three months ended		Three months ended	
		Three months ended			
(in thousands)					
(in thousands)					
(in thousands)	(in thousands)	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest on investment securities 1	Interest on investment securities 1				
Increase (decrease) in fair value of interest rate swaps hedging available-for-sale securities	\$	367	\$ —	\$ 367	\$ —
Receivable (payment) on interest rate swaps		162	—	162	—
(Decrease) increase in carrying value included in the hedged available-for-sale securities		(367)	—	(367)	—
Interest on investment securities 1					

Interest on investment securities <sup>1</sup>									
Increase in fair value of interest rate swaps hedging available-for-sale securities									
Increase in fair value of interest rate swaps hedging available-for-sale securities									
Increase in fair value of interest rate swaps hedging available-for-sale securities									
Hedged interest earned									
Hedged interest earned									
Hedged interest earned									
Decrease in carrying value included in the hedged available-for-sale securities									
Decrease in carrying value included in the hedged available-for-sale securities									
Decrease in carrying value included in the hedged available-for-sale securities									
Net gain (loss) recognized in interest income on investment securities									
Net gain (loss) recognized in interest income on investment securities									
Net gain (loss) recognized in interest income on investment securities	Net gain (loss) recognized in interest income on investment securities	\$	162	\$	—	\$	162	\$	—
Interest and fees on loans <sup>1</sup>									
Interest and fees on loans <sup>1</sup>									
Interest and fees on loans <sup>1</sup>									
Interest and fees on loans <sup>1</sup>									
Increase (decrease) in fair value of interest rate swaps hedging loans receivable	Increase (decrease) in fair value of interest rate swaps hedging loans receivable	\$	223	\$	547	\$	252	\$	1,734
Receivable (payment) on interest rate swaps			74		(19)		192		(169)
Increase (decrease) in fair value of interest rate swaps hedging loans receivable									
Increase (decrease) in fair value of interest rate swaps hedging loans receivable									
Hedged interest earned									
Hedged interest earned									
Hedged interest earned									
(Decrease) increase in carrying value included in the hedged loans									
(Decrease) increase in carrying value included in the hedged loans									
(Decrease) increase in carrying value included in the hedged loans	(Decrease) increase in carrying value included in the hedged loans		(211)		(538)		(233)		(1,718)
Decrease in value of yield maintenance agreement	Decrease in value of yield maintenance agreement		(2)		(3)		(7)		(8)
Net gain (loss) recognized in interest income on loans		\$	84	\$	(13)	\$	204	\$	(161)
Decrease in value of yield maintenance agreement									
Decrease in value of yield maintenance agreement									
Net gain recognized in interest income on loans									
Net gain recognized in interest income on loans									
Net gain recognized in interest income on loans									

<sup>1</sup> Represents the income line item in the statement of comprehensive income in which the effects of fair value hedges are recorded.

<sup>1</sup> Represents the income line item in the statement of comprehensive income in which the effects of fair value hedges are recorded.



<sup>1</sup> 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						
	Gross Amounts	Gross Amounts	Net Amounts of	Gross Amounts Not Offset in		
	of Recognized	Offset in the	Assets Presented	the Statements of Condition		
(in thousands)	Assets <sup>1</sup>	Statements of	in the Statements	Financial	Cash Collateral	Net Amount
		Condition	of Condition <sup>1</sup>	Instruments	Received	
<b>September 30, 2023</b>						
Counterparty	\$ 1,221	\$	\$ 1,221	\$ —	\$ —	\$ 1,221
Total	\$ 1,221	\$ —	\$ 1,221	\$ —	\$ —	\$ 1,221
<b>December 31, 2022</b>						
Counterparty	\$ 602	\$ —	\$ 602	\$ —	\$ —	\$ 602
Total	\$ 602	\$ —	\$ 602	\$ —	\$ —	\$ 602
<b>March 31, 2024</b>						
Counterparty	\$ 400	\$ —	\$ 400	\$ —	\$ —	\$ 400
Total	\$ 400	\$ —	\$ 400	\$ —	\$ —	\$ 400
<b>December 31, 2023</b>						
Counterparty	\$ 287	\$ —	\$ 287	\$ —	\$ —	\$ 287
Total	\$ 287	\$ —	\$ 287	\$ —	\$ —	\$ 287
<b>Offsetting of Financial Liabilities and Derivative Liabilities</b>						
	Gross Amounts	Gross Amounts	Net Amounts of	Gross Amounts Not Offset in		
	of Recognized	Offset in the	Assets Presented	the Statements of Condition		
(in thousands)	Assets <sup>1</sup>	Statements of	in the Statements	Financial	Cash Collateral	Net Amount
		Condition	of Condition <sup>1</sup>	Instruments	Received	
<b>March 31, 2024</b>						
Counterparty	142	—	142	(142)	—	—
Total	\$ 142	\$ —	\$ 142	\$ (142)	\$ —	\$ —
<b>December 31, 2023</b>						
Counterparty	\$ 1,361	\$ —	\$ 1,361	\$ (287)	\$ (330)	\$ 744
Total	\$ 1,361	\$ —	\$ 1,361	\$ (287)	\$ (330)	\$ 744

<sup>1</sup> 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 2022 2023 Form 10-K filed with the SEC on March 16, 2023 March 14, 2024.

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## 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 2022 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

This 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, **war wars** or other conflicts, **such as the war between Russia and Ukraine and more recently the war between Israel and Hamas**, impacts from inflation, supply **change 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 **differ** from those expressed in our prior forward-looking statements are detailed in ITEM 1A, Risk Factors section of our **2022 2023** Form 10-K as filed with the SEC, and ITEM 1A Risk Factors **herein, copies of which are available from us at no charge, herein.** Forward-looking statements speak only as of the date they are made. **We do not undertake Bancorp undertakes no obligation to update release publicly the result of any revisions to these** forward-looking statements **that may be made** to reflect **circumstances events or events 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*, **Income Taxes**, *Fair Value Measurements*, and **Business Combinations**. **Goodwill.**

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### 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 **2022 2023** Form 10-K filed with the SEC on **March 16, 2023** March 14, 2024.

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### Executive Summary

We generated earnings of **\$5.3 million \$2.9 million** for the **third first quarter of 2024**, compared to \$610 thousand for the **fourth quarter of 2023 compared to \$4.6 million and \$9.4 million** for the **second first quarter of 2023**. Diluted earnings per share were **\$0.33 \$0.18** for the **third first quarter of 2023, 2024**, compared to **\$0.28 \$0.04** for the preceding quarter. **Earnings for the first nine months of 2023 totaled \$19.3 million, compared to \$33.7 million quarter and \$0.59 for the same period quarter a year ago.** Net interest margin compression due to the rapid rise in 2022. Diluted earnings per share were \$1.20 and \$2.11 for the first nine months of 2023 and 2022, respectively. The 2023 earnings were impacted by the **increased cost of interest bearing deposits catching up to market interest rates this cycle is clearly evident in the comparison of 2024 and higher average balances on borrowings, 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 **third** first quarter **tax-equivalent** net interest margin **increased 3** 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 2.48% from 2.45% in the previous quarter due primarily to higher rates on interest-bearing cash balances generated from securities sales. The tax-equivalent net interest margin for the nine months ended September 30, 2023 of 2.66% decreased 40 basis points from 3.06% for the same period in 2022, primarily due to higher deposit and borrowing costs, partially offset by higher interest rates on loans and investment securities. We continue to manage our balance sheet and interest rate risk position to the current interest rate environment, and sold an additional \$55.0 million in available-for-sale securities in late October. The sales generated an after-tax loss of \$1.5 million, which is expected to be earned back through incremental interest income and improvements to the net interest margin in less than one year.
- Deposits totaled \$3.444 billion as of September 30, 2023, a decrease of \$129.7 million from \$3.573 billion at December 31, 2022. However, deposits increased \$118.5 million over the prior quarter. Our experienced team of bankers continued to build upon our strong deposit franchise with consistent growth from proactive outreach to both existing and prospective customers in all of our markets. Average cost of deposits increased 25 basis points over the second quarter, from 0.69% to 0.94%. Average cost of deposits increased 55 basis points for the first nine months of 2023, compared to the same period in 2022, from 0.06% to 0.61%. We believe we are competitively aligned in regard to deposit pricing, helping to maintain deposit levels.
- Non-interest bearing deposits made up 47.7% of total deposits at September 30, 2023, compared to 51.5% at December 31, 2022. We have successfully maintained non-interest bearing deposit percentages consistent with pre-pandemic levels, despite market and industry turbulence. Customer participation in the reciprocal deposit network program grew to \$483.3 million maintaining estimated uninsured and/or uncollateralized deposits at 29% of total deposits as of September 30, 2023. Our largest depositor represented 2.7% of total deposits as of September 30, 2023.
- Borrowings totaled \$120.0 million as of September 30, 2023, an \$8.0 million increase from \$112.0 million at December 31, 2022. However, total borrowings declined \$52.2 million quarter-over-quarter from \$172.2 million as a result of deposit growth and cash flows from investments and loans. Net available funding sources of \$2.1 billion provided 211% coverage of an estimated \$989.8 million in uninsured deposits at September 30, 2023.
- Our loan portfolio continues to perform well with classified loans at 1.90% of total loans. Non-owner-occupied commercial real estate loans made up \$23.6 million or 59% of total classified loans as of September 30, 2023, compared to \$22.0 million or 78% at December 31, 2022. Shortly after quarter-end three unsecured commercial substandard loans to one borrower totaling approximately \$4.6 million paid off.
- Non-accrual loans were 0.27% of total loans, or \$5.7 million, at September 30, 2023, compared to 0.12%, or \$2.4 million, at December 31, 2022. Of the seven loans totaling \$5.3 million moved to non-accrual status during the year, one legacy acquired-bank agricultural loan totaling \$3.8 million became current on outstanding payments shortly after quarter-end. Offsetting the additions were payoffs and paydowns of \$1.8 million and two loans for \$314 thousand that were moved to accrual status 1.38% in the first quarter. **quarter cAll** ompared 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 non-accrual loans are collateralized by real estate with no expected credit loss as of September 30, 2023, overall average earning asset balances decreased, limiting the positive impact on the margin.

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- A **\$425 350** thousand provision for credit losses on loans in the **third** first quarter, compared to a provision of \$1.3 million in the previous quarter, brought the allowance for credit losses to **1.16% 1.24%** of total loans, compared to **1.21%** as of **September 31, 2023 December 31, 2023**. The provision was due primarily to qualitative risk factor adjustments as discussed further below and compared to a provision of \$500 thousand in the previous quarter. For nine months ended September 30, 2023, we recorded a provision for credit losses on loans of \$1.3 million, compared to a reversal of \$63 thousand for the same period in 2022.
- **Loans totaled** 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. **\$2.087 billion** at **Classified loans** increased to **September 30, 2023**, a decrease of 2.67% **\$5.6 million** 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 **\$2.093 2.055** billion **at as** of March 31, 2024, were relatively stable from \$2.074 billion as of December 31, **2022 2023**, reflecting originations of **\$90.3 million** of **\$12.4 million** and payoffs of **\$59.5 million (including PPP payoffs)** **\$21.8 million**. **Loan** During the quarter, interest rates on loan originations averaged approximately 266 basis points above those that paid off. **Loan** amortization from scheduled repayments, **totaling \$60.6 million** was partially offset by a **\$24.2 million** 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 the nine months ended **September 30, 2023** 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 0.52% 0.31% for the third first quarter of 2024, compared to 0.06% for the fourth quarter of 2023, compared to 0.44% for the second quarter of 2023. Return and return on average equity ("ROE") was 4.94% for the third quarter of 2023 2.70%, compared to 4.25% for the prior quarter. ROA was 0.63% for the nine months ended September 30, 2023, compared to 1.04% in the same period in 2022. ROE was 6.07% for the nine months ended September 30, 2023, compared to 10.65% in the same period in 2022. The efficiency ratio for the third quarter of 2023 was 72.96%, compared to 76.91% 0.57% for the prior quarter. The efficiency ratio for the first quarter of 2024 was 69.37% 83.18% for the nine months ended September 30, 2023, compared to 55.60% in 91.94% for the same period in prior quarter.2022.

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- All capital ratios were above well-capitalized regulatory requirements. The Bancorp's and the Bank's total risk-based capital ratios at September 30, 2023 for Bancorp increased during the quarter to 17.05% and the Bank were 16.6% and 16.1% 16.71%, respectively. respectively, as of March 31, 2024, well above regulatory requirements. Bancorp's tangible common equity to tangible assets ("TCE ratio") was 8.6% at September 30, 2023, compared increased to 8.2% 9.76% as of December 31, 2022. As of September 30, 2023 March 31, 2024, Bancorp's 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 after-tax unrealized losses on held-to-maturity securities as if the losses were realized was 6.1% 7.67% as of March 31, 2024, compared to 6.2% at December 31, 2022 (refer 7.80% as of December 31, 2023 (refer to page 46 for a discussion the discussion and reconciliation of this non-GAAP financial measure) 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 October 20, 2023 April 25, 2024, which represents the 74 76<sup>th</sup> consecutive quarterly dividend paid by Bancorp. The dividend is payable on November 10, 2023 May 16, 2024, to shareholders of record at the close of business on November 3, 2023 May 9, 2024.
- As previously announced, David Bloom, Executive Vice President and Head of Commercial Banking, joined the Bank on July 31 and is responsible for the direction, vision, growth, and performance of the Bank's commercial banking division, including its eight regional offices located throughout northern California and its specialty wine business. He previously served as senior managing director of business banking in northern California and the Pacific Northwest at First Republic Bank. Under David's direction we have already approved for funding loan amounts exceeding third quarter originations since quarter end.
- Also as previously announced, effective October 20, 2023, the Board of Directors for Bank of Marin Bancorp appointed Cigdem Gencer to its board, increasing its membership to thirteen directors. Gencer brings extensive leadership and financial services experience to the Board. Throughout her career, she has developed and executed transformative growth, expansion, and investment strategies for organizations, including international expansion efforts. For nearly two decades, Gencer served as executive vice president at a Fortune 500 financial institution where she served as head of international human resources, head of enterprise data strategy and analytics in the Chief Data Office, and chief financial officer, chief operating officer, and regional sales director for its Private Wealth division. Her experience also includes serving as a management consultant in the financial services sector and chief financial officer at Intrax, Inc. In 2021, she established Fazilet Consulting—an executive coaching and organizational consulting firm—in which she also serves as an executive coach.

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RESULTS OF OPERATIONS

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

		Three months ended		Nine months ended	
		Three months ended		Three months ended	
		Three months ended		Three months ended	
		Three months ended			
(dollars in thousands, except per share data)					
(dollars in thousands, except per share data)					
(dollars in thousands, except per share data)	(dollars in thousands, except per share data)	September 30, 2023	June 30, 2023	September 30, 2023	September 30, 2022
<b>Selected operating data:</b>	<b>Selected operating data:</b>				

Selected operating data:									
Selected operating data:									
Net interest income	Net interest income	\$	24,469	\$	24,130	\$	78,497	\$	94,122
Provision for (reversal of) credit losses on loans			425		500		1,275		(63)
Net interest income									
Net interest income									
Provision for credit losses on loans									
Provision for credit losses on loans									
Provision for credit losses on loans									
Reversal of credit losses on unfunded loan commitments									
Reversal of credit losses on unfunded loan commitments									
Reversal of credit losses on unfunded loan commitments	Reversal of credit losses on unfunded loan commitments		—		(168)		(342)		(318)
Non-interest income	Non-interest income		2,598		2,739		8,272		8,318
Non-interest income									
Non-interest income									
Non-interest expense									
Non-interest expense									
Non-interest expense	Non-interest expense		19,747		20,665		60,192		56,959
Net income	Net income		5,295		4,551		19,285		33,705
Net income									
Net income									
Net income per common share:									
Net income per common share:									
Net income per common share:	Net income per common share:								
Basic	Basic	\$	0.33	\$	0.28	\$	1.21	\$	2.12
Basic									
Basic									
Diluted									
Diluted									
Diluted	Diluted	\$	0.33	\$	0.28	\$	1.20	\$	2.11
Performance and other financial ratios:	Performance and other financial ratios:								
Performance and other financial ratios:									
Performance and other financial ratios:									
Return on average assets									
Return on average assets									
Return on average assets	Return on average assets		0.52	%	0.44	%	0.63	%	1.04
Return on average equity	Return on average equity		4.94	%	4.25	%	6.07	%	10.65
Return on average equity									
Return on average equity									
Tax-equivalent net interest margin									
Tax-equivalent net interest margin									
Tax-equivalent net interest margin	Tax-equivalent net interest margin		2.48	%	2.45	%	2.66	%	3.06
Cost of deposits	Cost of deposits		0.94	%	0.69	%	0.61	%	0.06
Cost of deposits									
Cost of deposits									
Cost of funds									
Cost of funds									

Cost of funds										
Efficiency ratio	Efficiency ratio		72.96	%	76.91	%	69.37	%	55.60	%
Net (recoveries) charge-offs	\$	(3)	\$	(2)	\$	(2)	\$	(3)		
Efficiency ratio										
Efficiency ratio										
Net charge-offs (recoveries)										
Net charge-offs (recoveries)										
Net charge-offs (recoveries)										
Cash dividend payout ratio on common stock	Cash dividend payout ratio on common stock		75.76	%		61.98	%	34.43	%	
1	1			89.29	%					
Cash dividend payout ratio on common stock 1										
Cash dividend payout ratio on common stock 1										
(dollars in thousands, except per share data)	(dollars in thousands, except per share data)									
		September 30, 2023	December 31, 2022	(dollars in thousands, except per share data)			March 31, 2024	December 31, 2023		
Selected financial condition data:	Selected financial condition data:									
Total assets										
Total assets										
Total assets	Total assets	\$4,035,549	\$4,147,464							
Investment securities	Investment securities	1,593,957	1,774,303							
Loans, net	Loans, net	2,062,682	2,069,563							
Deposits	Deposits	3,443,684	3,573,348							
Short-term borrowings and other obligations	Short-term borrowings and other obligations	120,335	112,439							
Stockholders' equity	Stockholders' equity	418,618	412,092							
Stockholders' equity										
Stockholders' equity										
Book value per share	Book value per share	25.94	25.71							
Asset quality ratios:	Asset quality ratios:									
Allowance for credit losses on loans to total loans	Allowance for credit losses on loans to total loans	1.16 %	1.10 %							
Allowance for credit losses on loans to total loans										
Allowance for credit losses on loans to total loans										
Allowance for credit losses on loans to non-performing loans										
Allowance for credit losses on loans to non-performing loans										

Allowance for credit losses on loans to non-performing loans	Allowance for credit losses on loans to non-performing loans	4.28x	9.45x			4.05x		3.15x	
Non-accrual loans to total loans	Non-accrual loans to total loans	0.27 %	0.12 %	Non-accrual loans to total loans		0.31	%	0.39	%
<b>Capital ratios: Capital ratios:</b>									
Equity to total assets ratio									
Equity to total assets ratio									
Equity to total assets ratio	Equity to total assets ratio	10.37 %	9.94 %			11.59	%	11.54	%
Tangible common equity to tangible assets	Tangible common equity to tangible assets	8.63 %	8.21 %	Tangible common equity to tangible assets		9.76	%	9.73	%
Total capital (to risk-weighted assets)	Total capital (to risk-weighted assets)	16.56 %	15.90 %	Total capital (to risk-weighted assets)		17.05	%	16.89	%
Tier 1 capital (to risk-weighted assets)	Tier 1 capital (to risk-weighted assets)	15.63 %	15.02 %	Tier 1 capital (to risk-weighted assets)		16.05	%	15.91	%
Tier 1 capital (to average assets)	Tier 1 capital (to average assets)	10.24 %	9.60 %	Tier 1 capital (to average assets)		10.92	%	10.46	%
Common equity Tier 1 capital (to risk weighted assets)	Common equity Tier 1 capital (to risk weighted assets)	15.63 %	15.02 %	Common equity Tier 1 capital (to risk weighted assets)		16.05	%	15.91	%
<sup>1</sup> Calculated as dividends on common shares divided by basic net income per common share. <sup>1</sup> Calculated as dividends on common shares divided by basic net income per common share. <sup>1</sup> Calculated as dividends on common shares divided by basic net income per common share.									

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## 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 tables compare 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 September 30, 2023			Three months ended June 30, 2023		
		Interest			Interest		
		Average	Income/	Yield/	Average	Income/	Yield/
Three months ended							
March 31, 2024							
Interest							
Average							
Average							
Average							
(dollars in thousands)	(dollars in thousands)	Balance	Expense	Rate	Balance	Expense	Rate
Assets	Assets						
	Interest-earning deposits with banks <sup>1</sup>	\$ 76,896	\$ 1,055	5.37 %	\$ 3,578	\$ 48	5.35 %
	Investment securities <sup>2, 3</sup>	1,721,367	9,436	2.19 %	1,819,486	10,103	2.22 %
	Loans <sup>1, 3, 4</sup>	2,096,814	24,823	4.63 %	2,108,260	24,700	4.63 %
	Total interest-earning assets <sup>1</sup>	3,895,077	35,314	3.55 %	3,931,324	34,851	3.51 %
	Cash and non-interest-bearing due from banks	37,964			38,154		
	Bank premises and equipment, net	8,428			8,546		
	Interest receivable and other assets, net	134,075			141,130		
	Interest-earning deposits with banks <sup>1</sup>						
	Interest-earning deposits with banks <sup>1</sup>						
	Interest-earning deposits with banks <sup>1</sup>						
	Investment securities <sup>2</sup>						
	Loans <sup>1, 3, 4</sup>						
		\$ 23,439	\$ 321	5.42 %	\$ 84,864	\$ 1,170	5.40 %
	Investment securities <sup>2</sup>						
	Loans <sup>1, 3, 4</sup>						
		\$ 2,067,431	25,130	4.81 %	\$ 2,072,654	25,081	4.73 %



[illegible]

Borrowings and other obligations										Borrowings and other obligations									
1										1									
Interest-bearing transaction accounts																			
	\$	230,085	\$	270	0.47	%	\$	232,090	\$	234	0.41	%							
Savings accounts																			
		266,770		229	0.34	%		285,745		146	0.20	%							
Money market accounts																			
		1,046,011		5,988	2.27	%		948,670		4,292	1.81	%							
Time accounts including CDARS																			
		217,467		1,555	2.84	%		174,471		946	2.18	%							
Short-term borrowings and other obligations																			
1		188,415		2,593	5.39	%		372,308		4,873	5.18	%							
Total interest-bearing liabilities																			
		1,948,748		10,635	2.17	%		2,013,284		10,491	2.09	%							
Demand accounts																			
		1,649,691						1,627,730											
Interest payable and other liabilities																			
		52,067						49,116											
Stockholders' equity																			
		425,038						429,024											
Total interest-bearing liabilities																			
Total interest-bearing liabilities																			
Total interest-bearing liabilities										1,867,688 11,452 2.47 % 1,928,682 11,159 2.30 % 1,902,732									
Demand accounts																			
Interest payable and other liabilities																			
Interest payable and other liabilities																			
Interest payable and other liabilities																			
Interest payable and other liabilities																			
Stockholders' equity																			
Stockholders' equity																			
Stockholders' equity																			
Total liabilities & stockholders' equity																			
Total liabilities & stockholders' equity		\$ 4,075,544						\$ 4,119,154											
Total liabilities & stockholders' equity																			
Total liabilities & stockholders' equity																			

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<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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 in 2023 and 2022.

<sup>4</sup> 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.

<sup>1</sup>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.

<sup>2</sup>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.

<sup>3</sup>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.

<sup>4</sup>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.

<sup>5</sup>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

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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 more day less in the three months ended September 30, 2023 March 31, 2024, compared to the three months ended June 30, 2023, 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 September 30, 2023 compared to three months ended June 30, 2023					Nine months ended September 30, 2023 compared to nine months ended September 30, 2022				
(in thousands)	Volume	Yield/Rate	Mix	Total	Volume	Yield/Rate	Mix	Total	
Interest-earning deposits with banks	\$ 984	\$ 1	\$ 22	\$ 1,007	\$ (661)	\$ 4,825	\$ (3,837)	\$ 327	
Investment securities <sup>1</sup>	(545)	(129)	7	(667)	373	4,084	60	4,517	
Loans <sup>1</sup>	(134)	(13)	270	123	(2,821)	6,056	(241)	2,994	
Total interest-earning assets	305	(141)	299	463	(3,109)	14,965	(4,018)	7,838	
Interest-bearing transaction accounts	(2)	34	4	36	(40)	688	(120)	528	
Savings accounts	(10)	97	(4)	83	(13)	543	(78)	452	
Money market accounts	440	1,080	176	1,696	(101)	11,243	(961)	10,181	
Time accounts, including CDARS	233	288	88	609	41	2,071	403	2,515	
Short-term borrowings and other obligations	(2,407)	195	(68)	(2,280)	1,416	12	8,752	10,180	
Total interest-bearing liabilities	(1,746)	1,694	196	144	1,303	14,557	7,996	23,856	
Changes in tax-equivalent net interest income	\$ 2,051	\$ (1,835)	\$ 103	\$ 319	\$ (4,412)	\$ 408	\$ (12,014)	\$ (16,018)	

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

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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 <sup>1</sup>	(548)	64	(4)	(488)	(1,771)	553	(96)	(1,314)	
Loans <sup>1</sup>	(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)	

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

### Third First Quarter of 2023 2024 Compared to the Second Fourth Quarter of 2023

Net interest income totaled \$24.5 million \$22.7 million for the third first quarter of 2023, 2024, compared to \$24.1 million \$24.3 million for the prior quarter. The \$339 thousand increase \$1.6 million decrease from the prior quarter was primarily related to an increase of approximately \$358 thousand \$1.6 million in interest income from the investment expense on deposits and a decrease of securities sales proceeds into interest-bearing cash. The \$2.3 million reduction \$1.3 million in interest on cash and investments. These were partially offset by a \$1.3 million decrease in borrowing cost for the quarter was offset by rising deposit rates and higher costs. Quarter-over-quarter, average interest-bearing deposit balances that resulted in an additional \$2.4 million in interest expense, 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 2.48% 2.50% for the third first quarter of 2023, 2024, compared to 2.45% 2.53% for the prior quarter. The increase from prior quarter was primarily due to a \$73.3 million increase in average interest-bearing cash balances with an average yield higher cost of 5.37% from securities sales proceeds. During deposits reduced the third quarter new loans were originated at rates approximately 150 margin by 23 basis points, above the rates on loans paid off, which will positively impact the margin in future periods, 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.

### Nine Months Ended September 30, 2023 First Quarter of 2024 Compared to Nine Months Ended September 30, 2022 the First Quarter of 2023

Net interest income totaled \$78.5 million \$22.7 million for the nine three months ended September 30, 2023 March 31, 2024, compared to \$94.1 million \$29.9 million for the same period in the prior year. The \$15.6 million \$7.2 million decrease from the prior year was primarily due to a higher funding costs cost of \$23.9 million deposits totaling \$9.6 million, partially offset by higher average yields on earning assets, lower borrowing costs of \$2.6 million.

The tax-equivalent net interest margin was 2.66% 2.50% for the nine three months ended September 30, 2023 March 31, 2024, compared to 3.06% 3.04% for the same period in the prior year. The decrease was primarily attributed to higher deposit and borrowing costs, reducing the margin by 107 basis points, partially offset by higher interest rates yields on loans, and investment securities. Average interest-bearing deposits balances decreased by \$164.2 million while the average cost increased by 55 adding 29 basis points, mainly for money market and time deposit account types, decreasing the margin by 46 decreases in borrowings contributing 26 basis points. Average borrowings and other obligations increased by \$260.6 million at an average cost of 5.14%, an increase of 4.43%, decreasing the margin by 34 basis points. Average loan balances decreased by \$87.3 million while the average yield increased by 36 basis points, increasing the margin by 20 basis points. Average investment securities increased \$26.2 million and their average yield increased 31 basis points, increasing the margin by 19 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% to 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 the evolving inflation risks, complicated by international political unrest, and oil and other supply chain disruptions. As a result of seven

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rate adjustments during 2022, the federal funds target rate range increased to a range of between 4.25% to 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 and first quarter disruptions in the banking industry resulted in rapid increases in the cost of funds through rising deposit costs and increased average borrowings, putting pressure on the net interest margin in the second and third quarters. margin. Federal Reserve policymakers continue to monitor inflation and economic developments throughout 2023, 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.

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The following table shows the activity for the periods presented.

Three months ended				Nine months ended			
Three months ended							
Three months ended							
Three months ended							
(dollars in thousands)	(dollars in thousands)	September 30, 2023	June 30, 2023	September 30, 2023	September 30, 2022		
Provision for (reversal of) credit losses on loans	\$	425	\$ 500	\$ 1,275	\$ (63)		
(dollars in thousands)							
(dollars in thousands)							
Provision for credit losses on loans							
Provision for credit losses on loans							
Provision for credit losses on loans							

We recorded a \$425 \$350 thousand provision for credit losses on loans in the third first quarter. The provision was due primarily primarily to increases in qualitative factors related adjustments to trends in adversely graded, non-owner-occupied commercial real estate loans and the potential impact of rapidly increasing interest rates and other external factors on both our non-owner-occupied commercial real estate and construction portfolios. These increases were partially offset by the impact of the decrease in loan balances.

We recorded a \$500 thousand provision for credit losses on loans in the second quarter. The provision was due primarily to increases in certain qualitative risk factors from to account for continued negative trends in adversely graded loans and/or collateral values on for our non-owner occupied commercial real estate office and multi-family real estate portfolios. These increases were 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 balances, 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 \$1.3 million \$350 thousand for the nine three months ended September 30, 2023 March 31, 2023 was due primarily resulted from to increases in qualitative risk factors from to account for continued trends in adversely graded loans and/or collateral values uncertainty about inflation and recession risks. Management believed that these risk factors were not believed to be adequately captured in the modeled quantitative risk factors.

The net provision reversal 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 nine months ended September 30, 2022 primarily resulted from need for heightened portfolio management in light of economic conditions at that time. In addition, a provision reversal \$19.8 million increase in loans contributed modestly to the first quarter due to improvements in the economic forecasts, provision. These increases were partially offset by the provision quantitative impact of an improvement in Moody's Analytics' baseline California unemployment rate forecasts at the third quarter due primarily to an increase in qualitative factors to account for the ongoing deterioration in the economic outlook not captured in the quantitative portion of the allowance, 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.

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## Non-interest Income

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

The following table details the components of net interest income:													
	Three months ended				Three months ended				Quarter over quarter			Year over year	
	June				March								
	(dollars in thousands)	September 30, 2023	2023	Amount Percent Change	(dollars in thousands)	31, December 2023	31, 2023	March 31, 2023	Amount Change	Percent Change	Amount Change	Percent Change	

Total non-interest income	Total non-interest income	\$ 2,598	\$ 2,739	\$ (141)	(5.1)%	Total non-interest income	\$ 2,754	\$ (3,283)	\$ 2,935	\$ 6,037	(183.9)	(183.9)%	\$ (181)	(6.2)	(6.2)%
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	Nine months ended			
(dollars in thousands)	September 30, 2023	September 30, 2022	Amount Change	Percent Change
Wealth Management and Trust Services	\$ 1,585	\$ 1,737	\$ (152)	(8.8)%
Service charges on deposit accounts	1,561	1,488	73	4.9 %
Debit card interchange fees, net	1,458	1,538	(80)	(5.2)%
Earnings on bank-owned life insurance, net	1,438	933	505	54.1 %
Dividends on Federal Home Loan Bank stock	916	759	157	20.7 %
Merchant interchange fees, net	377	430	(53)	(12.3)%
Gains (losses) on sale of investment securities, net	14	(63)	77	NM
Other income	923	1,496	(573)	(38.3)%
Total non-interest income	\$ 8,272	\$ 8,318	\$ (46)	(0.6)%

### Third First Quarter of 2023 2024 Compared to the Second Fourth Quarter of 2023

Non-interest income totaled \$2.6 million \$2.8 million for the third first quarter of 2023, 2024, compared to \$2.7 million a loss of \$3.3 million for the prior quarter. The \$141 thousand decrease \$6.0 million increase from the prior quarter was primarily related 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 decrease in debit card interchange income.

### Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022 First Quarter of 2023

Non-interest income totaled \$8.3 million \$2.8 million for the nine months ended September 30, 2023, first quarter of 2024, materially unchanged from the same period of the prior year. The \$46 \$181 thousand decrease from the prior year period was mostly attributable to decreases a decrease in other income including one-way deposit 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 cash management fees and in higher wealth management and trust services income partially offset by higher bank-owned life insurance benefit payments and balances and dividends on Federal Home Loan Bank stock. in 2024.

### Non-interest Expense

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

(dollars in thousands)	Three months ended					Three months ended					Quarter over quarter				Year over year			
	(dollars in thousands)	September 30, 2023	June 30, 2023	Amount Change	Percent Change	(dollars in thousands)	March 31, 2024	December 31, 2023	March 31, 2023	Amount	Change	Percent Change	Amount	Change	Percent Change			
Salaries and related benefits	Salaries and related benefits	\$ 10,741	\$11,416	\$ (675)	(5.9)%	Salaries and related benefits	\$12,084	\$ 10,361	\$ 10,930	\$ 1,723	16.6	16.6 %	\$ 1,154	10.6	10.6 %			
Occupancy and equipment	Occupancy and equipment	1,973	1,980	(7)	(0.4)%	Occupancy and equipment	1,969	1,939	2,414	2,414	30	1.5	1.5 %	(445)	(18.4)	(18.4)%		
Professional services						Professional services						1,078	921	1,123	157	17.0 %	(45)	(4.0)%
Data processing	Data processing	1,009	922	87	9.4 %	Data processing	1,070	1,081	1,081	1,045	1,045	(11)	(11)	(1.0)	(1.0)%	25	2.4	2.4 %
Professional services		757	797	(40)	(5.0)%													
Deposit network fees						Deposit network fees						845	940	96	(95)	(10.1)%	749	780.2 %
Federal Deposit Insurance Corporation insurance	Federal Deposit Insurance Corporation insurance	469	666	(197)	(29.6)%	Federal Deposit Insurance Corporation insurance	435	454	454	289	289	(19)	(19)	(4.2)	(4.2)%	146	50.5	50.5 %
Information technology						Information technology						402	431	370	(29)	(6.7)%	32	8.6 %
Depreciation and amortization	Depreciation and amortization	423	400	23	5.8 %	Depreciation and amortization	388	393	393	882	882	(5)	(5)	(1.3)	(1.3)%	(494)	(56.0)	(56.0)%
Information technology		411	357	54	15.1 %													
Directors' expense						Directors' expense						317	319	321	(2)	(0.6)%	(4)	(1.2)%
Amortization of core deposit intangible	Amortization of core deposit intangible	335	340	(5)	(1.5)%	Amortization of core deposit intangible	251	330	330	345	345	(79)	(79)	(23.9)	(23.9)%	(94)	(27.2)	(27.2)%
Directors' expense		272	300	(28)	(9.3)%													
Charitable contributions		20	638	(618)	(96.9)%													
Other real estate owned																		
Other real estate owned																		
Other real estate owned	Other real estate owned	—	44	(44)	(100.0)%	—	—	—	4	4	—	—	N/A	N/A	(4)	(100.0)	(100.0) %	



Other non-interest expense	Other non-interest expense																			
Advertising	Advertising																			
Advertising	Advertising	319	300	19	6.3 %	296	347	347	278	278	(51)	(51)	(14.7)	(14.7)	%	18	6.5	6.5	%	
Other expense	Other expense	3,018	2,505	513	20.5 %	Other expense	2,034	1,773	1,773	1,683	1,683	261	261	14.7	14.7 %	351	20.9	20.9	%	
Total other non-interest expense	Total other non-interest expense	3,337	2,805	532	19.0 %	Total other non-interest expense	2,330	2,120	2,120	1,961	1,961	210	210	9.9	9.9 %	369	18.8	18.8	%	
Total non-interest expense	Total non-interest expense	\$ 19,747	\$20,665	\$ (918)	(4.4)%	Total non-interest expense	\$21,169	\$ 19,289	\$ 19,780	\$ 1,880	9.7	9.7 %	\$ 1,389	7.0	7.0 %					

							Nine months ended					
(dollars in thousands)							September 30, 2023		September 30, 2022		Amount Change	Percent Change
Salaries and related benefits						\$	33,087	\$	32,446	\$	641	2.0 %
Occupancy and equipment							6,367		5,739		628	10.9 %
Data processing							2,976		3,569		(593)	(16.6)%
Professional services							2,677		2,314		363	15.7 %
Depreciation and amortization							1,705		1,259		446	35.4 %
Federal Deposit Insurance Corporation insurance							1,424		886		538	60.7 %
Information technology							1,138		1,519		(381)	(25.1)%
Amortization of core deposit intangible							1,020		1,124		(104)	(9.3)%
Directors' expense							893		838		55	6.6 %
Charitable contributions							707		605		102	16.9 %
Other real estate owned							48		355		(307)	NM
Other non-interest expense												
Advertising							897		789		108	13.7 %
Other expense							7,253		5,516		1,737	31.5 %
Total other non-interest expense							8,150		6,305		1,845	29.3 %
Total non-interest expense						\$	60,192	\$	56,959	\$	3,233	5.7 %

NM - Not Meaningful

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### Third First Quarter of 2023 2024 Compared to the Second Fourth Quarter of 2023

Non-interest expense totaled \$19.7 million \$21.2 million for the third first quarter of 2023, 2024, compared to \$20.7 million \$19.3 million for the prior quarter. The \$918 thousand decrease from the prior quarter, primarily resulted from a \$675 thousand decrease in salaries an increase of \$1.9 million. Salaries and related benefits mainly increased \$1.7 million largely due to decreases various factors, both in accrued incentive prior and current quarter. Last quarter, profit sharing, expenses 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) contributions, \$618 thousand less in charitable contributions as our annual grant program normally occurs in contribution matching associated with the second quarter, usual reset and a \$197 thousand decrease related bonus payments at the beginning of the year, and increased salary costs due to a catch-up adjustment in the second quarter for increased FDIC assessments to strengthen the Deposit Insurance Fund. These decreases were new talent acquisition, partially offset by a \$532 thousand net increase in other expense, primarily due to a \$688 thousand increase in incentive adjustments. In addition, professional services expenses from certain legal, accounting, and fees associated with our customers participation in reciprocal deposit networks to bolster their FDIC insured balances. consulting costs increased by \$157 thousand.

## Nine Months Ended September 30, 2023 First Quarter of 2024 Compared to Nine Months Ended September 30, 2022 the First Quarter of 2023

Non-interest expense totaled \$60.221.2 million for the nine months ended September 30, 2023 first quarter of 2024, compared to \$57.019.8 million for the nine months ended September 30, 2022, first quarter of 2023, an increase of \$3.2 million \$1.4 million. Other expense increased by \$1.8 million primarily due to a \$1.5 million increase in expenses and fees associated with reciprocal deposits placed into deposit networks. Significant fluctuations were as follows:

- Salaries and related benefits increased by \$641 thousand primarily \$1.2 million largely due to regularly scheduled annual merit and other 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 the hiring of several key employees and officers, and lower deferred loan origination costs, were partially offset by a reduction decreases in accrued incentive and profit sharing expenses. Occupancy occupancy and equipment and depreciation and amortization expenses rose \$628 of \$445 thousand and \$446 \$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. In addition, the FDIC insurance assessment rose by \$538 thousand due to the increased statutory rate. These increases were partially offset by a \$593 thousand decrease in data processing expenses due to our core system contract renegotiation for the current period and because the prior year included data processing expenses largely eliminated after the systems conversion associated with the American River Bankshares merger. In addition, other real estate owned expenses decreased by \$307 thousand due the write-down in the prior year of the asset that was sold in the third quarter of 2023.

### 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") income, 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 third first quarter of 2023 2024 totaled \$1.6 \$1.0 million at an effective tax rate of 23.2% 25.6%, compared to \$1.3 million 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 22.5% 26.7% in the prior quarter, same quarter last year. The increase in the provision provision for income taxes in the third first quarter of 2023 2024 reflected higher pre-tax income as compared to the prior quarter. The 70 basis point increase in the effective tax rate in the third first quarter of 2023 2024 was primarily due to the smaller proportional effect tax provision reversal recorded in the prior quarter that primarily resulted from a \$5.9 million pre-tax loss on the sale of permanent tax differences on higher pretax income.

available-for-sale investment securities. The provision for income taxes for the first nine months of 2023 totaled \$6.4 million at an effective tax rate of 24.8%, compared to \$12.2 million at an effective tax rate of 26.5% for the first nine months of 2022. The 170 110 basis point decrease in the effective tax rate in the first nine months quarter of 2023, 2024, as compared to the same period quarter a year ago, was primarily due to the larger proportional effect of permanent tax differences on lower pretax income and higher tax-exempt BOLI 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 federal tax jurisdiction and a combined return in the State state of California tax jurisdiction. There were no ongoing federal or state income tax examinations at the time of the issuance of this report. At September 30, 2023 As of March 31, 2024, neither the Bank nor Bancorp had accruals for interest or penalties related to unrecognized tax benefits.

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## FINANCIAL CONDITION SUMMARY

### Cash, Cash Equivalents and Restricted Cash

Total cash, cash equivalents and restricted cash were \$123.1 million \$36.3 million at September 30, 2023 March 31, 2024, an increase of \$5.9 million compared to \$45.4 million \$30.5 million at December 31, 2022 December 31, 2023. The \$77.7 million increase was due primarily to the sale of \$82.7 million of available-for-sale securities in the third quarter, which resulted in 3 basis points of net interest margin expansion due to the higher interest rate earned on cash and provided diversification to our liquidity profile.

### Investment Securities

The investment securities portfolio totaled \$1.594 billion \$1.451 billion at September 30, 2023 March 31, 2024, a decrease of \$180.3 million \$25.8 million from \$1.774 billion \$1.477 billion at December 31, 2022 December 31, 2023. The decrease was primarily the result of principal repayments and maturities totaling \$87.7 million \$20.3 million, sales of \$82.7

million available-for-sale securities, an a \$4.6 million increase of \$5.7 million in pre-tax unrealized losses on available-for-sale investment securities, and \$4.2 million \$900 thousand in net amortization in the first nine months of 2023. The securities sales and \$102 million fair value hedge reduced the impact of interest rate increases on tangible capital over the quarter by approximately 7 basis points. The \$2.8 million net loss on the sale of securities was offset by a \$2.8 million gain from the sale of our remaining investment in Visa Inc. Class B restricted common stock, which had a zero carrying value. Both amortization. Both the available-for-sale and held-to-maturity portfolios are eligible for pledging to either the FHLB or the Federal Reserve as collateral for borrowing. borrowings. The portfolios are comprised of high credit quality investments with average effective durations of 4.07 4.41 on available-for-sale securities and 5.95 5.66 on held-to-maturity securities. Both portfolios generate cash inflows flows monthly from interest, principal amortization and payoffs, which supports the Bank's liquidity. liquidity. Those cash inflows totaled \$123.9 million flows totaled \$31.3 million in the first nine quarter of 2024. months of 2023. See Note 4, Investment Securities, for additional information.

The following table summarizes our investment in obligations of state and political subdivisions at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023.

September 30, 2023									December 31, 2022																				
March 31, 2024															December 31, 2023														
(dollars in thousands)	(dollars in thousands)	Amortized			% of Total State and Political			(dollars in thousands)	Amortized			% of Total State and Political			Amortized	% of Total State and Political													
		Cost	Fair Value	Subdivisions	Cost	Fair Value	Subdivisions		Cost	Fair Value	Subdivisions	Cost	Fair Value	Subdivisions															
Within California:	Within California:																												
	General obligation bonds	\$ 24,216	\$ 18,867	14.7 %	\$ 25,806	\$ 20,768	14.4 %																						
	Revenue bonds	3,510	2,775	2.1	3,719	2,987	2.1																						
	General obligation bonds																												
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Revenue bonds									
Total outside California	Total outside California	136,918	112,166	83.2	149,830	130,127	83.5		
Total obligations of state and political subdivisions	Total obligations of state and political subdivisions	\$164,644	\$133,808	100.0 %	\$179,355	\$153,882	100.0 %	Total obligations of state and political subdivisions	\$163,827
									\$144,242
								100.0	100.0 %
								\$164,236	\$146,079
								100.0	100.0 %
Percent of investment portfolio	Percent of investment portfolio	9.7 %	9.3 %		9.6 %	9.3 %			

Of the total investment in obligations of state and political subdivisions, the largest concentrations outside of California are in Texas (37.1%), Washington (15.4%) (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

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- 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

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## Loans and Credit Quality

During the first nine three months of 2023, 2024, loans decreased by \$5.6 million \$18.8 million and totaled \$2.087 billion at September 30, 2023 \$2.055 billion as of March 31, 2024, compared to \$2.093 billion at December 31, 2022. During the same period in 2022, loans decreased \$97.3 million to \$2.158 billion at September 30, 2022 from \$2.256 billion at December 31, 2021 \$2.074 billion as of December 31, 2023. Loan originations were \$90.3 million \$12.4 million for the nine three months ended September 30, 2023 March 31, 2024, compared to \$204.1 million \$53.8 million for the first nine months fourth quarter of 2022. Excluding PPP loans, 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 \$57.7 million \$21.8 million for the nine three months ended September 30, 2023 March 31, 2024, compared to \$204.2 million \$50.3 million for the same period 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 2022. PPP 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 during and paydowns. Three loan relationships totaling \$370 thousand moved to non-accrual status in the nine months ended September 30, 2023 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 2022 63% were \$1.8 million and \$103.6 million, respectively. In addition, loan amortization from scheduled repayments totaling \$60.6 million was partially offset by a \$24.2 million net increase in utilization of credit lines for the nine months ended September 30, 2023. real estate secured.

While Bank of Marin has continued its usual 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 deterioration. The Bank continues to focus on extending credit within the markets we know best and serving the needs weakening. Classified loans totaled \$54.8 million as of our existing clients while ensuring new opportunities present the appropriate levels of risk and return.

The ratio of allowance for credit losses on loans to total loans was 1.16% at September 30, 2023 March 31, 2024, compared to 1.10% at December 31, 2022 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.

Non-accrual loans increased \$3.3 million to \$5.7 million, or 0.27% of the loan portfolio at September 30, 2023 from \$2.4 million, or 0.12% at December 31, 2022. All of the non-accrual loans are collateralized by real estate with no expected credit loss as of September 30, 2023. Accruing loans past due 30 to 89 days totaled \$2.2 million at September 30, 2023 \$1.9 million as of March 31, 2024, compared to \$664 thousand at December 31, 2022.

Classified loans with risk ratings \$1.0 million as of substandard or doubtful totaled \$39.7 million at September 30, 2023, compared to \$28.1 million at December 31, 2022 December 31, 2023. Increases in 2023 were primarily due to the addition of eleven loans to ten borrowers totaling \$13.4 million, mostly within the We had one accruing non-owner-occupied commercial real estate (both owner-occupied 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 non-owner occupied) and expected to be restored to a current payment status in the commercial and industrial portfolios. Partially offsetting the additions were \$939 thousand in upgrades to pass risk rating and \$905 thousand in payoffs and paydowns, net of balance increases of \$3.4 million. Shortly after quarter-end three unsecured commercial substandard loans to one borrower totaling approximately \$4.6 million paid off, near future.

Loans designated special mention, which are not considered adversely classified, increased decreased by \$52.2 million \$34.3 million to \$112.4 million at September 30, 2023 \$100.9 million as of March 31, 2024, from \$60.2 million at December 31, 2022 \$135.2 million as of December 31, 2023. The increase decrease was largely due to \$66.0 million in downgrades from pass risk ratings, mostly concentrated in the commercial real estate non-owner-occupied portfolio, which were partially offset by \$5.9 million \$24.4 million in downgrades from special mention to substandard \$4.9 million in paydowns and payoffs and \$3.1 million mentioned above, \$10.5 million in upgrades to pass risk ratings, 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.

With the heightened market concern about non-owner-occupied commercial real estate, and in particular the office sector, we are providing the following additional information. We continue to maintain diversity among property types and within our geographic footprint. In particular, our office commercial real estate portfolio in the City of San Francisco represents just 3% of our total loan portfolio and 6% of our total non-owner occupied commercial real estate portfolio. As of the last measurement period (generally December 2022), the weighted average loan-to-value and weighted average debt-service coverage ratios Net charge-offs for the entire non-owner-occupied office portfolio were 56% and 1.68x, respectively. For first quarter of 2024 totaled \$21 thousand, compared to net charge-offs of \$387 thousand for the eleven non-owner-occupied office fourth quarter of 2023. The ratio of allowance for credit losses to total loans in the City of San Francisco, the weighted average loan-to-value and debt-service coverage ratios were 66% (61% unweighted) and 1.07x (1.34x unweighted) was 1.24% at March 31, 2024, respectively. During the quarter we conducted a review of the refinance risk in our non-owner-occupied commercial real estate portfolio. We evaluated 36 loans with commitments of \$1.0 million or more totaling \$97.4 million that mature or reprice in 2023 or 2024 and determined that the refinance risk on these loans is expected compared to be manageable with weighted average debt service coverage ratios ranging from 1.28 to 2.01 times based on current interest rates. 1.21% at December 31, 2023.

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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 nine three months of 2023, 2024, total liabilities decreased by \$118.4 million \$34.3 million to \$3.617 billion \$3.330 billion. Deposits totaled \$3.444 billion \$3.284 billion at September 30, 2023 March 31, 2024, a decrease of \$129.7 million \$6.0 million, compared to \$3.573 billion \$3.290 billion at December 31, 2022 December 31, 2023. Borrowings increased \$8.0 million The Bank had zero outstanding borrowings at March 31, 2024, compared to \$120.0 million \$26.0 million at September 30, 2023 from \$112.0 million at December 31, 2022 December 31, 2023.

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We have seen stability in deposit trends since the first quarter, including the utilization of our available deposit networks. That stability extended to our mix in deposits, new account activity and overall growth. Non-interest bearing deposits made up 47.7% 44.0% of total deposits at September 30, 2023 March 31, 2024, compared to 51.5% 43.8% at year-end 2022, while money December 31, 2023. Money market deposits rose to 31.7% from 27.7%, balances remained constant at 34.6% and time deposits rose increased from 7.6% to 6.7% from 3.3% in the same period. 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 growth adding over addition of nearly 1,200 new accounts during the third first quarter 38%, 34% of

which which were new relationships bringing the total to over 3,600 new accounts in 2023 (excluding new reciprocal accounts). As a result, we are closing the gap on the deposit outflows experienced in

During the first quarter of 2023 without accessing 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 deposit markets. As of September 30, 2023, 61% of deposit balances were held in business accounts with average balances of \$130 thousand per account. The remaining 39% were consumer accounts with average balances of \$41 thousand per account. The largest depositor represented 2.7% of total deposits and the four largest depositors combined represented 5.3% of total deposits. Our liquidity policies require that compensating cash or investment security balances be held against concentrations over a certain level.

At September 30, 2023, the Bank had \$120.0 million outstanding in short term borrowings from the Federal Reserve Bank's "BTFF" facility at a rate of 5.42%, an increase of \$8.0 million, compared to \$112.0 million in overnight borrowings at December 31, 2022 at a rate of 4.65%. The Bank is actively evaluating strategies for reducing borrowings in the current environment and as market conditions change. Total immediate contingent Net available funding sources, including unrestricted cash, unencumbered available-for-sale securities, and remaining borrowing capacity was \$2.086 billion \$1.905 billion, or 61% 58% of total deposits and 211% 208% of estimated uninsured and/or uncollateralized deposits as of September 30, 2023 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 September 30, 2023 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 8.6% 9.76% at September 30, 2023 March 31, 2024, compared to 8.2% 9.73% at December 31, 2022 December 31, 2023. Bancorp's TCE ratio, net of after tax unrealized losses on held-to-maturity securities, was 6.1% 7.67%, compared to 6.2% 7.80% at December 31, 2022 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 refer to page 46 for a discussion the discussion and reconciliation of this non-GAAP financial measure) 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 September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 are presented in the following tables.

Bancorp Capital Ratios	Bancorp Capital Ratios	Threshold to be a						Bancorp Capital Ratios						Threshold to be a Well Capitalized Bank Holding Company					
		Adequately Capitalized		Well Capitalized		Bank Holding Company		Actual		Adequately Capitalized		Threshold 1		Company		Actual		Adequately Capitalized	
(dollars in thousands)	(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	(dollars in thousands)	Amount	Ratio	Amount	Ratio
September 30, 2023	Amount	Ratio	Amount	Ratio	Amount	Ratio													
March 31, 2024								March 31, 2024	Amount	Ratio	Amount	Ratio	Amount	Ratio					
Total Capital (to risk-weighted assets)	Total Capital (to risk-weighted assets)	\$442,947	16.56 %	\$280,854	10.50 %	\$267,480	10.00 %	Total Capital (to risk-weighted assets)	\$441,181	17.05 17.05	% \$271,680	10.50 10.50	% \$258,743	10.00 10.00					
Tier 1 Capital (to risk-weighted assets)	Tier 1 Capital (to risk-weighted assets)	\$418,088	15.63 %	\$227,358	8.50 %	\$213,984	8.00 %	Tier 1 Capital (to risk-weighted assets)	\$415,157	16.05 16.05	% \$219,931	8.50 8.50	% \$206,994	8.00 8.00					

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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 %

<sup>1</sup> 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 and diversification requirements that are regularly monitored using metrics and tools similar to those used by larger banks, such as the Liquidity Coverage Ratio liquidity coverage ratio, and multi-scenario, long-horizon stress testing 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 potential 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. We maintained \$2.2 million in off-balance sheet one-way deposit sales with our deposit networks at both September 30, 2023 and December 31, 2022.

Net available contingent funding sources, including unrestricted cash, unencumbered available-for-sale securities and total available borrowing capacity was \$2.086 billion \$1.905 billion, or 211% 208% of estimated uninsured and/or uncollateralized deposits as of September 30, 2023 March 31, 2024. The Federal Reserve's BTFP facility offers borrowing capacity based on par values of securities pledged making it less sensitive to changes in market rates.

The following table details the components of our contingent liquidity sources as of September 30, 2023 March 31, 2024.

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(in thousands)	(in thousands)	Total Available	Amount Used	Net Availability	(in thousands)	Total Available	Amount Used	Net Availability
<b>Internal Sources</b>	<b>Internal Sources</b>							
Unrestricted cash <sup>1</sup>	Unrestricted cash <sup>1</sup>	\$ 102,581	N/A	\$ 102,581				
Unrestricted cash <sup>1</sup>								
Unrestricted cash <sup>1</sup>								
Unencumbered securities at market value	Unencumbered securities at market value	613,684	N/A	613,684				
<b>External Sources</b>	<b>External Sources</b>							
FHLB line of credit	FHLB line of credit	1,023,197	\$ —	1,023,197				
FRB line of credit and BTFP facility		331,907	(120,000)	211,907				
FHLB line of credit								
FHLB line of credit								
FRB line of credit								
Lines of credit at correspondent banks	Lines of credit at correspondent banks	135,000	—	135,000				
<b>Total Liquidity</b>	<b>Total Liquidity</b>	<b>\$2,206,369</b>	<b>\$(120,000)</b>	<b>\$2,086,369</b>				

<sup>1</sup> 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 \$77.7 million \$5.9 million in the first nine three months of 2023 2024. The most significant sources of liquidity during the first nine three months of 2023 2024 were proceeds from principal paydowns and maturities of investment securities of \$87.8 million \$20.3 million, and proceeds from the sales loans collected net of \$82.7 million of available-for-sale securities and the remaining Visa Inc. Class B restricted common stock in the third quarter, and \$34.9 million 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.

Significant uses of liquidity during 2023 were \$129.7 million in net withdrawals of deposits and \$12.1 million in cash dividends paid on common stock to our shareholders.

Unfunded loan commitments, as discussed in Note 8 to the Consolidated Financial Statements in this Form 10-Q, totaled \$510.2 million \$489.4 million at September 30, 2023 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, \$210.2 \$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 \$120.0 at March 31, 2024, and \$26.0 million at September 30, 2023, and \$112.0 million at December 31, 2022 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 \$11.5 \$8.6 million in cash at September 30, 2023 March 31, 2024 and management anticipates that there will be sufficient earnings 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

Results for 2022 were impacted by costs associated with our 2021 acquisition of American River Bankshares, which we considered immaterial to discuss in this report. For additional information regarding the impact of non-GAAP adjustments to our third quarter and year-to-date 2022 performance measures, refer to Form 10-Q filed on November 8, 2022.

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 after tax impact of unrealized losses on held-to-maturity securities provides useful supplemental information to investors becausebecause it reflects the level of capital available to withstand drastic changes in market conditions. 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)	(in thousands, unaudited)	September 30, 2023	December 31, 2022	(in thousands, unaudited)	March 31, 2024	December 31, 2023
---------------------------	---------------------------	--------------------	-------------------	---------------------------	----------------	-------------------

Tangible Common Equity - Bancorp	Tangible Common Equity - Bancorp													
Total stockholders' equity														
Total stockholders' equity														
Total stockholders' equity	Total stockholders' equity		\$	418,618	412,092									
Goodwill and core deposit intangible	Goodwill and core deposit intangible			(76,850)	(77,870)									
Total TCE	Total TCE	a		341,768	334,222									
Unrealized losses on HTM securities, net of tax 1	Unrealized losses on HTM securities, net of tax 1			(107,011)	(89,432)									
TCE, net of unrealized losses on HTM securities (non-GAAP)	TCE, net of unrealized losses on HTM securities (non-GAAP)	b	\$	234,757	244,790									
Total assets	Total assets		\$	4,035,549	4,147,464									
Goodwill and core deposit intangible	Goodwill and core deposit intangible			(76,850)	(77,870)									
Total tangible assets	Total tangible assets	c		3,958,699	4,069,594									
Unrealized losses on HTM securities, net of tax 1	Unrealized losses on HTM securities, net of tax 1			(107,011)	(89,432)									
Total tangible assets, net of unrealized losses on HTM securities (non-GAAP)	Total tangible assets, net of unrealized losses on HTM securities (non-GAAP)	d	\$	3,851,688	3,980,162									
Bancorp TCE ratio	Bancorp TCE ratio	a	/	c	8.6 %	8.2 %	Bancorp TCE ratio					a / c	9.8 %	9.7 %
Bancorp TCE ratio, net of unrealized losses on HTM securities (non-GAAP)	Bancorp TCE ratio, net of unrealized losses on HTM securities (non-GAAP)	b	/	d	6.1 %	6.2 %	Bancorp TCE ratio, net of unrealized losses on HTM securities (non-GAAP)					b / d	7.7 %	7.8 %

<sup>1</sup> Net unrealized losses on held-to-maturity securities as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** of **\$151.9 million** **\$119.2 million** and **\$127.0**, **\$110.4 million**, respectively, as shown in Note 4, net of an estimated **\$44.9 million** **\$35.2 million** and **\$37.5**, **\$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 **Disclosure 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 **affects 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 and liability management policy** **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. **See Refer to** Note 9 to the Consolidated Financial Statements in this **Form 10-Q 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 **to** adapt to changes in idiosyncratic and systemic risks. **At September 30, 2023** **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 and Parallel Shift in Interest Rates (in basis points)	Estimated Change in Net Interest Income in Year 1, as percent of Net		Estimated Change in Net Interest Income in Year 2, as percent of Net			
	Change in Net Interest Income in Year 1, as percent of Net		Change in Net Interest Income in Year 2, as percent of Net			
	Interest Income		Interest Income			
	Income		Income			
Immediate Changes in Interest Rates (in basis points)	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	400	(0.4) %	4.2 %	up 400	(10.8) %	0.7 %
up 300	300	(0.4) %	3.0 %	up 300	(7.9) %	0.7 %
up 200	200	(0.3) %	1.8 %	up 200	(5.1) %	0.7 %



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 2022 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. Other than as noted below, there There have been no material changes in to the risk factors disclosed in our 2022 2023 Form 10-K.

**Recent Negative Developments Affecting the Banking Industry and Resulting Media Coverage Have Eroded Customer and Investor Confidence in the Banking System**

High-profile 2023 bank failures involving Silicon Valley Bank and Signature Bank in the first quarter, and First Republic Bank in the second quarter, as well as media and market coverage of the Bay Area economy and local financial institutions, have generated significant market volatility among publicly traded bank holding companies and, in particular, regional and community banks like the Company. These market developments have negatively impacted customer confidence in the safety and soundness of regional and community banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. Additionally, these recent events have, and could continue to, adversely impact the market price and volatility of the Company's common stock independent from the Company's actual underlying financial performance.

**Rising Interest Rates Have Decreased the Value of the Company's Held-To-Maturity and Available-for-Sale Securities Portfolio, and the Company Would Realize Losses if It Were Required to Sell Such Securities to Meet Liquidity Needs**

Because of inflationary pressures and the resulting rapid increases in interest rates over the last year, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including the Company's, resulting in unrealized losses embedded in the held-to-maturity portion of U.S. banks' securities portfolios and unrealized losses on available-for-sale securities reflected in the Company's accumulated other comprehensive income. While it is not our intention to sell securities at a net loss, we may do so in the normal course of business as a source of liquidity or to reposition the balance sheet for strategic purposes as was done in the third quarter of 2023. If the Company were to sell additional securities in an unrealized loss position, it may incur losses that could impair the Company's capital, financial condition, and results of operations and may require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability.

**Any Regulatory Examination Scrutiny or New Regulatory Requirements Arising From the Recent Events in the Banking Industry Could Increase the Company's Expenses and Affect the Company's Operations**

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The Company also anticipates increased regulatory scrutiny – in the course of routine examinations and otherwise – and new regulations directed towards banks of similar size to the Bank, designed to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. As primarily a commercial bank, the Bank has a higher percentage of uninsured deposits compared to primarily retail focused banks. As a result, the Bank could face increased scrutiny or be viewed as higher risk by regulators and the investor community.

**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 16, 2021, Bancorp Board of Directors approved a share repurchase program under which Bancorp could repurchase up to \$25.0 million of its outstanding common stock through July 31, 2023. On October 22, 2021, Bancorp Board of Directors approved an amendment, which increased the total authorization to \$57.0 million and left the expiration date unchanged. The last activity under the program was in the first quarter of 2022.

On July 21, 2023, Bancorp the Board of Directors approved the adoption of a new Bancorp's share repurchase program under which Bancorp could repurchase for up to \$25.0 million of its outstanding common stock and expiring on July 31, 2025, which replaced the existing program. There were no repurchases under this program in either 2024 or 2023.

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**ITEM 3 Defaults upon Senior Securities**

None.

**ITEM 4 Mine Safety Disclosures**

Not applicable.

**ITEM 5 Other Information**

Not applicable.

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**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	<a href="#">Articles of Incorporation, as amended</a>	S-4	333-257025	3.01	June 11, 2021	
3.02	<a href="#">Bylaws, as amended</a>	S-4	333-257025	3.02	June 11, 2021	
4.01	<a href="#">Description of Capital Stock</a>	10-K	001-33572	4.01	March 16, 2023	
10.01	<a href="#">Employee Stock Ownership Plan</a>	S-8	333-218274	4.1	May 26, 2017	
10.02	<a href="#">2017 Employee Stock Purchase Plan</a>	S-8	333-221219	4.1	October 30, 2017	
10.03	<a href="#">2017 Equity Plan, as amended</a>	S-8	333-227840	4.1	October 15, 2018	
10.04	<a href="#">2020 Director Stock Plan</a>	S-8	333-239555	4.1	June 30, 2020	
10.05	<a href="#">Form of Indemnification Agreement for Directors and Executive Officers, dated August 9, 2007</a>	10-Q	001-33572	10.06	November 7, 2007	
10.06	<a href="#">2010 Annual Individual Incentive Compensation Plan, revised 2019</a>	10-K	001-33572	10.07	March 15, 2021	
10.07	<a href="#">Salary Continuation Agreement for executive officer Tani Gorton, Chief Financial Officer, dated October 18, 2013</a>	8-K	001-33572	10.2	November 4, 2014	
10.08	<a href="#">2007 Form of Change in Control Agreement</a>	8-K	001-33572	10.1	October 31, 2007	
10.09	<a href="#">Director Deferred Fee Plan, dated December 17, 2020</a>	10-K	001-33572	10.13	March 15, 2021	
10.10	<a href="#">Employment Agreement with Timothy Myers, dated September 23, 2021</a>	8-K	001-33572	10.1	September 24, 2021	
10.11	<a href="#">Salary Continuation Agreement, as amended for executive officer Timothy Myers, Chief Executive Officer, dated January 1, 2022</a>	8-K	001-33572	10.1	December 21, 2022	
10.12	<a href="#">Salary Continuation Agreement for executive officer Nicolette Sloan, Head of Commercial Banking, dated January 1, 2022</a>	8-K	001-33572	10.2	December 21, 2022	
10.13	<a href="#">Salary Continuation Agreement for executive officer Misako Stewart, Chief Credit Officer, dated January 1, 2022</a>	8-K	001-33572	10.3	December 21, 2022	
10.14	<a href="#">Salary Continuation Agreement for executive officer Brandi Campbell, Head of Retail Banking, dated July 1, 2022</a>	8-K	001-33572	10.4	December 21, 2022	
31.01	<a href="#">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</a>					Filed
31.02	<a href="#">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</a>					Filed
32.01	<a href="#">Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002</a>					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

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**SIGNATURES**

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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)

November 8, 2023 May 9, 2024

Date

/s/ Timothy D. Myers

Timothy D. Myers  
President and Chief Executive Officer  
(Principal Executive Officer)

November 8, 2023 May 9, 2024

Date

/s/ Tani Girtton

Tani Girtton  
Executive Vice President &  
Chief Financial Officer  
(Principal Financial Officer)

November 8, 2023 May 9, 2024

Date

/s/ David A. Merck

David A. Merck  
First Vice President & Controller  
(Principal Accounting Officer)

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#### EXHIBIT 31.01

#### Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Timothy D. Myers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Bank of Marin Bancorp (the Registrant);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

- (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls over financial reporting.

November 8, 2023 May 9,  
2024

Date

/s/ Timothy D. Myers

Timothy D. Myers

President &

Chief Executive Officer

#### EXHIBIT 31.02

#### Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002

I, Tani Girton, certify that:

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



November 8, 2023 May 9,  
2024

Date

/s/ Tani Girton

Tani Girton  
Executive Vice President &  
Chief Financial Officer

EXHIBIT 32.01

Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to §906  
of the Sarbanes-Oxley Act of 2002

In connection with the quarterly report on Form 10-Q of Bank of Marin Bancorp (the Registrant) for the quarter ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission, the undersigned hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- 1) such Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

November 8, 2023 May 9,  
2024

Date

/s/ Timothy D. Myers

Timothy D. Myers  
President &  
Chief Executive Officer

November 8, 2023 May 9,  
2024

Date

/s/ Tani Girton

Tani Girton  
Executive Vice President &  
Chief Financial Officer

This certification accompanies each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Registrant for purposes of §18 of the Securities Exchange Act of 1934, as amended.

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