



2021 ANNUAL REPORT

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2021

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

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

None

Securities registered pursuant to section 12(g) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, No Par Value, and attached Share Purchase Rights	BMRC	The Nasdaq Stock Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Note - checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under these sections.

Indicate by check mark whether the registrant (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Yes No

As of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting common equity held by non-affiliates, based upon the closing price per share of the registrant's common stock as reported by the Nasdaq, was approximately \$390 million. For the purpose of this response, directors and certain officers of the Registrant are considered affiliates at that date.

As of February 28, 2022, there were 15,939,659 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2022 are incorporated by reference into Part III.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K 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 affect our earnings in future periods. A number of factors, many of which are beyond management's control, could cause future results to vary materially from current management expectations. Such factors include, but are not limited to, general economic conditions and the economic uncertainty in the United States and abroad, including changes in interest rates, California's unemployment rate, deposit flows, real estate values, and expected future cash flows on loans and securities; costs or effects of acquisitions; competition; changes in accounting principles, policies or guidelines; changes in legislation or regulation (including the Coronavirus Aid, Relief and Economic Security Act of 2020, as amended, and the Economic Aid to Hard-Hit Small Businesses, Nonprofits and Venues Act of 2020); our borrowers' actual payment performance as loan deferrals related to the COVID-19 pandemic expire, including the potential adverse impact of loan modifications and payment deferrals implemented consistent with recent regulatory guidance; 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 materially differ from those expressed in our prior forward-looking statements are detailed in ITEM 1A, Risk Factors section of this report. Forward-looking statements speak only as of the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made or to reflect the occurrence of unanticipated events.

ITEM 1. BUSINESS

Bank of Marin (the "Bank") was incorporated in August 1989, received its charter from the California Superintendent of Banks (now the Department of Financial Protection and Innovation or "DFPI") and commenced operations in January 1990. The Bank is an insured bank by the Federal Deposit Insurance Corporation ("FDIC"). Bank of Marin Bancorp ("Bancorp") was formed in 2007 and the Bank became its sole subsidiary when each share of Bank common stock was exchanged for one share of Bancorp common stock. Bancorp is listed on the Nasdaq Stock Market under the symbol BMRC. Upon formation of the holding company, Bancorp became subject to regulation under the Bank Holding Company Act of 1956, as amended, and reporting and examination requirements by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Bancorp files periodic reports and proxy statements with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

References in this report to "Bancorp" mean Bank of Marin Bancorp, parent holding company for the Bank. References to "we," "our," "us" mean the holding company and the Bank that are consolidated for financial reporting purposes.

Virtually all of our business is conducted through Bancorp's subsidiary, Bank of Marin, which is headquartered in Novato, California. In addition to our headquarters, we operate 31 retail branches and 8 commercial banking offices across 10 counties - Alameda, Amador, Contra Costa, Marin, Napa, Placer, Sacramento, San Francisco, San Mateo and Sonoma counties, with a strong emphasis on supporting the local communities. Our customer base is made up of business, not-for-profit and personal banking relationships from the communities within our Northern California footprint. Our business banking focus is on small to medium-sized businesses, professionals and not-for-profit organizations.

We offer a broad range of commercial and retail deposit and lending programs designed to meet the needs of our target markets. Our lending categories include commercial real estate loans, commercial and industrial loans (including small business loans), construction financing, consumer loans, and home equity lines of credit. Through third-party vendors, we offer merchant and payroll services, a commercial equipment leasing program and consumer credit cards. Other products and services include Apple Pay[®], Samsung Pay[®], Google Pay[®], Zelle[®], Positive Pay (fraud detection tool), and solutions for clients with cash management needs such as Cash Vault and SafePoint[®].

We offer a variety of personal and business checking and savings accounts, and a number of time deposit alternatives, including time certificates of deposit, Individual Retirement Accounts ("IRAs"), Health Savings Accounts ("HSA"), Certificate of Deposit Account Registry Service[®] ("CDARS"), Insured Cash Sweep[®] ("ICS"), and Demand Deposit MarketplaceSM ("DDM Sweep") accounts. CDARS, ICS and DDM Sweep accounts are networks through which we offer full FDIC insurance coverage in excess of the regulatory maximum by placing deposits in multiple banks participating in the networks. We also offer deposit options including mobile deposit, remote deposit capture, Automated Clearing House ("ACH") services, wire transfers, and image lockbox services.

Automated teller machines ("ATM's") are available at most branch locations. Our ATM network is linked to the PLUS, CIRRUS and NYCE networks, as well as to a network of nation-wide surcharge-free ATM's called MoneyPass. We also offer our depositors 24-hour access to their accounts by telephone and through digital banking services available to personal and business account holders.

We offer Wealth Management and Trust Services ("WMTS"), which include customized investment portfolio management, financial planning, trust administration, estate settlement and custody services. We also offer 401(k) plan services to small and medium-sized businesses through a third-party vendor.

We make international banking services available to our customers indirectly through other financial institutions with whom we have correspondent banking relationships.

We hold no patents, licenses (other than licenses required by the appropriate banking regulatory agencies), franchises or concessions. The Bank has registered the service marks "The Spirit of Marin," the words "Bank of Marin," the Bank of Marin logo, and the Bank of Marin tagline, "Committed to your business and our community" with the United States Patent & Trademark Office. In addition, Bancorp has registered the service marks for the words "Bank of Marin Bancorp" and for the Bank of Marin Bancorp logo with the United States Patent & Trademark Office. All service marks registered by Bancorp or the Bank are registered on the United States Patent & Trademark Office Principal Register.

Market Area

Our primary market area consists of Alameda, Amador, Contra Costa, Marin, Napa, Placer, Sacramento, San Francisco, San Mateo and Sonoma counties. Our customer base is primarily made up of business, not-for-profit and personal banking relationships within these market areas. As of December 31, 2021, the majority of our deposits were in Marin, Sacramento and southern Sonoma counties, and approximately 60% of our deposits were from businesses and 40% from individuals.

As discussed in Note 18 to the Consolidated Financial Statements in ITEM 8 of this report, in August 2021, we expanded our presence in Amador, Placer, Sacramento and Sonoma counties through the acquisition of American River Bankshares and its subsidiary American River Bank. This resulted in the addition of \$898.4 million of assets and the assumption of \$816.6 million of liabilities as of the August 6, 2021 merger date, as well as the addition of 10 branch offices.

Competition

The banking business in California generally, and in our market area specifically, is highly competitive with respect to attracting both loan and deposit relationships. The increasingly competitive environment is affected by changes in regulation, interest rates, technology and product delivery systems, and consolidation among financial service providers. The banking industry is seeing strong competition for quality loans, with larger banks expanding their activities to attract businesses that are traditionally community bank customers. In all of our ten counties, we have significant competition from nationwide banks with much larger branch networks and greater financial resources, as well as credit unions and other local and regional banks. Nationwide banks have the competitive advantages of developing data analytics and artificial intelligence tools and other technological platforms. Large commercial banks also have substantially greater lending limits and the ability to offer certain services which are not offered directly by us. Other competitors for depositors' funds are money market mutual funds and non-bank financial institutions such as brokerage firms and insurance companies.

We differentiate ourselves from the numerous, and often larger, financial institutions in our primary market area with a business model built on relationship banking, disciplined fundamentals and commitment to the communities we serve. The Bank's experienced professionals deliver innovative and custom financing, with a deep local market knowledge and a personal understanding of each customer's unique needs.

In Marin County, we have the fourth largest market share of total deposits at 10.5%, based upon FDIC deposit market share data as of June 30, 2021¹ (most recent data available). A significant driver of our franchise value is the growth and stability of our deposits, a low-cost funding source for our loan portfolio.

Human Capital Resources

At December 31, 2021, we employed 328 full-time equivalent staff. The actual number of employees, including part-time employees, at year-end 2021 included seven executive officers, 144 other corporate officers and 190 staff. None of our employees are presently represented by a union or covered by a collective bargaining agreement.

We offer a competitive total compensation package including a comprehensive benefits program to our employees designed to attract, retain and motivate employees, as well as to align with our performance, including employee ownership through our Employee Stock Ownership Plan. We regularly compare compensation and benefits with peer companies and market data, making adjustments as needed to ensure compensation stays competitive. We are continually investing in our workforce through employee development, education and training.

We strive to attract, develop, retain and plan for succession of key talent and executives to achieve our strategic objectives. We pride ourselves on creating an open, diverse, and transparent culture that celebrates collaboration and recognizes employees at all levels. We believe that the wide array of perspectives that result from such diversity promotes Legendary Service and business success. We continue to learn and grow, and our current initiatives reflect our ongoing efforts around a more diverse, inclusive and equitable workplace.

In order to develop a workforce that aligns with our corporate values, we regularly sponsor local community events so that our employees can better integrate themselves in and support our communities. We believe that our employees' well-being and personal and professional development is fostered by our outreach to the communities we serve. Our employees' desire for active community involvement enables us to sponsor a number of local community events and initiatives, including funding and volunteering for youth mentorship and financial literacy programs to enhance educational opportunities and sponsoring local chambers of commerce and economic development corporations to foster economic vitality.

We recognize that employees who are engaged and committed to their work and workplace contribute meaningfully to our success. On a regular basis, we solicit employee feedback through a confidential, company-wide survey on culture, management, career opportunities, compensation, and benefits. The results of this survey are reviewed and used to update employee programs, initiatives, and communications. We believe that our employee relations are good. We have been recognized as one of the "Best Places to Work" by the North Bay Business Journal.

¹ Source: S&P Global Market Intelligence of New York, New York

COVID-19 Pandemic-Related Response

Since the onset of the pandemic and national emergency, we have taken actions to ensure the health and safety of employees and customers. To protect the health of everyone, we have implemented COVID-19 safety protocols and continue to actively monitor federal, state and local guidelines and information related to COVID-19 to ensure the safety of our employees and customers. No employees have been laid off and no employees have had their pay reduced.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under both federal and state law. The following discussion summarizes certain significant laws, rules and regulations affecting Bancorp and the Bank.

Bank Holding Company Regulation

Upon formation of the bank holding company on July 1, 2007, we became subject to regulation under the Bank Holding Company Act of 1956, as amended (“BHCA”) which subjects Bancorp to Federal Reserve reporting and examination requirements. Under the Federal Reserve law and regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks. Under this requirement, Bancorp is expected to commit resources to support the Bank, including at times when Bancorp may not be in a financial position to provide such resources, and it may not be in Bancorp's, or Bancorp's shareholders' or creditors', best interests to do so. In addition, any capital loans Bancorp makes to the Bank are subordinate in right of payment to depositors and to certain other indebtedness of the Bank. The BHCA regulates the activities of holding companies including acquisitions, mergers and consolidations and, together with the Gramm-Leach Bliley Act of 1999, the scope of allowable banking activities. Bancorp is also a bank holding company within the meaning of the California Financial Code. As such, Bancorp and its subsidiaries are subject to examination by, and may be required to file reports with, the DFPI.

Bank Regulation

Banking regulations are primarily intended to protect consumers, depositors' funds, federal deposit insurance funds and the banking system as a whole. These regulations affect our lending practices, consumer protections, capital structure, investment practices and dividend policy.

As a state chartered bank, we are subject to regulation, supervision and examination by the DFPI. We are also subject to regulation, supervision and periodic examination by the FDIC. If, as a result of an examination of the Bank, the FDIC or the DFPI should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of our operations are unsatisfactory, or that we have violated any law or regulation, various remedies are available to those regulators including issuing a “cease and desist” order, monetary penalties, restitution, restricting our growth or removing officers and directors.

The Bank addresses the many state and federal regulations it is subject to through a comprehensive compliance program.

Safety and Soundness Standards (Risk Management)

The federal banking agencies have adopted guidelines that establish operational and managerial standards to promote the safety and soundness of federally insured depository institutions. The guidelines set forth standards for internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, compensation, fees and benefits, asset quality and earnings.

During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and strong internal controls when evaluating the activities of the financial institutions they supervise. Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation, and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of risks facing a banking institution including, but not limited to, credit, market, liquidity, operational, legal, and reputational. In particular, recent regulatory pronouncements have focused on operational risk, which arises from

the potential that inadequate information systems, operational problems, breaches in internal controls, fraud, or unforeseen catastrophes will result in unexpected losses. New products and services, third-party risk management and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. The Board of Directors and various sub-committees oversee Bancorp's consolidated enterprise risk management program that ensures the adequacy of policies, procedures, tolerance levels, risk measurement systems, monitoring processes, management information systems and internal controls.

Dividends and Stock Repurchases

Bancorp's ability to pay dividends to its shareholders may be affected by both general corporate law considerations and the policies of the Federal Reserve applicable to bank holding companies. As a California corporation, Bancorp is subject to the limitations of California law, which allows a corporation to distribute cash or property to shareholders, including a dividend or repurchase or redemption of shares, if the corporation meets certain tests based on its performance and financial condition. Bancorp's primary source of cash is dividends received from the Bank. Prior to any distribution from the Bank to Bancorp, we ensure that the dividend computations comply with the provisions of the California Financial Code and regulations set forth by the DFPI and the FDIC. Refer to Note 8 to the Consolidated Financial Statements, under the heading "Dividends" in ITEM 8 of this report for more information.

FDIC Insurance Assessments

The FDIC insures our customers' deposits to the maximum amount permitted by law, which is currently \$250,000 per depositor, based on the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").

FDIC insurance coverage is funded by the FDIC's assessment on insured depository institutions like us and FDIC's annual base assessment rates are currently between 1.5 and 40 basis points on the depository institution's quarterly average consolidated total assets minus average tangible equity. Base assessment rates for banks vary depending on whether a depository institution is small or large and highly complex per FDIC's definition. In deriving the base assessment rate, the FDIC applies financial ratios, scorecards, and other financial measures to determine a bank's ability to withstand financial stress.

Community Reinvestment Act

Congress enacted the Community Reinvestment Act ("CRA") in 1977 to encourage financial institutions to meet the credit needs of the communities in which they are located. All banks and thrifts have a continuing and affirmative obligation, consistent with safe and sound operations, to help meet the credit needs of their entire communities, including low and moderate income neighborhoods. Regulatory agencies rate each bank's performance in assessing and meeting these credit needs. The Bank is committed to serving the credit needs of the communities in which we do business, and it is our policy to respond to all creditworthy segments of our market. As part of its CRA commitment, the Bank maintains strong philanthropic ties to the community. We invest in affordable housing projects that help economically disadvantaged individuals and residents of low- and moderate-income census tracts, in each case consistent with our long-established prudent underwriting practices. We also donate to, invest in and volunteer with organizations that serve the communities in which we do business, especially low- and moderate-income individuals. These organizations offer educational and health programs to economically disadvantaged students and families, community development services and affordable housing programs. We offer CRA reportable small business, small farm and community development loans within our assessment areas. The CRA requires a depository institution's primary federal regulator, in connection with its examination of the institution, to assess the institution's record in meeting CRA requirements. The regulatory agency's assessment of the institution's record is made available to the public. This record is taken into consideration when the institution establishes a new branch that accepts deposits, relocates an office, applies to merge or consolidate, or expands into other activities. The FDIC assigned a "Satisfactory" rating to Bank of Marin's CRA performance examination based on their most recent examination completed in January 2021, which was performed under the large bank requirements.

In December 2019, the FDIC and the OCC announced a proposal to modernize the agencies' regulations under the CRA that have not been substantively updated for nearly 25 years. In order to increase transparency for CRA exams, the proposal clarifies what qualifies for credit under the CRA, enabling banks and their partners to better

implement lending and deposit activities that can benefit communities. The proposal also updates the definition of a small business loan and creates an additional definition of “assessment area” tied to where deposits are located, in part to address changes that have occurred due to the rise in digital banking, ensuring that banks continue to provide loans and other services to low- and moderate-income individuals and businesses in their communities. Although the proposed rule was never finalized by the FDIC, it is expected that there will be interagency efforts to update and finalize a rule soon.

Anti-Money-Laundering Regulations

A series of banking laws and regulations beginning with the Bank Secrecy Act in 1970 requires banks to prevent, detect, and report illicit or illegal financial activities to the federal government to prevent money laundering, international drug trafficking, and terrorism. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships, requirements regarding the Customer Identification Program, as well as enhanced due diligence and “know your customer” standards in their dealings with high risk customers, foreign financial institutions, and foreign individuals and entities. In 2016, Customer Due Diligence Rules under the Bank Secrecy Act clarified and strengthened customer due diligence requirements. These rules contained explicit customer due diligence requirements, which included a new requirement to identify and verify the identity of beneficial owners of legal entity customers. In 2020, the Anti-Money Laundering Act (“AMLA 2020”) became law. Among its many provisions, AMLA 2020 provides for: 1) expanded whistleblower rewards and protections; 2) the establishment of a beneficial ownership registration database that will be implemented by the Financial Crimes Enforcement Network (“FinCEN”); and 3) new Bank Secrecy Act violations and enhanced penalties for repeat and egregious violators.

Privacy and Data Security

The Gramm-Leach Bliley Act (“GLBA”) of 1999 imposes requirements on financial institutions with respect to consumer privacy and the disclosure of non-public personal information about individuals who apply for or obtain a financial product to be used for personal, family or household purposes. The GLBA generally prohibits disclosure of consumer information to most nonaffiliated third parties unless the consumer has been given the opportunity to object and has not objected to such disclosure. Financial institutions are further required to disclose their privacy policies to consumers and the conditions under which an institution may disclose non-public information about a consumer to a nonaffiliated third party. The GLBA also directs federal regulators, including the FDIC, to prescribe standards for the security of consumer information. We are subject to such standards, as well as standards for notifying consumers in the event of a security breach. We must disclose our privacy policy to consumers and permit consumers to “opt out” of having non-public customer information disclosed to third parties. We are required to have an information security program to safeguard the confidentiality and security of customer information and to ensure proper disposal of information that is no longer needed. We notify our customers when unauthorized disclosure involves sensitive customer information that may be misused. Effective January 2020, the California Consumer Privacy Act (“CCPA”) added required notice about personal information we collect, use, share, and disclose for business purposes. The CCPA provides California residents rights regarding their personal information specifically related to exercising access, data portability and deletion rights. There are also California breach notification and disclosure requirements.

On November 23, 2021, the federal banking agencies issued a final rule requiring banking organizations that experience a computer-security incident to notify their primary Federal regulator of the occurrence of an event that rises to the level of a “notification incident.” Generally, a notification incident occurs when a banking organization has suffered a computer-security incident that has a reasonable likelihood of materially disrupting or degrading the banking organization or its operations. The rule requires an affected banking organization to notify its primary Federal regulator as soon as possible and no later than 36 hours after the banking organization has determined that a notification incident has occurred. The rule also requires bank service providers to notify each affected banking organization if that bank service provider experiences a computer-security incident that has caused, or is reasonably likely to cause, a material service disruption or degradation for four or more hours. The rule becomes effective on April 1, 2022, with a compliance date of May 1, 2022.

Consumer Protection Regulations

Our lending activities are subject to a variety of statutes and regulations designed to protect consumers, including the CRA, Home Mortgage Disclosure Act, Fair Credit Reporting Act, Fair Lending, Fair Debt Collection Practices Act, Flood Disaster Protection Act, eSign Act, Equal Credit Opportunity Act, the Fair Housing Act, Truth-in-Lending Act ("TILA"), the Real Estate Settlement Procedures Act ("RESPA"), Protecting Tenants at Foreclosure, and the Secure and Fair Enforcement for Mortgage Licensing Act ("SAFE"). Our deposit operations are also subject to laws and regulations that protect consumer rights including Expedited Funds Availability, Truth in Savings Act ("TISA"), and Electronic Funds Transfers. Other regulatory requirements include the Unfair, Deceptive or Abusive Acts and Practices ("UDAAP"), Dodd-Frank Act, Right to Financial Privacy, Telephone Consumer Protection Act and Privacy of Consumer Financial Information. Additional rules govern check writing ability on certain interest earning accounts and prescribe procedures for complying with administrative subpoenas of financial records.

Restriction on Transactions between Bank's Affiliates

Transactions between Bancorp and the Bank are quantitatively and qualitatively restricted under Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W. Section 23A places restrictions on the Bank's "covered transactions" with Bancorp, including loans and other extensions of credit, investments in the securities of, and purchases of assets from Bancorp. Section 23B requires that certain transactions, including all covered transactions, be on market terms and conditions. Federal Reserve Regulation W combines statutory restrictions on transactions between the Bank and Bancorp with Federal Reserve interpretations in an effort to simplify compliance with Sections 23A and 23B.

Capital Requirements

The Federal Deposit Insurance Act, as amended ("FDIA"), requires federal banking agencies to take prompt corrective action ("PCA") with respect to depository institutions that do not meet minimum capital requirements. The FDIA includes the following five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." A depository institution's capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. Bancorp's ratios exceed the required minimum ratios for capital adequacy purposes and the Bank meets the definition for "well capitalized." Undercapitalized depository institutions may be subject to significant restrictions. Banks that are categorized as "critically undercapitalized" are subject to dividend and other restrictions.

Effective January 1, 2020, the federal banking agencies' jointly-issued final rule on the community bank leverage ratio ("CBLR") provides for an optional, simplified measure of capital adequacy for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"). Qualifying community banking organizations are defined as having less than \$10 billion in total consolidated assets that meet risk-based qualifying criteria, a CBLR of greater than 9 percent, off-balance sheet exposure of 25 percent or less of total consolidated assets, trading assets and liabilities of 5 percent or less of total consolidated assets, and cannot be an advanced approaches institution. Such a community banking organization would not be subject to other risk-based and leverage capital requirements (including the Basel III and Basel IV requirements) and would be considered to have met the "well capitalized" ratio requirements. The CBLR is determined by dividing a financial institution's tangible equity capital by its average total consolidated assets. The rule further describes what is included in tangible equity capital and average total consolidated assets. Qualifying banks may opt in and out of the CBLR framework at any time. While we are a qualifying community banking organization, we have not opted into the CBLR framework at this time. See below, for further discussion of the Economic Growth Act.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and the Economic Growth, Regulatory Relief, and Consumer Protection Act

The Dodd-Frank Act, a landmark financial reform bill comprised of voluminous new rules and restrictions on bank operations, included provisions aimed at preventing a repeat of the 2008 financial crisis and a new process for winding down failing, systemically important institutions in a manner as close to a controlled bankruptcy as possible. Among other things, the Dodd-Frank Act established new government oversight responsibilities, enhanced capital

adequacy requirements for certain institutions, established consumer protection laws and regulations, and placed limitations on certain banking activities.

In an attempt to reduce the regulatory burden on U.S. companies, including financial institutions, in May 2018, the Presidential Administration signed the Economic Growth Act, which repealed or modified certain provisions of the Dodd-Frank Act and eased regulations on all but the largest banks. The Economic Growth Act's highlights included improving consumer access to mortgage credit, added certain protections for consumers, included veterans and active duty military personnel, expanded credit freezes and created an identity theft protection database.

Notice and Approval Requirements Related to Control

Banking laws impose notice, approval and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution. These laws include the BHCA and the Change in Bank Control Act. Among other things, these laws require regulatory filings by a shareholder or other party that seeks to acquire direct or indirect "control" of an FDIC-insured depository institution or bank holding company. The determination whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, a party is deemed to control a depository institution or other company if the party owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock. Ownership by family members, affiliated parties, or parties acting in concert, is typically aggregated for these purposes. If a party's ownership of the Company were to exceed certain thresholds, the investor could be deemed to "control" the Company for regulatory purposes. This could subject the investor to regulatory filings or other regulatory consequences.

In addition, except under limited circumstances, bank holding companies are prohibited from acquiring, without prior approval: 1) control of any other bank or bank holding company or all or substantially all the assets thereof; or 2) more than 5% of the voting shares of a bank or bank holding company that is not already a subsidiary.

Incentive Compensation

The Dodd-Frank Act required federal bank regulators and the Securities and Exchange Commission ("SEC") to establish joint regulations or guidelines prohibiting incentive-based payment arrangements that encourage inappropriate risks by providing an executive officer, employee, director or principal stockholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. These regulations apply to institutions having at least \$1 billion in total assets. In addition, regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies have not finalized regulations proposed in April 2016. If adopted, the proposed regulations could place limits on the manner in which we structure our executive compensation.

The Federal Reserve reviews, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations. The Federal Reserve tailors its reviews for each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives are included in reports of examination. Deficiencies, if any, are incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Available Information

On our Internet web site, www.bankofmarin.com, we post the following filings as soon as reasonably practical after they are filed with or furnished to the Securities and Exchange Commission: Annual Report to Shareholders, Form 10-K, Proxy Statement for the Annual Meeting of Shareholders, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934. All such materials on our website are available free of charge. This website address is for information only and is not intended to be an active link, or to incorporate any website information into this document. In addition, copies of our filings are available by requesting them in writing or by phone from:

Corporate Secretary
Bank of Marin Bancorp
504 Redwood Boulevard, Suite 100
Novato, CA 94947
415-763-4523

These materials are also available at the SEC's internet website (<https://www.sec.gov>).

ITEM 1A. RISK FACTORS

We assume and manage a certain degree of risk in order to conduct our business. The material risks and uncertainties that management believes may affect our business are listed below and in ITEM 7A, Quantitative and Qualitative Disclosure about Market Risk. The list is not exhaustive; additional risks and uncertainties that management is not aware of, or focused on, or currently deems immaterial may also impair business operations. If any of the following risks, or risks that have not been identified, actually occur, our financial condition, results of operations, and stock trading price could be materially and adversely affected. We manage these risks by promoting sound corporate governance practices, which include but are not limited to, establishing policies and internal controls, and implementing internal review processes. Before making an investment decision, investors should carefully consider the risks, together with all of the other information included or incorporated by reference in this Annual Report on Form 10-K and our other filings with the SEC. This report is qualified in its entirety by these risk factors.

Strategic, Financial, and Reputational Risks

Our Business, Results of Operations, and Financial Condition Have Been Adversely Affected by the Ongoing COVID-19 Pandemic

The COVID-19 pandemic has caused significant economic and business disruptions. The extent to which the pandemic impacts our business, results of operations and financial condition depends on future developments, which are uncertain and are difficult to predict and measure, including, but not limited to, the duration and spread of new variants, actions to contain the virus including the timely deployment of effective vaccination and other government-initiated actions or mandates, and how quickly and to what extent normal economic and operating conditions resume, particularly in California. As a result, we are subject to the following risks, which could have a material effect on our business, financial condition, results of operations, capital position and liquidity:

- The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains, created significant volatility and disrupted financial markets and equity market valuations. These factors could lead to increases in loan delinquencies, problem assets and foreclosures, and closures of businesses, which may increase loan losses.
- Commercial real estate ("CRE") loan demand and credit risk could be adversely affected longer-term by the pandemic due to structural changes relating to remote work trends, continued migration of the workforce outside of metropolitan areas, and business closures. These trends could increase vacancy rates and reduce commercial real estate values.
- Demand for our products and services, including deposits, may decline making it increasingly difficult to grow assets and income.
- The low interest rate environment in 2020 and 2021 has resulted in decreases in yields on our interest-earning assets that exceed the decline in our cost of interest-bearing liabilities and has compressed our net interest margin.
- Our business operations may be disrupted if significant portions of our workforce are unable to work effectively because of illness, quarantines, government actions, and other restrictions in connection with the pandemic.
- Our borrowers' payment performance may be worse than anticipated, as pandemic-related payment deferrals expire. While approximately 94% of our payment relief loans have resumed normal payments, we have no assurance that these borrowers will not require additional payment relief in the future due to the continued impact of the pandemic.

Growth Strategy or Potential Mergers and Acquisitions May Produce Unfavorable Outcomes

We seek to expand our franchise safely and consistently. A successful growth strategy requires us to manage multiple aspects of the business simultaneously, such as following adequate loan underwriting standards, balancing loan and deposit growth without compressing our net interest margin, managing interest rate risk, maintaining sufficient capital, and recruiting, training and retaining qualified professionals. Our strategic plan also includes merger and acquisition opportunities, such as the 2021 merger with American River Bankshares, that either enhance our market presence or have potential for improved profitability through financial management, economies of scale or expanded services. We may incur significant acquisition related expenses either during the due diligence phase of acquisition targets or during integration of the acquirees. These expenses have and may continue to negatively impact our earnings prior to realizing the benefits of acquisitions. We may also be exposed to difficulties in combining the operations of acquired institutions into our own operations, which may prevent us from achieving the expected benefits from our acquisition activities. Our earnings, financial condition and prospects after the merger may affect our stock price and will depend in part on our ability to integrate the operations and management of the acquired institution while continuing to implement other aspects of our business plan. Inherent uncertainties exist in integrating the operations of an acquired institution and there is no assurance that we will be able to do so successfully. Among the issues that we could face are:

- unexpected problems with operations, personnel, technology or credit;
- loss of customers and employees of the acquiree;
- difficulty in working with the acquiree's employees and customers;
- the assimilation and integration of the acquiree's operations, culture and personnel;
- instituting and maintaining uniform standards, controls, procedures and policies; and
- litigation risk or obligations not discovered during due diligence.

Undiscovered factors as a result of an acquisition could bring liabilities against us, our management and the management of the institutions we acquire. These factors could contribute to our not achieving the expected benefits from our acquisitions within desired time frames, if at all. Further, although we generally anticipate cost savings from acquisitions, we may not be able to fully realize those savings. Any cost savings may be offset by losses in revenues or other charges to earnings.

Competition with Other Financial Institutions to Attract and Retain Banking Customers

We are facing significant competition for customers from other banks and financial institutions located in the markets that we serve. We compete with commercial banks, savings institutions, credit unions, non-bank financial services companies, including financial technology firms, and other financial institutions operating within or near our service areas. Some of our non-bank competitors and peer-to-peer lenders may not be subject to the same extensive regulations as we are, giving them greater flexibility in competing for business. We anticipate intense competition will continue for the coming year due to the consolidation of many financial institutions and more changes in legislation, regulation and technology. National and regional banks much larger than our size have entered our market through acquisitions and they may be able to benefit from economies of scale through their wider branch networks, more prominent national advertising campaigns, lower cost of borrowing, capital market access and sophisticated technology infrastructures. Further, intense competition for creditworthy borrowers could lead to pressure for loan rate concessions and affect our ability to generate profitable loans.

Going forward, we may see continued competition in the industry as competitors seek to expand market share in our core markets. Further, our customers may withdraw deposits to pursue alternative investment opportunities in the equity market. Technology and other changes have made it more convenient for bank customers to transfer funds into alternative investments or other deposit platforms such as online virtual banks and non-bank service providers. Efforts and initiatives we may undertake to retain and increase deposits, including deposit pricing, can increase our costs. Based on our current strong liquidity position, our adjustment to deposit pricing has lagged the market in a rising interest rate environment. If our customers move money into higher yielding deposits or alternative investments, we may lose a relatively inexpensive source of funds, thus increasing our funding costs through more expensive wholesale funding sources, such as federal funds or FHLB borrowings.

We May Not Be Able to Attract and Retain Key Employees

Our success depends in large part on our ability to attract qualified personnel and to retain key employees, as well as the prompt replacement of retiring executives. The loss of key personnel and/or our inability to secure qualified candidates to replace retiring executives could have an unfavorable effect on our business due to the required skills and knowledge of our market and years of industry experience.

Bancorp Relies on Dividends from the Bank to Pay Cash Dividends to its Shareholders as Well as to Meet Other Financial Obligations

Bancorp is a separate legal entity from its subsidiary, the Bank. Bancorp receives substantially all of its cash stream from the Bank in the form of dividends, which is Bancorp's principal source of funds to pay cash dividends to Bancorp's common shareholders, repurchase shares, and cover operational expenses of the holding company. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to Bancorp. In the event that the Bank is unable to pay dividends to Bancorp, Bancorp may not be able to pay dividends to its shareholders. As a result, it could have an adverse effect on Bancorp's stock price and investment value.

Federal law would prohibit capital distributions from the Bank, with limited exceptions, if the Bank were categorized as "undercapitalized" under applicable Federal Reserve or FDIC regulations. In addition, as a California bank, Bank of Marin is subject to state law restrictions on the payment of dividends. For further information on the distribution limit from the Bank to Bancorp, see the section captioned "Bank Regulation" in ITEM 1 above and "Dividends" in Note 8 to the Consolidated Financial Statements in ITEM 8 of this report.

The Value of Goodwill and Other Intangible Assets May Decline in the Future

As of December 31, 2021, we had goodwill totaling \$72.8 million and a core deposit intangible asset totaling \$6.6 million from business acquisitions. A significant decline in expected future cash flows, a significant adverse change in the business climate, or a significant and sustained decline in the price of our common stock could necessitate taking charges in the future related to the impairment of goodwill or other intangible assets. If we were to conclude that a future write-down of goodwill or other intangible assets is necessary, we would record the appropriate charge, which could have a material adverse effect on our business, financial condition and results of operations.

We May Take Tax Filing Positions or Follow Tax Strategies That May Be Subject to Challenge

We provide for current and deferred tax provision in our consolidated financial statements based on our results of operations, business activities and business combinations, legal structure and federal and state legislation and regulations. We may take filing positions or follow tax strategies that are subject to interpretation of tax statutes. Our net income may be reduced if a federal, state or local authority were to assess charges for taxes that have not been provided for in our consolidated financial statements. Taxing authorities could change applicable tax laws and interpretations, challenge filing positions or assess new taxes and interest charges. If taxing authorities take any of these actions, our business, results of operations or financial condition could be significantly affected.

Credit Risks

We are Subject to Significant Credit Risk and Loan Losses May Exceed Our Allowance for Credit Losses in the Future

The operation of our business requires us to manage credit risk. As a lender, we are exposed to the risk that our borrowers will be unable to repay their loans according to their terms, and that the collateral securing repayment of their loans, if any, may not be sufficient to ensure repayment. In addition, there are risks inherent in making any loan, including risks with respect to the period of time over which the loan may be repaid, risks relating to proper loan underwriting, risks resulting from changes in economic and industry conditions and risks inherent in dealing with individual borrowers. In order to successfully manage credit risk, we must, among other things, maintain disciplined and prudent underwriting standards and ensure that our bankers follow those standards. The weakening of these standards for any reason, such as an attempt to attract higher yielding loans, a lack of discipline or diligence by our employees in underwriting and monitoring loans, the inability of our employees to adequately adapt policies and procedures to changes in economic or any other conditions affecting borrowers and the quality of our

loan portfolio, may result in loan defaults, foreclosures and additional charge-offs and may necessitate that we significantly increase our allowance for credit losses on loans, each of which could adversely affect our net income. As a result, any inability to successfully manage credit risk could have a material adverse effect on our business, financial condition or results of operations.

We maintain allowances for credit losses on loans and unfunded loan commitments that represent management's best estimate of expected credit losses over the contractual lives of our loans under the current expected credit loss method. The level of the allowance reflects management's continuous evaluation of specific credit risks, loan loss experience, current loan portfolio quality and present and forecasted economic, political and regulatory conditions. The determination of the appropriate level of the allowances inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and trends and future economic forecasts, all of which may undergo material changes. Inaccurate assumptions in appraisals or an inappropriate choice of the valuation techniques may lead to an inadequate level of specific reserve or charge-offs.

The Small to Medium-sized Businesses that we Lend to may have Fewer Resources to Weather Adverse Economic and Other Developments, which may Impair a Borrower's Ability to Repay a Loan

We focus our business development and marketing strategy primarily on small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two people or a small group of people, and the death, disability or resignation of one or more of these people could adversely affect the business and its ability to repay its loan. If general economic conditions negatively affect the California markets in which we operate and small to medium-sized businesses are adversely affected or our borrowers are otherwise affected by adverse business developments, our business, financial condition and results of operations may be negatively affected.

Negative Conditions Affecting Real Estate May Harm Our Business and Our Commercial Real Estate Concentration May Heighten Such Risk

Concentration of our lending activities in the California real estate sector could negatively affect our results of operations if adverse changes in our lending area occur. We do not offer traditional first mortgages, nor have sub-prime or Alt-A residential loans or significant amounts of securities backed by such loans in the portfolios. As of December 31, 2021, approximately 86% of our loans were secured by real estate, with CRE comprising 75% and residential real estate the remaining 25%. Real estate valuations are influenced by demand, and demand is driven by economic factors such as employment rates and interest rates.

Loans secured by CRE include those secured by office buildings, owner-user office/warehouses, mixed-use commercial and retail properties. There can be no assurance that properties securing our loans will generate sufficient cash flows to allow borrowers to make full and timely loan payments to us. During the COVID-19 pandemic, many small businesses closed and may not reopen. Some pandemic-driven activity, such as shifts from in-person to online shopping and from office-based to remote work, may prove to be permanent. These shifts could impact the demand for CRE and also put persistent downward pressure on CRE valuations.

Rising CRE lending concentrations may expose institutions to unanticipated earnings and capital volatility in the event of adverse changes in the CRE market. Concentration risk exists when financial institutions deploy too many assets to any one industry or segment. Concentration stemming from commercial real estate is one area of regulatory concern. The CRE Concentration Guidance provides supervisory criteria, including the following numerical indicators, to assist bank examiners in identifying banks with potentially significant commercial real estate loan concentrations that may warrant greater supervisory scrutiny: (i) commercial real estate loans exceeding 300% of capital and increasing 50% or more in the preceding three years; or (ii) construction and land development loans exceeding 100% of capital. The CRE Concentration Guidance does not limit banks' levels of commercial real estate lending activities, but rather guides institutions in developing risk management practices and levels of capital that are commensurate with the level and nature of their commercial real estate concentrations. As of December 31, 2021 and 2020, using regulatory definitions in the CRE Concentration Guidance, our CRE loans represented 332% and 314%, respectively, of our total risk-based capital. We are actively working to manage our CRE concentration and we have discussed the CRE Concentration Guidance with the regulatory agencies and believe that our

underwriting policies, management information systems, independent credit administration process, and monitoring of real estate loan concentrations are currently sufficient to address the CRE Concentration Guidance.

Accounting Estimates and Risk Management Processes Rely on Analytical and Forecasting Models

The processes we use to estimate expected credit losses on loans and investment securities, and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market volatility or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market factors. If the models we use for determining our expected credit losses on loans and investment securities are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

Investment Securities May Lose Value due to Credit Quality of the Issuers

We invest in significant portions of debt securities issued by government-sponsored enterprises ("GSE"), such as Federal Home Loan Bank ("FHLB"), Federal National Mortgage Association ("FNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"). We also hold mortgage-backed securities ("MBS") issued by FNMA and FHLMC, both of which have been under U.S. government conservatorship since 2008. While we consider FNMA and FHLMC securities to have low credit risk as they carry the explicit backing of the U.S. government due to the conservatorship, they are not direct obligations of the U.S. government. The fair value of our securities issued or guaranteed by these two GSE entities may be negatively impacted if the U.S. government ceases to provide support to the conservatorship or phases out its current practice of purchasing treasury and agency mortgage-backed securities. GSE debt is sponsored but not guaranteed by the federal government and carries implicit backing, whereas government agencies such as Government National Mortgage Association ("GNMA") are divisions of the government whose securities are backed by the full faith and credit of the U.S. government.

Although Congress has taken steps to improve regulation and consumer protection related to the housing finance system (e.g., Dodd-Frank Act), FNMA and FHLMC have entered their 14th year of U.S. government conservatorship via the Federal Housing Finance Agency (the "FHFA"). While proposals to end the conservatorship have considered solutions such as an initial public offering, at the date of this report, its future and ultimate impact on the financial markets and our investments in GSEs are uncertain.

While we generally seek to minimize our exposure by strategically diversifying our credit exposure to obligations of issuers in various geographic locations throughout California and the U.S., investing in investment grade securities and actively monitoring the credit worthiness of the issuers and/or credit guarantee providers, there is no guarantee that the issuers will remain financially sound or continue their payments on these debentures.

Market, Interest Rate, and Liquidity Risks

Earnings are Significantly Influenced by General Business and Economic Conditions

Our success depends, to a certain extent, on local, national and global economic and political conditions. Unlike larger national or other regional banks that are more geographically diversified, we provide banking and financial services to customers primarily in Northern California with particular focus on the local markets in the San Francisco Bay and Greater Sacramento regions. The local economic conditions in these areas have a significant impact on the demand for our products and services as well as the ability of our customers to repay loans, the value of the collateral securing loans and the stability of our deposits as our primary funding source. Economic pressure on consumers and uncertainty regarding the economy and local business climate may result in changes in consumer and business spending, borrowing and saving habits, which may affect the demand for loans and other products

and services we offer. Further, loan defaults that adversely affect our earnings correlate highly with deteriorating economic conditions (such as the California unemployment rate and California gross domestic product), which impact our borrowers' creditworthiness. In addition, health epidemics or pandemics (or expectations about them) such as the novel coronavirus (aka "COVID-19"), international trade disputes, inflation risks, oil price volatility, the level of U.S. debt and global economic conditions could destabilize financial markets in which we operate. Lastly, actions of the Federal Open Market Committee ("FOMC") of the Federal Reserve could cause financial market volatility, which will affect the pricing of our loan and deposit products.

Interest Rate Risk is Inherent in Our Business

Our earnings are largely dependent upon our net interest income, which is the difference between interest income earned on interest-earning assets, such as loans and securities, and interest expense paid on interest-bearing liabilities, such as deposits and borrowed funds. Interest rates are sensitive to many factors outside of our control, including general economic conditions and the policies of various governmental and regulatory agencies and, in particular, the FOMC, which regulates the supply of money and credit in the United States. Changes in monetary policy, including changes in interest rates, can influence not only the interest we receive on loans and securities and interest we pay on deposits and borrowings, but can also affect (i) our ability to originate loans and obtain deposits, (ii) the fair value of our financial assets and liabilities, and (iii) the duration of our securities and loan portfolios. Our portfolio of loans and securities will generally decline in value if market interest rates increase, and increase in value if market interest rates decline. In addition, our loans and callable mortgage-backed securities are also subject to prepayment risk when interest rates fall, and the borrowers' credit risk may increase in rising rate or recessionary environments. Factors such as inflation, productivity, oil prices, unemployment rates, and global demand play a role in the FOMC's consideration of future rate adjustments. In March 2020, in response to the evolving risks to economic activity posed by the COVID-19 pandemic, the FOMC made two emergency cuts to the federal funds rate totaling 150 basis points to a current target range of 0.0% to 0.25%. This has put downward pressure on our asset yields and net interest margin. Our net interest income is vulnerable to low interest rates and will benefit if prevailing market rates increase. See the Net Interest Income section of Management's Discussion and Analysis of Financial Condition and Results of Operations in ITEM 7 and Quantitative and Qualitative Disclosures about Market Risk in ITEM 7A of this report for further discussion related to management of interest rate risk.

A Lack of Liquidity could Adversely Affect our Operations and Jeopardize our Business, Financial Condition and Results of Operations

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

Other primary sources of funds consist of cash flows from operations, investment maturities and sales, loan repayments, and proceeds from the issuance and sale of any equity and debt securities to investors. Additional liquidity is provided by the ability to borrow from the Federal Reserve Bank of San Francisco and the Federal Home Loan Bank and our ability to raise brokered deposits. We also may borrow funds from third-party lenders, such as other financial institutions. Our access to funding sources in amounts adequate to finance or capitalize our activities, or on terms that are acceptable to us, could be impaired by factors that affect us directly or the bank or non-bank financial services industries or the economy in general, such as disruptions in the financial markets or negative views and expectations about the prospects for the bank or non-bank financial services industries.

Based on experience, we believe that our deposit accounts are relatively stable sources of funds. If we increase interest rates paid to retain deposits, our earnings may be adversely affected, which could have an adverse effect on our business, financial condition and results of operations.

Any decline in available funding could adversely affect our ability to originate loans, invest in securities, meet our expenses, and pay dividends to our shareholders or fulfill obligations such as repaying our borrowings or meeting

deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, financial condition and results of operations.

Activities of Our Large Borrowers and Depositors May Cause Unexpected Volatilities in Our Loan and Deposit Balances, as well as Net Interest Margin

Loans originated at higher interest rates may be paid off and replaced by new loans with lower interest rates, causing downward pressure on our net interest margin. In addition, our top ten depositor relationships accounted for approximately 11% and 10% of our total deposit balances at December 31, 2021 and 2020, respectively. Since the start of the pandemic in 2020, the banking industry in general has experienced abundant liquidity driven by pandemic-related government programs such as PPP and consumer stimulus checks as well as elevated savings by depositors. This trend may reverse as the economy recovers. In addition, the business models and cash cycles of some of our large commercial depositors may also cause short-term volatility in their deposit balances held with us. As our customers' businesses grow, the dollar value of their daily activities may also grow leading to larger fluctuations in daily balances. Any long-term decline in deposit funding would adversely affect our liquidity. For additional information on our management of deposit volatility, refer to the Liquidity section of ITEM 7, Management's Discussion and Analysis, of this report.

Unexpected Early Termination of Interest Rate Swap Agreements May Affect Earnings

We have entered into interest-rate swap agreements, primarily as an asset/liability risk management tool, in order to mitigate the interest rate risk that causes fluctuations in the fair value of specified long-term fixed-rate loans or firm commitments to originate long-term fixed rate loans. In the event of default by the borrowers on our hedged loans, we may have to terminate these designated interest-rate swap agreements early, resulting in market value losses that could negatively affect our earnings.

The Trading Volume of Bancorp's Common Stock May Be Less than That of Other, Larger Financial Services Companies

Our common stock is listed on the Nasdaq Capital Market exchange. Our trading volume is less than that of nationwide or larger regional financial institutions. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence of willing buyers and sellers of common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the low trading volume of our common stock, significant trades of our stock in a given time, or the expectations of these trades, could cause volatility in the stock price.

We are Subject to Uncertainty from the Transition of London Interbank Offered Rate ("LIBOR") as a Reference Rate

LIBOR has been one of the most widely used global interest rate benchmark deeply embedded in global financial products. The long-term viability of LIBOR has been undermined due to cases of rate manipulation, low volumes for underlying interbank transactions and the reluctance of panel banks to submit quotes used to calculate LIBOR. As a result, the Financial Conduct Authority of the United Kingdom (the "FCA") announced that the most commonly used U.S. dollar ("USD") LIBOR rates will either cease to be published or no longer be deemed representative after June 30, 2023. 1-week and 2-month USD LIBOR ceased to be published as of December 31, 2021. The Alternative Reference Rates Committee ("ARRC"), a steering committee comprised of U.S. financial market participants selected by the Federal Reserve Bank of New York, published recommended fall-back language for LIBOR-linked financial instruments and recommended alternatives for certain LIBOR rates (e.g., Secured Overnight Financing Rate ("SOFR"), a broad measure of the cost of overnight borrowings collateralized by Treasury securities, for USD LIBOR). The federal banking agencies have issued guidance requesting banking organizations cease using LIBOR as a reference rate in new contracts by December 31, 2021.

As of December 31, 2021, we had twenty-five investment securities with book values totaling \$43.2 million, seven loans totaling \$11.5 million, and four interest rate swap contracts with notional values of \$13.0 million indexed to LIBOR. Almost all of our LIBOR-indexed investment securities were issued by GSEs who are members of ARRC and have transition strategies and timelines for their legacy LIBOR-indexed investment products, including fall-back rates tied to 30-day average SOFR or Term SOFR. We discontinued originating LIBOR-based loans effective

December 31, 2021. Loans currently indexed to LIBOR either have contractual fall-back rates or will be negotiated using replacement indices such as SOFR or Bloomberg Short-Term Bank Yield Index ("BSBY"), a benchmark developed by Bloomberg Professional Services. In addition, our interest rate swap agreements can either be subject to the fall-back index rate stipulated by the ISDA protocol or modified to other reference rates such as Prime or SOFR as mutually agreed by us and our counterparty.

While management has identified financial instruments indexed to LIBOR and evaluated contracts and index alternatives, we cannot predict any favorable or unfavorable effects the chosen alternative index may have on financial instruments that are currently indexed to LIBOR after its termination date.

Operational Risks

Risks Associated with Cybersecurity Could Negatively Affect Our Earnings and Reputation

Our business requires the secure management of sensitive client and bank information. We work diligently to implement security measures that intend to make our communications and information systems safe to conduct business. Cyber threats such as social engineering, ransomware, and phishing emails are more prevalent now than ever before. These incidents include intentional and unintentional events that may present threats designed to disrupt operations, corrupt data, release sensitive information or cause denial-of-service attacks. A cybersecurity breach of systems operated by the Bank, merchants, vendors, customers, or externally publicized breaches of other financial institutions may significantly harm our reputation, result in a loss of customer business, subject us to regulatory scrutiny, or expose us to civil litigation and financial liability. While we have systems and procedures designed to prevent security breaches, we cannot be certain that advances in criminal capabilities, physical system or network break-ins or inappropriate access will not compromise or breach the technology protecting our networks or proprietary client information. If a material security breach were to occur, the Bank has policies and procedures in place to ensure timely disclosure.

The Financial Services Industry is Undergoing Rapid Technological Changes and, As a Result, We Have a Continuing Need to Stay Current with Those Changes to Compete Effectively and Increase Our Efficiencies. We May Not Have the Resources to Implement New Technology to Stay Current with These Changes

The financial services industry is undergoing technological changes with frequent introductions of new technology-driven products and services. In addition to providing better client service, the effective use of technology increases efficiency and reduces operational costs. Our future success will depend in part upon our ability to use technology to provide products and services that will satisfy client demands securely and cost-effectively. In connection with implementing new technology enhancements and/or products, we may experience operational challenges (e.g. human error, system error, incompatibility) which could result in us not fully realizing the anticipated benefits from such new technology or require us to incur significant costs to remedy any such challenges in a timely manner.

Severe Weather, Natural Disasters or Other Climate Change Related Matters Could Significantly Affect Our Business

Our primary market is located in both earthquake and wildfire-prone zones in Northern California, which is also subject to other weather or disasters, such as severe rainstorms, drought or flood. These events have interrupted our business operations unexpectedly (e.g., PG&E power shutoff's in the North Bay and Sacramento Region) at times. Climate-related physical changes and hazards could also pose credit risks for us. For example, our borrowers may have collateral properties or operations located in areas at risk of wildfires, or coastal areas at risk to rising sea levels and erosion, or subject to the risk of drought in California. The properties pledged as collateral on our loan portfolio could also be damaged by tsunamis, landslides, floods, earthquakes or wildfires and thereby the recoverability of loans could be impaired. A number of factors can affect credit losses, including the extent of damage to the collateral, the extent of damage not covered by insurance, the extent to which unemployment and other economic conditions caused by the natural disaster adversely affect the ability of borrowers to repay their loans, and the cost of collection and foreclosure to us. Additionally, there could be increased insurance premiums and deductibles, or a decrease in the availability of coverage, due to severe weather-related losses. The ultimate outcome on our business of a natural disaster, whether or not caused by climate change, is difficult to predict.

We Rely on Third-Party Vendors for Important Aspects of Our Operation

We depend on the accuracy and completeness of information and systems provided by certain key vendors, including but not limited to data processing, payroll processing, technology support, investment safekeeping and accounting. For example, we outsource core processing to Fidelity Information Services ("FIS") and wire processing to Finastra, which are leading financial services solution providers that allow us access to competitive technology offerings without having to invest in their development. Our ability to operate, as well as our financial condition and results of operations, could be negatively affected in the event of an interruption of an information system, an undetected error, a cyber-breach, or in the event of a natural disaster whereby certain vendors are unable to maintain business continuity.

Regulatory and Compliance Risks

Banks and Bank Holding Companies are Subject to Extensive Government Regulation and Supervision

Bancorp and the Bank are subject to extensive federal and state governmental supervision, regulation and control. Holding company regulations affect the range of activities in which Bancorp is engaged. Banking regulations affect the Bank's lending practices, capital structure, investment practices, dividend policy, and compliance costs among other things. Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards set forth by regulators. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of our clients may be ambiguous or untested. This risk exposes Bancorp and the Bank to potential fines, civil money penalties, payment of damages and the voiding of contracts. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The Bank manages these risks through its extensive compliance plan, policies and procedures. For further information on supervision and regulation, see the section captioned "SUPERVISION AND REGULATION" in ITEM 1 of this report.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We lease our corporate headquarters building in Novato, California, which houses loan production, operations, Wealth Management & Trust and administration. We lease branch and office facilities within our primary market areas in the cities of Corte Madera, San Rafael, Novato, Sausalito, Mill Valley, Tiburon, Greenbrae, Petaluma, Santa Rosa, Healdsburg, Sonoma, Napa, San Francisco, Alameda, Oakland, Walnut Creek, San Mateo, Gold River, Jackson, Pioneer, Roseville, and Sacramento. For additional information on properties, Refer to Note 4, Bank Premises and Equipment, and Note 12, Commitment and Contingencies, in ITEM 8 of this report.

ITEM 3. LEGAL PROCEEDINGS

For information on litigation matters, see Note 12, Commitment and Contingencies, in ITEM 8 of this report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

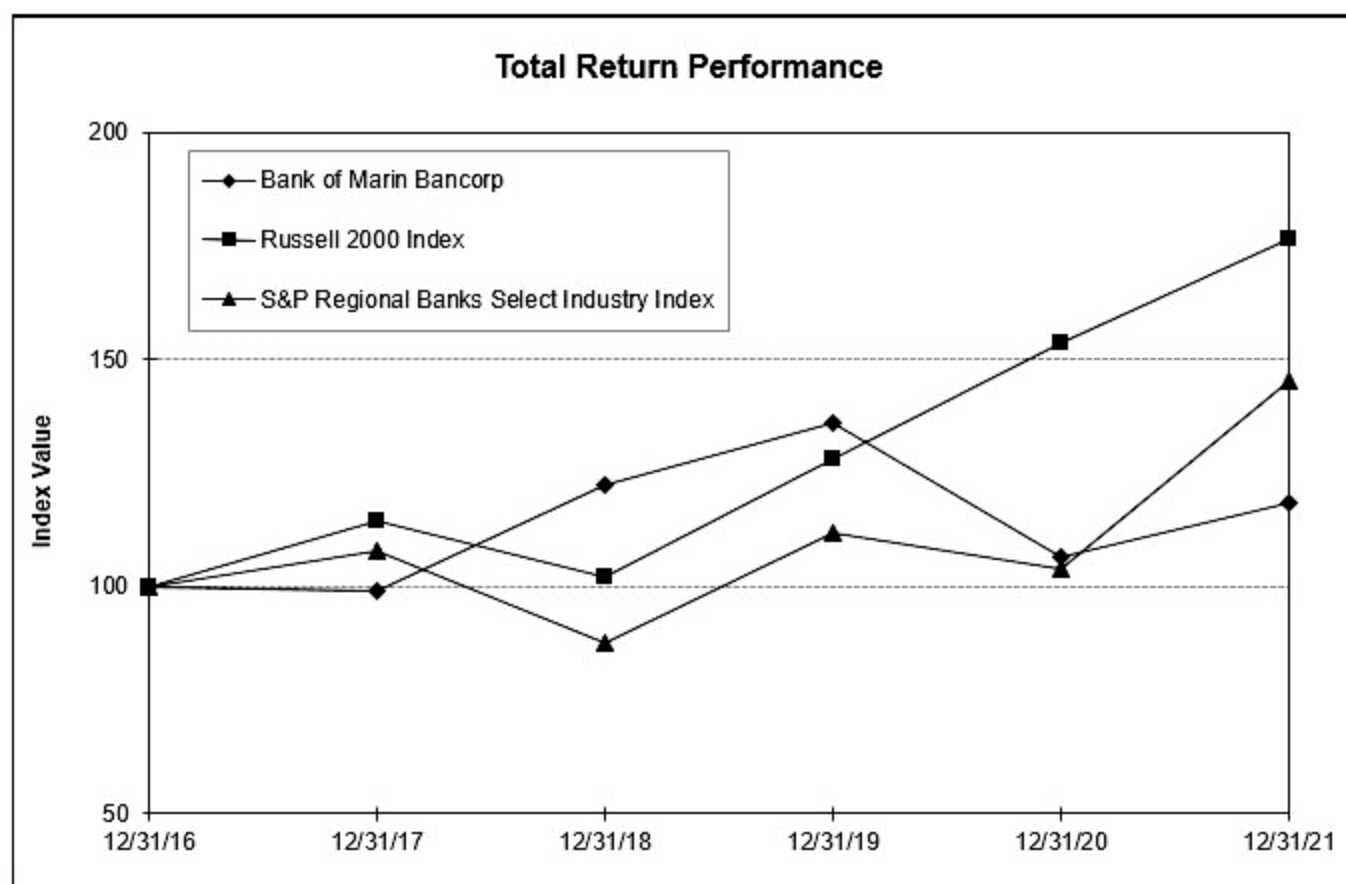
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Bancorp's common stock trades on the Nasdaq Capital Market under the symbol BMRC. At February 28, 2022, 15,939,659 shares of Bancorp's common stock, no par value, were outstanding and held by approximately 2,900 holders of record and beneficial owners.

Five-Year Stock Price Performance Graph

The following graph, compiled by S&P Global Market Intelligence of New York, New York, shows a comparison of cumulative total shareholder return on our common stock during the five fiscal years ended December 31, 2021 compared to the Russell 2000 Stock index and the S&P Regional Banks Select Industry Index. The comparison assumes the investment of \$100 in our common stock on December 31, 2016 and the reinvestment of all dividends. The graph represents past performance and does not indicate future performance. In addition, total return performance results vary depending on the length of the performance period.



	2016	2017	2018	2019	2020	2021
Bank of Marin Bancorp (BMRC)	100.00	99.15	122.20	136.02	106.50	118.49
Russell 2000 Index	100.00	114.65	102.02	128.06	153.62	176.39
S&P Regional Banks Select Industry Index ¹	100.00	107.95	87.69	111.92	103.98	145.47

Source: S&P Global Market Intelligence

¹ The index comprises stocks in the S&P Total Market Index that are classified in the Global Industry Classification Standard regional banks sub-industry.

Shareholder Rights Agreement

On July 6, 2017, Bancorp executed a shareholder rights agreement (“Rights Agreement”), which is designed to discourage takeovers that involve abusive tactics or do not provide fair value to shareholders. For further information, see Note 8 to the Consolidated Financial Statements, under the heading “Preferred Stock and Shareholder Rights Plan” in ITEM 8 of this report.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information as of December 31, 2021, with respect to equity compensation plans.

	Shares to be issued upon exercise of outstanding options ¹	Weighted average exercise price of outstanding options	Shares remaining available for future issuance ²
Equity compensation plans approved by shareholders	315,744	\$ 30.85	1,106,886

¹ Represents shares of common stock issuable upon exercise of outstanding options under the Bank of Marin Bancorp 2017 Equity Plan and 2007 Equity Plan.

² Represents remaining shares of common stock available for future grants under the 2017 Equity Plan and the 2020 Director Stock Plan, excluding 315,744 shares to be issued upon exercise of outstanding options and 377,475 shares available to be issued under the Employee Stock Purchase Plan.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On April 23, 2018, Bancorp announced that its Board of Directors approved a Share Repurchase Program under which Bancorp may repurchase up to \$25.0 million of its outstanding common stock through May 1, 2019. Bancorp's Board of Directors subsequently extended the Share Repurchase Program through February 28, 2020. A new Share Repurchase Program was approved by the Board of Directors on January 24, 2020, which began on March 1, 2020 and allowed Bancorp to repurchase up to \$25.0 million of its outstanding common stock and ended May 2021. 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's Board of Directors approved an amendment to the current share repurchase program, which increased the total authorization from \$25.0 million to \$57.0 million and left the expiration date unchanged.

Shares repurchased pursuant to our common stock share repurchase programs during 2021, 2020 and 2019, were as follows.

	2021	2020	2019	Cumulative Totals
Total number of common shares repurchased	1,117,666	203,709	356,000	1,677,375
Total purchase price of common shares repurchased (in millions)	\$ 40.8	\$ 7.2	\$ 15.0	\$ 63.0

The following table reflects purchases under the Share Repurchase Program for the months presented in 2021.

(in thousands, except per share data) Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value That May yet Be Purchased Under the Program ¹
January 1-31, 2021	54,815	\$ 37.64	54,815	\$ 17,198
February 1-28, 2021	109,964	37.35	109,964	13,085
March 1-31, 2021	59,234	39.32	59,234	10,753
April 1-30, 2021	130,680	36.63	130,680	5,959
May 1-31, 2021	167,255	35.58	167,255	—
June 1-30, 2021	—	—	—	—
July 1-31, 2021	37,182	32.99	37,182	23,772
August 1-31, 2021	159,360	35.98	159,360	18,031
September 1-30, 2021	249,193	35.81	249,193	9,098
October 1-31, 2021	54,705	37.83	54,705	39,026
November 1-30, 2021	22,767	37.76	22,767	38,165
December 1-31, 2021	72,511	36.15	72,511	35,541
Total	1,117,666	\$ 36.39	1,117,666	

¹ In May 2021, the 2020 Share Repurchase Program ended. The new \$25.0 million Share Repurchase Program began July 16, 2021. On October 22, 2021, the total authorization increased from \$25.0 million to \$57.0 million. For further information, see Note 8 to the Consolidated Financial Statements, under the heading “Share Repurchase Program” in ITEM 8 of this report.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of financial condition as of December 31, 2021 and 2020 and results of operations for each of the years in the three-year period ended December 31, 2021 should be read in conjunction with our consolidated financial statements and related notes thereto, included in Part II ITEM 8 of this report.

Forward-Looking Statements

The disclosures set forth in this item are qualified by important factors detailed in Part I captioned Forward-Looking Statements and ITEM 1A captioned Risk Factors of this report and other cautionary statements set forth elsewhere in the report.

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. Management has determined the following accounting estimates and related policies to be critical:

Allowance for Credit Losses on Loans and Unfunded Commitments

The allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis at the balance sheet date to present the net amount of loans expected to be collected. The allowance for losses on unfunded loan commitments is based on estimates of probability that these commitments will be drawn upon according to historical utilization experience, expected loss severity and loss rates as determined for pooled funded loans. The allowance for credit losses on unfunded commitments is a liability account included in interest payable and other liabilities. Management estimates these allowances quarterly using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Credit loss experience among the Bank and peer groups provides the basis for the estimation of expected credit losses.

The allowance for credit losses ("ACL") model utilizes a discounted cash flow ("DCF") method to measure the expected credit losses on loans collectively evaluated that are sub-segmented by loan pools with similar credit risk characteristics, which generally correspond to federal regulatory reporting codes. In addition, the DCF method incorporates assumptions for probability of default ("PD"), loss given default ("LGD"), and prepayments and curtailments over the contractual terms of the loans. Under the DCF method, the ACL reflects the difference between the amortized cost basis and the present value of the expected cash flows using the loan's effective rate.

Management considers whether adjustments to the quantitative portion of the ACL are needed for differences in segment-specific risk characteristics or to reflect the extent to which it expects current conditions and reasonable and supportable forecasts of economic conditions to differ from the conditions that existed during the historical period included in the development of PD and LGD.

Our allowance model is particularly sensitive to forecasted and seasonally-adjusted actual California unemployment rates, which decreased to 6.5% at December 31, 2021 from 9.3% at December 31, 2020. The ACL model incorporates a one-year forecast. For periods beyond the forecast horizon the economic factors revert to historical averages on a straight-line basis over a one-year period. We performed a sensitivity analysis as of December 31, 2021 and determined that a 1% change (e.g., 5.5% to 6.5%) in the forecasted quarterly unemployment rates over the next four quarters resulted in an 8% change to our allowance for credit losses on loans. This impact does not consider other assumption changes to either the quantitative factors, such as probability of default, loss given

default, loan mix or cash flows, prepayment/curtailment rates, and individually analyzed loans, or qualitative factors as discussed in Note 1 - Summary of Significant Accounting Policies. Additionally, because current economic conditions and forecasts can change, as future events are inherently difficult to predict, the estimated credit losses on loans and unfunded commitments could change significantly.

While we believe we use the best information available to determine the allowance for credit losses, our results of operations could be significantly affected if circumstances differ substantially from the assumptions used in determining the allowance. For information regarding critical estimates related to our allowance for credit losses methodology, the provision for credit losses, and risks to asset quality and lending activity, see ITEM 1A - Risk Factors, the Allowance for Credit Losses section in ITEM 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations,

Income Taxes

We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by us and the government taxing authorities. We review our provision for income tax expense monthly and calculate the carrying value of deferred tax assets and liabilities quarterly. In establishing a provision for income tax expense, we make judgments and interpretations about the application of these inherently complex tax laws. In addition, our estimates include making judgements about when future items will affect taxable income. Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. For further information on our tax assets and liabilities, and related provision for income taxes, see Note 1 - Summary of Significant Accounting Policies and Note 11 - Income Taxes in ITEM 8 - Financial Statements and Supplementary Data of this Form 10-K.

Fair Value Measurements

We use fair value measurements to record certain financial instruments and to determine fair value disclosures. Available-for-sale securities and interest rate swap agreements are financial instruments recorded at fair value on a recurring basis. Additionally, we record at fair value other financial assets on a nonrecurring basis such as collateral dependent loans and other real estate owned. These nonrecurring fair value adjustments typically involve write-downs of, or specific reserves against, individual assets. 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. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used in the measurement are observable or unobservable. Observable inputs reflect market-driven or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted market prices or observable market data. For financial instruments that trade actively and have quoted market prices or observable market data, there is minimal subjectivity involved in measuring fair value. When observable market prices and data are not fully available, management judgment is necessary to estimate fair value. In addition, changes in the market conditions may reduce the availability of quoted prices or observable data. Therefore, when market data is not available, we use valuation techniques that require more management judgment to estimate the appropriate fair value measurement. Fair value is discussed further in Note 1 - Summary of Significant Accounting Policies and Note 9 - Fair Value of Assets and Liabilities in ITEM 8 - Financial Statements and Supplementary Data of this Form 10-K.

Business Combinations

Business combinations are accounted for using the acquisition method of accounting where the assets and liabilities of the acquired entities have been recorded at their estimated fair values at the date of acquisition. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. The purchase price allocation process requires significant judgment in the estimation of the fair values of the assets acquired and the liabilities assumed. Management may obtain third-party valuations such as appraisals or discounted cash flow analyses, or we may derive fair values internally using techniques as discussed in *Fair Value Measurements* above. Management assesses qualifications of third-party valuation specialists, reviews assumptions applied and takes responsibility for the results of fair value estimates. Merger-related expenses include costs directly related to

merger activity such as legal and professional fees, system consolidation and conversion costs, and compensation costs associated with employee severance and retention incentives. We account for merger-related costs as expenses in the periods in which the costs are incurred and the services received. Accounting policies and estimates are discussed further in Note 1 - Summary of Significant Accounting Policies and Note 18 - Merger in ITEM 8 - Financial Statements and Supplementary Data of this Form 10-K.

RESULTS OF OPERATIONS

Financial Highlights

The following are highlights of our financial condition and results of operations. The data was derived from the audited consolidated financial statements of Bank of Marin Bancorp.

(dollars in thousands, except per share data)	At December 31,		
	2021	2020	
Selected financial condition data:			
Total assets	\$ 4,314,209	\$ 2,911,926	
Loans, net allowance for credit losses on loans ¹	\$ 2,232,622	\$ 2,065,682	
Deposits	\$ 3,808,550	\$ 2,504,249	
Borrowings and other obligations	\$ 419	\$ 58	
Subordinated debenture	\$ —	\$ 2,777	
Stockholders' equity	\$ 450,368	\$ 358,253	
Asset quality ratios:			
Allowance for credit losses to total loans	1.02 %	1.10 %	
Allowance for credit losses to total loans, excluding SBA PPP loans ²	1.07 %	1.27 %	
Allowance for credit losses to non-accrual loans ³	2.75x	2.48x	
Non-accrual loans to total loans ³	0.37 %	0.44 %	
Capital ratios:			
Tangible common equity to tangible assets ⁴	8.76 %	11.27 %	
Total capital (to risk-weighted assets)	14.58 %	16.03 %	
Tier 1 capital (to risk-weighted assets)	13.70 %	14.82 %	
Tier 1 capital (to average assets)	8.85 %	10.80 %	
Common equity Tier 1 capital (to risk-weighted assets)	13.70 %	14.69 %	
Other data:			
Loan-to-deposit ratio	59.23 %	83.40 %	
Number of branches	31	22	
Full time equivalent employees	328	289	
	For the Years Ended December 31,		
(dollars in thousands, except per share data)	2021	2020	2019
Selected operating data:			
Net interest income	\$ 104,951	\$ 96,659	\$ 95,680
Provisions for (reversals of) credit losses on loans and unfunded loan commitments, net	(2,441)	6,164	1,029
Non-interest income	10,132	8,550	9,084
Non-interest expense ^{2 5}	72,638	58,458	57,841
Net income ⁵	33,228	30,242	34,241
Net income per common share:			
Basic	\$ 2.32	\$ 2.24	\$ 2.51
Diluted	\$ 2.30	\$ 2.22	\$ 2.48
Performance and other financial ratios:			
Return on average assets	0.94 %	1.04 %	1.34 %
Return on average equity	8.43 %	8.60 %	10.49 %
Tax-equivalent net interest margin ⁶	3.17 %	3.55 %	3.98 %
Cost of deposits	0.07 %	0.11 %	0.20 %
Efficiency ratio	63.12 %	55.56 %	55.21 %
Cash dividend payout ratio on common stock ⁷	40.52 %	41.07 %	31.87 %
Cash dividends per common share	\$ 0.94	\$ 0.92	\$ 0.80

¹ Includes SBA PPP loans of \$111.2 million at December 31, 2021 and \$291.6 million at December 31, 2020.

² The allowance for credit losses to total loans, excluding SBA-guaranteed PPP loans, is considered a meaningful non-GAAP financial measure, as it represents only those loans that were considered in the calculation of the allowance for credit losses. Refer to footnote 1 above for SBA PPP totals.

³ Non-performing loans include loans on non-accrual status.

⁴ Tangible common equity to tangible assets is considered to be a meaningful non-GAAP financial measure of capital adequacy and is useful for investors to assess Bancorp's ability to absorb potential losses. Tangible common equity of \$371million, \$324 million and \$302 million at December 31, 2021, 2020 and 2019, respectively, includes common stock, retained earnings and unrealized gains (losses) on available-for sale securities, net of tax, less goodwill and intangible assets of \$79million, \$34 million and \$35 million at December 31, 2021, 2020, and 2019, respectively. Tangible assets excludes goodwill and core deposit intangible assets.

⁵ 2021 included \$6.5 million (or \$4.9 million, net of taxes) in merger-related one-time and conversion costs.

⁶ Tax-equivalent net interest margin is computed by dividing taxable equivalent net interest income, which is adjusted for taxable equivalent income on tax-exempt loans and securities based on federal statutory rate of 21% in 2021, 2020 and 2019, by total average interest-earning assets.

⁷ Calculated as dividends on common shares divided by basic net income per common share.

Executive Summary

Annual earnings were \$33.2 million in 2021 compared to \$30.2 million in 2020. Diluted earnings were \$2.30 per share in 2021, compared to \$2.22 per share in 2020.

The following are highlights of operating and financial performance for the year ended December 31, 2021:

- Merger-related one-time and conversion costs reduced net income by \$4.9 million, net of taxes, or 34 cents per share for the year ended December 31, 2021. Return on average assets ("ROA") and return on average equity ("ROE") were also significantly impacted by provisions for credit losses on acquired loans and shares issued in conjunction with the merger. As shown in the reconciliation of GAAP to non-GAAP financial measures on page 28, year-to-date ROA of 0.94% and ROE 8.43% would have been 1.08% and 9.67%, respectively, compared to 1.04% and 8.60% in the prior year.
- Loans increased \$167.1 million in 2021, or 8%, to \$2.256 billion at December 31, 2021, from \$2.089 billion at December 31, 2020. Year-over-year growth was largely attributable to \$419.4 million in loans from the American River Bank ("ARB") acquisition on August 6, 2021. Non-PPP loan originations of \$181.7 million for the year were concentrated in commercial and real estate loans and compared to \$165.5 million in 2020. Payoffs included \$218.1 million non-PPP loans compared to \$169.2 million in 2020. In 2021, PPP loan originations were \$136.2 million and PPP loans forgiven and paid off were \$328.5 million.
- Credit quality remains strong with non-accrual loans representing 0.37% of the Bank's loan portfolio as of December 31, 2021, compare to 0.44% at December 31, 2020. During 2021, we reversed \$1.4 million in credit losses on loans and \$992 thousand in credit losses on unfunded commitments. These reversals compared to provisions for credit losses on loans of \$4.6 million and provisions for credit losses on unfunded commitments of \$1.6 million in the prior year. 2021 activity included the effects of the business combination with ARB, partially offset by ongoing improvements in the underlying economic forecasts. 2020 credit loss provisions included significant qualitative adjustments for uncertainties associated with the COVID-19 pandemic as well as the adoption of the current expected credit loss methodology.
- Deposits grew \$1.304 billion, or 52%, to \$3.809 billion at December 31, 2021, compared to \$2.504 billion at December 31, 2020. Growth was comprised of \$790.0 million related to the August 6, 2021 ARB acquisition, new accounts and growth in the existing customer base. Non-interest bearing deposits grew by \$555.6 million, or 41%, in 2021 and made up 50% of total deposits at year end. Cost of deposits remained low at 0.07% for the full year of 2021, down from 0.11% in 2020. Additionally, as part of our liquidity management, the Bank maintained \$173.1 million and \$173.4 million in off-balance sheet deposits with deposit networks at December 31, 2021 and 2020, respectively.
- Net interest income totaled \$105.0 million and \$96.7 million in 2021 and 2020, respectively. The \$8.3 million increase in 2021 was primarily due to higher average loan and investment securities balances and higher SBA PPP loan fee accretion income. These increases were partially offset by \$1.3 million in accelerated discount accretion on the early redemption of a subordinated debenture in the first quarter of 2021, and lower yields on investment securities. The tax-equivalent net interest margin decreased by 38 basis points to 3.17% in 2021, compared to 3.55% in 2020 for the reasons already mentioned.
- The efficiency ratio was 63.12% in 2021, up from 55.56% in 2020. As shown in the reconciliation of GAAP to non-GAAP financial measures on page 28, the 2021 efficiency ratio excluding merger-related one-time and conversion costs would have been 57.51%.
- All capital ratios were above regulatory requirements for a well-capitalized institution. The total risk-based capital ratio for Bancorp was 14.6% at December 31, 2021 and 16.0% at December 31, 2020. Tangible common equity to tangible assets declined to 8.8% at December 31, 2021 from 11.3% at December 31, 2020 primarily due to share repurchases and growth in excess liquidity from an increase in legacy Bank of Marin deposits (refer to footnote 4 on page 26 for definition of this non-GAAP financial measure). The total risk-based capital ratio for the Bank was 14.4% at December 31, 2021 and 15.8% at December 31, 2020.

- The Board of Directors declared a cash dividend of \$0.24 per share on January 21, 2022. This is the 67th consecutive quarterly dividend paid by Bank of Marin Bancorp. The cash dividend is payable on February 11, 2022 to shareholders of record at the close of business on February 4, 2022.

Statement Regarding Use of Non-GAAP Financial Measures

In this Form 10-K, Bancorp's financial results are presented in accordance with GAAP and refer to certain non-GAAP financial measures. Management believes that presentation of operating results using non-GAAP financial measures provides useful supplemental information to investors and facilitates the analysis of Bancorp's operating results and comparison of operating results across reporting periods. Management also uses non-GAAP financial measures to establish budgets and manage Bancorp's business. A reconciliation of the GAAP financial measures to comparable non-GAAP financial measures is presented below.

Reconciliation of GAAP and Non-GAAP Financial Measures

(in thousands, except share data; unaudited)	Year ended December 31,		
	2021	2020	2019
Net income			
Net income (GAAP)	\$ 33,228	\$ 30,242	\$ 34,241
Merger-related one-time and conversion costs:			
Personnel and severance	3,005	—	—
Professional services	1,976	—	—
Data processing	1,127	—	—
Other	350	—	—
Total merger costs before tax benefits	6,458	—	—
Income tax benefit of merger-related expenses	(1,547)	—	—
Total merger-related one-time and conversion costs, net of tax benefits	4,911	—	—
Comparable net income (non-GAAP)	\$ 38,139	\$ 30,242	\$ 34,241
Diluted earnings per share			
Weighted average diluted shares	14,422	13,617	13,794
Diluted earnings per share (GAAP)	\$ 2.30	\$ 2.22	\$ 2.48
Merger-related one-time and conversion costs, net of tax benefits	0.34	—	—
Comparable diluted earnings per share (non-GAAP)	\$ 2.64	\$ 2.22	\$ 2.48
Return on average assets			
Average assets	\$ 3,537,163	\$ 2,897,165	\$ 2,550,707
Return on average assets (GAAP)	0.94 %	1.04 %	1.34 %
Comparable return on average assets (non-GAAP)	1.08 %	1.04 %	1.34 %
Return on average equity			
Average stockholders' equity	\$ 394,363	\$ 351,494	\$ 326,441
Return on average equity (GAAP)	8.43 %	8.60 %	10.49 %
Comparable return on average equity (non-GAAP)	9.67 %	8.60 %	10.49 %
Efficiency ratio			
Non-interest expense (GAAP)	\$ 72,638	\$ 58,458	\$ 57,841
Merger-related expenses	(6,458)	—	—
Non-interest expense (non-GAAP)	\$ 66,180	\$ 58,458	\$ 57,841
Net interest income	\$ 104,951	\$ 96,659	\$ 95,680
Non-interest income	\$ 10,132	\$ 8,550	\$ 9,084
Efficiency ratio (GAAP)	63.12 %	55.56 %	55.21 %
Comparable efficiency ratio (non-GAAP)	57.51 %	55.56 %	55.21 %

Net Interest Income

Net interest income is the interest earned on loans, investment securities and other interest-earning assets minus the interest expense incurred on deposits and other interest-bearing liabilities. Net interest income is affected by changes in general market interest rates and by changes in the amounts and composition of interest-earning assets and interest-bearing liabilities. Interest rate changes can create fluctuations in net interest income and/or margin due to an imbalance in the timing of repricing or maturity of assets or liabilities. We manage interest rate risk exposure with the goal of optimizing the effect of interest rate volatility on net interest income.

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.

The following table compares interest income, average interest-earning assets, interest expense, and average interest-bearing liabilities for the periods presented. The table also presents net interest income, net interest margin and net interest rate spread for the years indicated.

Average Statements of Condition and Analysis of Net Interest Income

(dollars in thousands; unaudited)	Year ended			Year ended			Year ended		
	December 31, 2021			December 31, 2020			December 31, 2019		
	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
Assets									
Interest-earning deposits with banks ¹	\$ 287,626	\$ 399	0.14 %	\$ 153,794	\$ 461	0.29 %	\$ 67,192	\$ 1,321	1.94 %
Investment securities ^{2,3}	866,790	16,999	1.96 %	533,186	15,025	2.82 %	555,618	15,102	2.72 %
Loans ^{1,3,4}	2,155,982	92,376	4.23 %	2,023,203	85,398	4.15 %	1,775,193	85,062	4.73 %
Total interest-earning assets ¹	3,310,398	109,774	3.27 %	2,710,183	100,884	3.66 %	2,398,003	101,485	4.17 %
Cash and non-interest-bearing due from banks	61,299			49,676			35,956		
Bank premises and equipment, net	5,964			5,526			6,911		
Interest receivable and other assets, net	159,502			131,780			109,837		
Total assets	\$3,537,163			\$2,897,165			\$2,550,707		
Liabilities and Stockholders' Equity									
Interest-bearing transaction accounts	\$ 217,924	\$ 172	0.08 %	\$ 148,817	\$ 186	0.13 %	\$ 133,922	\$ 347	0.26 %
Savings accounts	268,397	94	0.04 %	184,146	68	0.04 %	172,273	70	0.04 %
Money market accounts	864,625	1,520	0.18 %	763,689	2,009	0.26 %	680,296	3,439	0.51 %
Time accounts, including CDARS	115,393	246	0.21 %	96,558	554	0.57 %	106,783	595	0.56 %
Borrowings and other obligations ^{1,6}	892	9	1.08 %	174	4	2.16 %	2,935	77	2.57 %
Subordinated debenture ^{1,5}	534	1,361	251.54 %	2,741	158	5.68 %	2,673	229	8.44 %
Total interest-bearing liabilities	1,467,765	3,402	0.23 %	1,196,125	2,979	0.25 %	1,098,882	4,757	0.43 %
Demand accounts	1,628,289			1,308,199			1,094,806		
Interest payable and other liabilities	46,746			41,347			30,578		
Stockholders' equity	394,363			351,494			326,441		
Total liabilities & stockholders' equity	\$3,537,163			\$2,897,165			\$2,550,707		
Tax-equivalent net interest income/margin ¹	\$ 106,372	3.17 %		\$ 97,905	3.55 %		\$ 96,728	3.98 %	
Reported net interest income/margin ¹	\$ 104,951	3.13 %		\$ 96,659	3.51 %		\$ 95,680	3.94 %	
Tax-equivalent net interest rate spread			3.04 %						3.74 %

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

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

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

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

⁵ 2021 interest on the subordinated debenture included \$1.3 million in accelerated discount accretion from the early redemption of our last subordinated debenture on March 15, 2021.

⁶ Average balances and rate consider \$13.9 million in FHLB borrowings acquired from ARB that were redeemed on August 25, 2021.

Analysis of Changes in Net Interest Income

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 years indicated. Volume variances are equal to the increase or decrease in average balances multiplied by prior period rates. Rate variances are equal to the increase or decrease in rates multiplied by prior period average balances. Mix variances are attributable to the change in yields or rates multiplied by the change in average balances.

(in thousands, unaudited)	2021 compared to 2020				2020 compared to 2019			
	Volume	Yield/ Rate	Mix	Total	Volume	Yield/ Rate	Mix	Total
Interest-earning deposits with banks	\$ 401	\$ (247)	\$ (216)	\$ (62)	\$ 1,702	\$ (1,120)	\$ (1,442)	\$ (860)
Investment securities ¹	9,400	(4,568)	(2,858)	1,974	(610)	555	(22)	(77)
Loans ¹	5,605	1,526	(153)	6,978	11,884	(10,337)	(1,211)	336
Total interest-earning assets	15,406	(3,289)	(3,227)	8,890	12,976	(10,902)	(2,675)	(601)
Interest-bearing transaction accounts	90	(75)	(29)	(14)	39	(180)	(20)	(161)
Savings accounts	31	(3)	(2)	26	5	(7)	—	(2)
Money market accounts	266	(663)	(92)	(489)	422	(1,655)	(197)	(1,430)
Time accounts, including CDARS	108	(348)	(68)	(308)	(56)	15	—	(41)
Borrowings and other obligations	16	(2)	(9)	5	(72)	(12)	11	(73)
Subordinated debentures	(127)	6,851	(5,521)	1,203	6	(76)	(1)	(71)
Total interest-bearing liabilities	384	5,760	(5,721)	423	344	(1,915)	(207)	(1,778)
Tax-equivalent net interest income	\$ 15,022	\$ (9,049)	\$ 2,494	\$ 8,467	\$ 12,632	\$ (8,987)	\$ (2,468)	\$ 1,177

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

2021 Compared to 2020

Net interest income totaled \$105.0 million and \$96.7 million in 2021 and 2020, respectively. The \$8.3 million increase in 2021 was primarily due to higher average loan and investment securities balances and higher SBA PPP loan income. These increases were partially offset by \$1.3 million in accelerated discount accretion on the early redemption of a subordinated debenture in the first quarter of 2021, and lower yields on investment securities.

We recognized \$8.3 million in SBA PPP fees, net of cost in 2021, compared to \$3.8 million in 2020. As of December 31, 2021, \$2.5 million SBA PPP fees, net of deferred costs remained outstanding and will be recognized into income in future periods.

On March 15, 2021, we redeemed the \$2.8 million subordinated debenture. The redemption consisted of \$4.1 million principal balance, quarterly interest due, and \$1.3 million in accelerated accretion of purchase discount. The subordinated debenture carried an average interest rate of 5.68% in 2020.

The tax-equivalent net interest margin decreased 38 basis points to 3.17% in 2021, from 3.55% in 2020 for the reasons already mentioned and as shown in the above table. The SBA PPP loans improved the 2021 net interest margin by 10 basis points, and the early redemption of the subordinated debenture reduced it by 4 basis points.

2020 Compared to 2019

Net interest income totaled \$96.7 million and \$95.7 million in 2020 and 2019, respectively. The \$1.0 million increase in 2020 was primarily due to SBA PPP loans and lower rates on interest-bearing deposits, largely offset by lower yields on earning-assets, except for investment securities where we collected prepayment penalties on called securities in 2020. Notable balance increases occurred in interest-earning deposits with other banks, commercial real estate loans and deposits. The tax-equivalent net interest margin decreased 43 basis points to 3.55% in 2020, from 3.98% in 2019 for the reasons already mentioned and as shown in the above table. Additionally, the SBA PPP loans lowered the 2020 net interest margin by 6 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 posed by the COVID-19 pandemic, the FOMC made two emergency cuts totaling 150 basis points to the federal funds rate in March 2020. The federal funds target rate range resided between 0.0% to 0.25% in 2021 and 2020, putting downward pressure on our asset yields and net interest margin. In its January 26, 2022 meeting the FOMC kept the federal funds target rate range between 0.0% to 0.25%, but signaled that it will raise interest rates in 2022 to combat inflation. Our net interest margin should benefit from a rising interest rate environment. See ITEM 7A. Quantitative and Qualitative Disclosure about Market Risk for further information.

Provision for Credit Losses on Loans

We recorded a \$1.4 million reversal of the provision for credit losses on loans in 2021, compared to a \$4.6 million provision for credit losses in 2020 and \$900 thousand provision for credit losses in 2019. The net provision reversal in 2021 was primarily due to continued improvements in Moody's Analytics' Baseline Forecast of California unemployment rates and adjustments to qualitative risk factors due to a decline in the volume of loans downgraded to substandard classification, fewer delinquencies, and the elimination of an allowance related to a commercial real estate loan that had been individually analyzed for potential credit losses in the previous periods and paid off in 2021. These reversals were partially offset by an increase in the allowance for credit losses related to qualitative risk factor adjustments for recent changes in executive leadership and senior lending positions, and integration of ARB.

The provision for credit losses in 2020 calculated under the incurred loss method (prior to the adoption of the excepted credit loss method on December 31, 2020) was largely due to the uncertainty about the impact of the COVID-19 pandemic on the local and regional economies and our customers at that time. In addition, under the CECL method, we increased our allowance for credit losses by approximately \$925 thousand for previously acquired loans (i.e., non-purchased credit deteriorated or "non-PCD" loans); whereas, under previous GAAP (incurred loss method) we did not record an allowance on our unimpaired previously acquired non-PCD loans. The pandemic also negatively affected the financial condition of many of our borrowers, which was partially alleviated by our payment relief program under the 2020 CARES Act and the SBA PPP. The provision for credit losses in 2019 accounted for under the incurred loss methodology was consistent with loan growth.

For additional information about the allowance for credit losses and transition from the incurred loss method to the CECL method in 2020, see the Critical Accounting Estimates section above and Notes 1 and 3 to the Consolidated Financial Statements in ITEM 8 of this report.

Non-interest Income

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

(dollars in thousands; unaudited)	Years ended December 31,			2021 compared to 2020		2020 compared to 2019	
	2021	2020	2019	Amount Increase (Decrease)	Percent Increase (Decrease)	Amount Increase (Decrease)	Percent Increase (Decrease)
Wealth Management and Trust Services	\$ 2,222	\$ 1,851	\$ 1,907	\$ 371	20.0 %	\$ (56)	(2.9)%
Earnings from bank-owned life insurance, net	2,194	973	1,196	1,221	125.5 %	(223)	(18.6)%
Debit card interchange fees, net	1,812	1,438	1,586	374	26.0 %	(148)	(9.3)%
Service charges on deposit accounts	1,593	1,314	1,865	279	21.2 %	(551)	(29.5)%
Dividends on FHLB stock	760	654	799	106	16.2 %	(145)	(18.1)%
Merchant interchange fees, net	422	239	331	183	76.6 %	(92)	(27.8)%
(Losses) gains on investment securities, net	(16)	915	55	(931)	(101.7)%	860	1,563.6 %
Other income	1,145	1,166	1,345	(21)	(1.8)%	(179)	(13.3)%
Total non-interest income	\$ 10,132	\$ 8,550	\$ 9,084	\$ 1,582	18.5 %	\$ (534)	(5.9)%

2021 Compared to 2020

Non-interest income totaled \$10.1 million and \$8.6 million in 2021 and 2020, respectively. The \$1.5 million increase was primarily due to the collection of \$1.1 million in benefits on bank-owned life insurance policies and an increase in service charges and interchange fees related to the expanded deposit base. In March 2020, we implemented temporary waivers for all ATM fees, overdraft fees and early withdrawal penalties for time deposits to help ease the financial burden customers began experiencing due to the pandemic. We reinstated the fees in May 2021. Additionally, Wealth Management and Trust income increased due to the addition of new accounts and favorable market performance in 2021. Increases were partially offset by the \$931 thousand reduction in gains on sales of investment securities.

2020 Compared to 2019

Non-interest income totaled \$8.6 million and \$9.1 million in 2020 and 2019, respectively. The \$534 thousand decline was primarily due to \$551 thousand lower service charges on deposit accounts and ATM fees, as these fees were waived during the pandemic, lower income from bank-owned life insurance ("BOLI") policies due to a \$562 thousand benefit collected on BOLI policies in the third quarter of 2019 (partially offset by \$283 thousand underwriting expenses for two new BOLI policies in the first quarter of 2019), \$182 thousand lower fee income from one-way deposit sales to third-party deposit networks and \$145 thousand lower dividends on FHLB stock, partially offset by \$860 thousand net gains on the sale of investment securities.

Non-interest Expense

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

(dollars in thousands; unaudited)	Years ended December 31,			2021 compared to 2020		2020 compared to 2019	
	2021	2020	2019	Amount Increase (Decrease)	Percent Increase (Decrease)	Amount Increase (Decrease)	Percent Increase (Decrease)
Salaries and employee benefits	\$ 41,939	\$ 34,393	\$ 34,253	\$ 7,546	21.9 %	\$ 140	0.4 %
Occupancy and equipment	7,302	6,943	6,143	359	5.2 %	800	13.0 %
Data processing	5,139	3,184	3,717	1,955	61.4 %	(533)	(14.3)%
Professional services	4,974	2,181	2,132	2,793	128.1 %	49	2.3 %
Depreciation and amortization	1,740	2,149	2,228	(409)	(19.0)%	(79)	(3.5)%
Information technology	1,550	1,050	1,065	500	47.6 %	(15)	(1.4)%
Amortization of core deposit intangible	1,135	853	887	282	33.1 %	(34)	(3.8)%
Directors' expense	957	713	735	244	34.2 %	(22)	(3.0)%
Federal Deposit Insurance Corporation insurance	889	474	361	415	87.6 %	113	31.3 %
Charitable contributions	587	1,034	508	(447)	(43.2)%	526	103.5 %
Other non-interest expense:							
Advertising	908	769	775	139	18.1 %	(6)	(0.8)%
Other expense	5,518	4,715	5,037	803	17.0 %	(322)	(6.4)%
Total other non-interest expense	6,426	5,484	5,812	942	17.2 %	(328)	(5.6)%
Total non-interest expense	\$ 72,638	\$ 58,458	\$ 57,841	\$ 14,180	24.3 %	\$ 617	1.1 %

2021 Compared to 2020

Non-interest expense increased \$14.1 million to \$72.6 million in 2021 from \$58.5 million in 2020. The largest increase of \$6.5 million came from acquisition related one-time and conversion costs. In addition to \$3.0 million in one-time merger cost, salaries and related benefits rose another \$4.5 million due to increased numbers of employees, regularly scheduled annual merit and related increases, and lower deferred loan origination costs. Professional services included \$817 thousand more in consulting expenses for PPP loan forgiveness application processing, investment advisory services, and legal costs. Data processing increased by an additional \$828 thousand primarily due to increases core processing and mobile banking systems charges, and other categories increased due to the larger size of the bank. FDIC insurance increased by \$415 thousand due to an increase in our deposit base. Charitable contributions decreased due to supplemental contributions in 2020 related to the pandemic.

2020 Compared to 2019

In 2020, non-interest expense increased by \$617 thousand to \$58.5 million from \$57.8 million. The largest increases came from the occupancy expenses (primarily due to lease renewals for our existing headquarters offices and new lease for a loan production office in San Mateo, common area maintenance and janitorial expenses), and charitable contributions due to our outreach to nonprofit organizations in our community during the pandemic. The decrease in data processing costs was due to our digital platform conversion in 2019. While salaries and related benefits were relatively unchanged year-over-year, annual merit and related increases were mostly offset by \$915 thousand in SBA PPP-related deferred loan origination costs.

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, BOLI, low-income housing tax credits, and stock-based compensation from the exercise of stock options, disqualifying dispositions of incentive stock options and vesting of restricted stock awards).

The provision for income taxes totaled \$11.7 million at an effective tax rate of 26.0% in 2021, compared to \$10.3 million at an effective tax rate of 25.5% in 2020 and \$11.7 million at an effective tax rate of 25.4% in 2019. The increase in the provision in 2021 compared to 2020 reflected higher pre-tax income. The 50 basis point increase in the effective tax rate in 2021 as compared to 2020 was primarily due to non-deductible merger expenses and executive compensation, partially offset by higher BOLI income and tax exempt loan and investment securities interest income. The slight increase in the effective tax rate in 2020 compared to 2019 was due to a favorable deferred tax liability true-up recognized in 2019 and a lower tax benefit from BOLI income in 2020.

We file a consolidated return in the U.S. Federal tax jurisdiction and a combined return in the State of California tax jurisdiction. There were no ongoing federal or state income tax examinations at the issuance of this report. At December 31, 2021 and 2020, neither the Bank nor Bancorp had accruals for interest or penalties related to unrecognized tax benefits.

FINANCIAL CONDITION

Our assets increased \$1.4 billion from December 31, 2020 to December 31, 2021. Increases reflected both the acquisition of ARB and organic growth.

Investment Securities

We maintain an investment securities portfolio to provide liquidity and to generate earnings on funds that have not been loaned to customers. Management determines the maturities and types of securities to be purchased based on liquidity and interest rate risk position, and the desire to attain a reasonable investment yield balanced with risk exposure. The table below shows the composition of the debt securities portfolio by expected maturity at December 31, 2021 and 2020. Expected maturities differ from contractual maturities because the issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties. We estimate and update expected maturity dates regularly based on current and historical prepayment speeds. The weighted average life of the investment portfolio at December 31, 2021 and 2020 was approximately six and five years, respectively.

December 31, 2021	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total		
(dollars in thousands; unaudited)	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Fair Value	Average Yield ²
Held-to-maturity:											
MBS/CMOs issued by U.S. government agencies	\$ 1,550	1.05 %	\$ 99,062	2.03 %	\$ 116,665	1.79 %	\$ 21,430	1.97 %	\$ 238,707	\$ 239,856	1.90 %
SBA-backed securities	—	—	4,840	3.17	—	—	—	—	4,840	5,038	3.17
Debentures of government-sponsored agencies	—	—	—	—	19,973	1.67	31,499	1.89	51,472	50,571	1.80
Obligations of state and political subdivisions - tax-exempt ³	—	—	—	—	16,686	1.92	—	—	16,686	16,794	1.92
Obligations of state and political subdivisions - taxable	101	4.58	—	—	25,327	2.17	5,089	2.39	30,517	30,496	2.22
Total held-to-maturity	1,651	1.27	103,902	2.08	178,651	1.84	58,018	1.96	342,222	342,755	1.93
Available-for-sale:											
MBS/CMOs issued by U.S. government agencies	13,262	1.24	202,848	1.67	459,936	1.79	87,623	1.26	763,669	759,576	1.69
SBA-backed securities	7	2.21	30,502	2.45	2,131	0.16	—	—	32,640	33,478	2.30
Debentures of government sponsored agencies	6,000	2.62	120,115	1.11	16,411	1.39	48,923	1.88	191,449	188,527	1.38
U.S. Treasury securities	—	—	—	—	11,886	1.00	—	—	11,886	11,630	1.00
Obligations of state and political subdivisions - tax-exempt ³	1,322	3.73	21,026	2.69	92,375	2.60	—	—	114,723	119,970	2.63
Obligations of state and political subdivisions - taxable	1,128	2.86	1,011	3.24	12,147	1.56	—	—	14,286	14,030	1.78
Corporate bonds	2,013	2.73	31,000	1.03	5,988	1.23	—	—	39,001	38,495	1.15
Asset-backed securities	—	—	—	—	1,866	0.72	—	—	1,866	1,862	0.72
Total available-for-sale	23,732	1.93	406,502	1.57	602,740	1.87	136,546	1.48	1,169,520	1,167,568	1.72
Total	\$ 25,383	1.89 %	\$510,404	1.68 %	\$781,391	1.86 %	\$194,564	1.62 %	\$1,511,742	\$1,510,323	1.77 %
December 31, 2020											
(dollars in thousands; unaudited)	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Fair Value	Average Yield ²
Held-to-maturity:											
MBS/CMOs issued by U.S. government agencies	\$ —	— %	\$ 76,378	1.89 %	\$ 24,444	2.51 %	\$ —	— %	\$ 100,822	\$ 106,550	2.04 %
SBA-backed securities	—	—	—	—	6,547	3.17	—	—	6,547	6,947	3.17
Obligations of state and political subdivisions - tax-exempt ³	247	3.73	—	—	—	—	—	—	247	251	3.73
Obligations of state and political subdivisions - taxable	1,214	5.82	206	4.58	—	—	—	—	1,420	1,437	5.64
Total held-to-maturity	1,461	5.46	76,584	1.89	30,991	2.65	—	—	109,036	115,185	2.16

December 31, 2020 (dollars in thousands; unaudited)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total		
	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Average Yield ²	Amortized Cost ¹	Fair Value	Average Yield ²
Available-for-sale:											
MBS/CMOs issued by U.S. government agencies	4,765	1.60	94,844	2.36	117,657	2.72	—	—	217,266	228,651	2.54
SBA-backed securities	—	—	16,994	2.40	13,947	3.43	—	—	30,941	32,862	2.86
Debentures of government sponsored agencies	9,993	2.18	5,984	2.62	1,976	1.42	1,991	1.39	19,944	20,186	2.16
Obligations of state and political subdivisions - tax-exempt ³	1,011	2.28	16,437	3.00	82,618	2.73	—	—	100,066	105,681	2.77
Obligations of state and political subdivisions - taxable	2,642	2.83	2,179	3.06	—	—	—	—	4,821	4,971	2.93
Total available-for-sale	18,411	2.13	136,438	2.46	216,198	2.76	1,991	1.39	373,038	392,351	2.61
Total	\$ 19,872	2.37 %	\$213,022	2.26 %	\$247,189	2.74 %	\$ 1,991	1.39 %	\$ 482,074	\$ 507,536	2.51 %

¹ Book value reflects cost, adjusted for accumulated amortization and accretion.

² Weighted average calculation is based on amortized cost of securities.

³ Yields on tax-exempt municipal bonds are presented on a taxable equivalent basis, using federal tax rate of 21%.

The amortized cost of our investment securities portfolio increased \$1.03 billion or 214% during 2021. We purchased \$620.2 million in securities in 2021 designated as available-for-sale to provide flexibility for liquidity and interest rate risk management. We also purchased \$305.3 million in securities in 2021 designated as held-to-maturity. These purchases were offset by \$181.7 million of paydowns, calls and maturities, and \$6.6 million of sales during 2021. We also acquired \$297.8 million in securities from ARB. The weighted average yield on the purchases of securities was 1.68% for the 2021 year and 1.60% for the fourth quarter of 2021.

During 2021, we purchased \$287.6 million in agency mortgage-backed securities ("MBSs"), \$271.7 million in debentures of government sponsored agencies, \$268.6 million in agency collateralized mortgage obligations ("CMOs"), \$60.7 million in obligations of state and political subdivisions and \$37.0 million in corporate bonds. We consider agency debentures and CMOs issued by U.S. government sponsored entities to have low credit risk as they carry the credit support of the U.S. federal government. The debentures, CMOs and MBS issued by U.S. government sponsored agencies, SBA-backed securities and U.S. Treasury securities made up 85.6% of the portfolio at December 31, 2021, compared to 77.9% at December 31, 2020. See the discussion in the section captioned "Securities May Lose Value due to Credit Quality of the Issuers" in ITEM 1A Risk Factors above.

At December 31, 2021, distribution of our investment in obligations of state and political subdivisions was as follows:

(dollars in thousands; unaudited)	December 31, 2021			December 31, 2020		
	Amortized Cost	Fair Value	Percent of State and Municipal Securities	Amortized Cost	Fair Value	Percent of State and Municipal Securities
Within California:						
General obligation bonds	\$ 25,036	\$ 25,020	14.2 %	\$ 3,327	\$ 3,565	3.1 %
Revenue bonds	5,249	5,185	3.0	2,352	2,448	2.2
Tax allocation bonds	503	510	0.3	2,832	2,876	2.7
Total within California	30,788	30,715	17.5	8,511	8,889	8.0
Outside California:						
General obligation bonds	117,278	121,303	66.5	78,299	82,100	73.5
Revenue bonds	28,146	29,272	16.0	19,744	21,351	18.5
Total outside California	145,424	150,575	82.5	98,043	103,451	92.0
Total obligations of state and political subdivisions	\$ 176,212	\$ 181,290	100.0 %	\$ 106,554	\$ 112,340	100.0 %
Percent of investment portfolio	11.7%	12.0%		22.1%	22.1%	

The portion of the portfolio outside the state of California is distributed among thirteen states. Of the total investment in obligations of state and political subdivisions, the largest concentrations outside California are in

Texas (38.4%), Washington (16.4%), and Wisconsin (6.7%). 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). We have \$6.0 million in obligations of Texas school district issuers having high concentrations in oil and gas industry taxpayers and all of them have credit guarantees from the PSF.

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 local taxpayers and employers, income indices and home values
- For revenue bonds, the source and strength of revenue for municipal authorities including obligors' financial condition and reserve levels, annual debt service and debt coverage ratio, and credit enhancement (such as insurer's strength)
- Credit ratings by major credit rating agencies

Loans

Loans Outstanding by Class at December 31

(in thousands; unaudited)	2021	2020
Commercial and industrial	\$ 301,602	\$ 498,408
Real estate		
Commercial owner-occupied	392,345	304,963
Commercial investor-owned	1,189,021	961,208
Construction	119,840	73,046
Home equity	88,746	104,813
Other residential	114,558	123,395
Installment and other consumer	49,533	22,723
Total loans, at amortized cost	2,255,645	2,088,556
Allowance for credit losses on loans	(23,023)	(22,874)
Total loans, net of allowance for credit losses	\$ 2,232,622	\$ 2,065,682

Loans increased \$167.1 million in 2021, or 8%, to \$2.256 billion at December 31, 2021, from \$2.089 billion at December 31, 2020. Year-over-year growth was largely attributable to \$419.4 million in loans from the ARB acquisition on August 6, 2021. Non-PPP loan originations of \$181.7 million for the year were concentrated in commercial and real estate loans and compared to \$165.5 million in 2020. 2021 payoffs included \$218.1 million non-PPP loans, compared to \$169.2 million in 2020. In 2021, PPP loan originations were \$136.2 million and PPP loans forgiven and paid off were \$328.5 million.

Non-PPP payoffs as a percentage of beginning of the year loan balances were 10.4% in 2021 and 9.2% in 2020. Approximately 86% and 77%, of total loans were secured by real estate at December 31, 2021 and 2020, respectively. The increase in the percentage secured by real estate from 2020 to 2021 was primarily due to a \$180.4 million reduction in unsecured loans guaranteed by the SBA under the PPP, which are included in commercial and industrial loans. For additional information on loan concentration risk, see ITEM 1A, Risk Factors.

The following table summarizes our commercial real estate loan concentrations by the county in which the property was located as of December 31, 2021 and 2020.

Commercial Real Estate Loans Outstanding by County

(dollars in thousands; unaudited)		December 31, 2021		December 31, 2020	
County	Amount	Percent of Commercial Real Estate Loans	Amount	Percent of Commercial Real Estate Loans	
Marin	\$ 349,445	22.1 %	\$ 348,106	27.5 %	
Sonoma	230,740	14.6	208,745	16.5	
Napa	188,643	11.9	181,054	14.3	
Alameda	176,871	11.2	164,921	13.0	
San Francisco	172,120	10.9	169,902	13.4	
Sacramento	113,120	7.2	11,970	0.9	
Contra Costa	69,656	4.4	49,155	3.9	
Solano	40,837	2.6	21,380	1.7	
San Mateo	28,119	1.8	26,306	2.1	
Santa Clara	20,070	1.3	10,505	0.8	
Other	191,745	12.0	74,127	5.9	
Total	\$ 1,581,366	100.0 %	\$ 1,266,171	100.0 %	

Commercial real estate loans increased \$315.2 million in 2021, compared to a \$68.5 million increase in 2020. The increase was primarily due to the ARB acquisition and expanded footprint in Northern California. Of the commercial real estate loans at December 31, 2021, 75% were investor-owned and 25% were owner-occupied. Almost the entire commercial real estate loan portfolio is comprised of term loans for which the primary source of repayment is either the cash flow from the leasing activities of the real estate collateral or the operating cash flow of the owner occupant.

We occasionally provide interest-only term loans to borrowers who exhibit strong financial capacity and/or for commercial real estate loans during the occupancy stabilization period. After the initial interest-only payment period, these loans will normally require principal and interest payments. In addition, we may make interest-only concessions in a modified troubled debt restructuring ("TDR"). At December 31, 2021 and 2020, approximately 5.0% and 3.4%, respectively, of our commercial real estate loans contained an interest-only feature as part of the loan terms. All of these loans were current with their payments as of December 31, 2021. Except for three substandard classified loans to two borrowing relationships totaling \$24.7 million (or 1.6%) as of December 31, 2021, all were considered to have low credit risk (graded "Pass").

The following table shows an analysis of construction loans by type and county as of December 31, 2021 and 2020.

Construction Loans Outstanding by Type and County

(dollars in thousands; unaudited)		December 31, 2021		December 31, 2020	
Loan Type	Amount	Percent of Construction Loans	Amount	Percent of Construction Loans	
Commercial real estate	\$ 49,131	41.0 %	\$ 29,788	40.8 %	
Apartments and multifamily	45,978	38.4	22,331	30.6	
1-4 Single family residential	19,564	16.3	18,308	25.1	
Land - improved	3,966	3.3	1,371	1.9	
Land - unimproved	1,201	1.0	1,248	1.6	
Total	\$ 119,840	100.0 %	\$ 73,046	100.0 %	

County	December 31, 2021		December 31, 2020	
	Amount	Percent of Construction Loans	Amount	Percent of Construction Loans
San Francisco	\$ 55,826	46.6 %	\$ 41,707	57.1 %
Solano	16,367	13.7	9,020	12.3
Sonoma	13,640	11.4	10,058	13.8
Alameda	12,908	10.8	1,862	2.5
Marin	6,074	5.1	8,858	12.1
Sacramento	5,897	4.9	—	—
Contra Costa	5,613	4.7	1,541	2.2
Other	3,515	2.8	—	—
Total	\$ 119,840	100.0 %	\$ 73,046	100.0 %

Construction loans increased by \$46.8 million in 2021, compared to an increase of \$12.0 million in 2020. The increase in 2021 was primarily due to \$48.8 million advanced on existing construction loans, \$13.2 million in loans assumed in the ARB acquisition and \$7.2 million in new financing. These increases were partially offset by \$19.5 million in payoffs and \$2.9 million in conversions to commercial real estate financing. The increase in 2020 primarily resulted from additional borrowings under existing construction loans as well as advances on six new construction loans to well-known, experienced builders. The increase was partially offset by the successful completion of projects, one of which converted to a permanent commercial real estate loan.

The following table presents the amortized costs and maturity distribution of our loans by class as of December 31, 2021 based on their contractual maturity dates. Maturities do not include scheduled payments or potential prepayments.

Loan Maturity Distribution

(in thousands; unaudited)	Due within 1 year	Due after 1 through 5 years	Due after 5 through 15 years	Due after 15 years	Total
Commercial and industrial ¹	\$ 97,719	\$ 161,730	\$ 36,111	\$ 6,042	\$ 301,602
Real estate					
Commercial owner-occupied	26,036	98,920	259,867	7,522	392,345
Commercial investor-owned	33,656	329,994	794,920	30,451	1,189,021
Construction ²	64,319	15,322	40,199	—	119,840
Home equity	1,799	25,870	58,498	2,579	88,746
Other residential	608	2,161	1,929	109,860	114,558
Installment and other consumer loans	1,699	5,925	41,640	269	49,533
Total	\$ 225,836	\$ 639,922	\$ 1,233,164	\$ 156,723	\$ 2,255,645

¹ Commercial and industrial due after 1 but within 5 years includes SBA PPP loans totaling \$111.2 million (net of \$2.5 million in unrecognized fees and costs), the majority of which are expected to be forgiven by the SBA in 2022.

² Construction loans that mature after 5 years are structured to convert to permanent financing after the initial construction period.

The following table shows the mix of variable-rate loans to fixed-rate loans due after one year by class as of December 31 2021. The large majority of the variable-rate loans are tied to independent indices (such as the Prime Rate or a Treasury Constant Maturity Rate). Most loans with original terms of more than five years have provisions for the fixed rates to reset, or convert to variable rates, after three, five or seven years. These loans are included in variable-rate balances below.

Loan Interest Rate Sensitivity - Due After One Year

(in thousands; unaudited)		Fixed		Variable		Total
Commercial and industrial ¹	\$	175,697	\$	28,186	\$	203,883
Real estate						—
Commercial owner-occupied		184,142		182,167		366,309
Commercial investor-owned		677,655		477,710		1,155,365
Construction		33,626		21,895		55,521
Home equity		—		86,947		86,947
Other residential		3,465		110,485		113,950
Installment and other consumer loans		31,041		16,793		47,834
Total	\$	1,105,626	\$	924,183	\$	2,029,809

¹ Commercial and industrial includes SBA PPP 1% fixed rate loans totaling \$111.2 million (net of \$2.5 million in unrecognized fees and costs), the majority of which are expected to be forgiven by the SBA in 2022.

Allowance for Credit Losses on Loans

As of December 31, 2021, we calculated the allowance for credit losses using the current expected loss methodology, or CECL, which required us to estimate credit losses over the expected life of a loan and consider future changes in macroeconomic conditions. All specifically identifiable and quantifiable losses are charged off against the allowance. The ultimate adequacy of the allowance depends on a variety of factors beyond our control, including the real estate market, changes in interest rates and economic and political environments. Based on the current conditions of the loan portfolio and reasonable and supportable forecasts, management believes that the \$23.0 million allowance for credit losses at December 31, 2021 was adequate to absorb expected credit losses in our loan portfolio, but provides no assurance that adverse changes in economic conditions or other circumstances over the remaining terms of our loans will not result in increased losses in the portfolio. For information on our allowance for credit losses methodology and adoption of FASB ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective December 31, 2020, refer to Notes 1 and 3 to the Consolidated Financial Statements in ITEM 8 of this report.

The allowance for credit losses to loans was 1.02% at December 31, 2021 and 1.10% at December 31, 2020. The allowance for credit losses to loans, excluding SBA PPP loans and previously acquired loans was 1.07 and 1.27% at year-end 2021 and 2020, respectively (for a discussion of this non-GAAP financial measure, refer to ITEM 7, Reconciliation of GAAP and Non-GAAP Financial Measures section of this report).

The \$149 thousand increase in the allowance for credit losses on loans in 2021 was largely due to loans acquired from ARB, partially offset by improvements in economic factors that drive the quantitative portion of the allowance. The \$6.2 million increase in the allowance for credit losses in 2020 was almost entirely due to the impact of the COVID-19 pandemic and its effect on the local and regional economies and economic outlook coupled with the transition to the CECL method. For further information, refer to the Provision for Credit Losses section above, and Notes 1 and 3 to the Consolidated Financial Statements in ITEM 8 of this report.

Due to the high credit quality of our loan portfolio, net charge-offs have been minimal for the past several years. Net recoveries totaled \$93 thousand in 2021, compared to net charge-offs of \$1 thousand in 2020 and \$44 thousand in 2019.

The following table shows the allocation of the allowance by loan class as well as the percentage of total loans in each of the same loan classes.

Allocation of Allowance for Credit Losses

	December 31, 2021		December 31, 2020	
	Allowance balance allocation	Loans as a percent of total loans	Allowance balance allocation	Loans as a percent of total loans
(dollars in thousands; unaudited)				
Commercial and industrial	\$ 1,709	13.4 %	\$ 2,530	23.9 %
Real estate:				
Commercial, owner-occupied	2,776	17.4	2,778	14.6
Commercial, investor-owned	12,739	52.7	12,682	46.0
Construction	1,653	5.3	1,557	3.5
Home Equity	595	3.9	738	5.0
Other residential	644	5.1	998	5.9
Installment and other consumer	621	2.2	291	1.1
Unallocated allowance	2,286	N/A	1,300	N/A
Total allowance for credit losses	\$ 23,023		\$ 22,874	
Total percent		100.0%		100.0%

The table below shows the activity in the allowance for credit losses for each of the five years presented below.

Allowance for Credit Losses Rollforward

(dollars in thousands; unaudited)	2021	2020	2019
Beginning balance	\$ 22,874	\$ 16,677	\$ 15,821
Impact of CECL adoption	—	1,604	—
Provision for (reversal of) credit losses	(1,449)	4,594	900
Initial allowance for PCD loans	1,505		
Loans charged-off:			
Commercial and industrial	—	(30)	(75)
Installment and other consumer	(5)	(1)	(3)
Total loans charged-off	(5)	(31)	(78)
Loans recovered:			
Commercial and industrial	14	27	22
Real estate:			
Commercial, investor-owned	—	—	12
Construction	34	3	—
Home equity	50	—	—
Total loans recovered	98	30	34
Net loans (charged-off) recovered	93	(1)	(44)
Ending balance	\$ 23,023	\$ 22,874	\$ 16,677
Total loans, at amortized cost	\$2,255,645	\$2,088,556	\$1,843,286
Average total loans outstanding during year	\$2,155,982	\$2,023,203	\$1,775,193
Ratio of allowance for credit losses to total loans at end of year	1.02 %	1.10 %	0.90 %
Net recoveries (charge-offs) to average loans	NM	NM	NM

NM - Not meaningful.

Net charge-offs and recoveries for the years ended December 31, 2021, 2020 and 2019 were considered insignificant.

The following shows non-performing assets and loans modified in a troubled debt restructuring ("TDR") for each of the years in the five-year period ended December 31, 2021.

Non-Performing and Loans and Troubled Debt Restructurings

(dollars in thousands; unaudited)	2021	2020
Non-accrual loans:		
Real estate:		
Commercial, owner-occupied	\$ 7,269	\$ 7,147
Commercial, investor-owned	694	1,610
Home equity	413	459
Installment and other consumer	—	17
Total non-accrual loans	\$ 8,376	\$ 9,233
Accruing TDR loans: ¹		
Commercial and industrial	\$ 1,183	\$ 1,021
Real estate:		
Commercial, investor-owned	179	3,305
Home equity	130	10
Installment and other consumer	607	735
Total accruing TDR loans	\$ 2,099	\$ 5,071
Total non-accrual and accruing TDR loans	\$ 10,475	\$ 14,304
Criticized and classified loans:		
Special mention	\$ 73,263	\$ 86,852
Substandard	\$ 36,121	\$ 25,829
Doubtful	\$ 114	\$ —
Allowance for credit losses to non-accrual loans	2.75x	2.48x
Non-accrual loans to total loans	0.37 %	0.44 %

¹ Excludes TDR loans on non-accrual status that are included above.

Non-Accrual and TDR

Non-accrual loans decreased by \$857 thousand primarily due to \$1.0 million in payoffs and paydowns, partially offset by a \$114 thousand well-secured investor-owned commercial real estate loan assumed in the ARB acquisition and one \$67 thousand home equity loan placed on non-accrual status in 2021.

Non-accrual loans increased \$9.0 million in 2020, primarily due to the placement of two existing well-secured owner-occupied commercial real estate TDR loans, secured by one property, totaling \$7.1 million on non-accrual, as well as two well-secured investor-owned commercial loans totaling \$1.6 million that were placed on non-accrual in 2020. In addition, we designated five loans totaling \$2.1 million as TDRs during 2020, resulting in an overall increase of \$2.8 million in total non-accrual and accruing TDR loans from 2019 to 2020. These increases were partially offset by approximately \$1.0 million in paydowns and payoffs of non-accrual and TDR loans.

Total accruing TDR loans were \$2.1 million and \$5.1 million as of December 31, 2021 and 2020, respectively. The \$3.0 million decrease in 2021 was primarily due to \$4.0 million in paydowns and payoffs, partially offset by two loans totaling \$1.0 million that were designated as TDRs during 2021. The \$6.2 million decrease from 2019 to 2020 primarily related to the two existing well-secured commercial real estate TDR loans totaling \$7.1 million that were transferred to non-accrual status coupled with payoffs and paydowns, partially offset by the \$2.1 million in new TDR loans mentioned above.

For information regarding temporary relief from TDR accounting afforded by the CARES Act, refer to the Executive Summary section above and Note 3 to the Consolidated Financial Statements in ITEM 8, under "Troubled Debt Restructuring."

Criticized and Classified Loans

Loans designated as special mention decreased by \$13.6 million in 2021, primarily due to \$18.9 million in paydowns and payoffs, \$33.1 million in upgrades to a pass risk rating and two loans that were downgraded from special mention to substandard totaling \$5.4 million. These decreases were partially offset by \$17.2 million in loans that were downgraded from pass/watch, \$13.5 million in loans assumed in the ARB acquisition, and \$13.2 million in loans that were upgraded from substandard to special mention during 2021. Of the \$17.2 million in downgrades, \$13.2 million were well-secured by commercial real estate and the remaining \$4.0 million in commercial loans had strong support. Loans designated special mention increased by \$13.5 million in 2020, driven by loan downgrades

totaling \$31.0 million. Of these downgrades, approximately \$24.5 million were loans to borrowers that were impacted by the pandemic, all of which were well-secured by commercial real estate. These additions to special mention were mostly offset by \$15.8 million in upgrades to pass risk ratings, paydowns and payoffs, and \$2.2 million in loans downgraded from special mention to substandard in 2020. Loans designated as special mention exhibit potential weakness that deserve close attention.

Loans classified substandard increased by \$13.3 million in 2021, primarily due to downgrades totaling \$25.4 million and \$2.3 million in substandard loans assumed in the ARB acquisition. Of the downgraded loans, \$24.2 million were secured by commercial real estate. The downgrades were partially offset by \$13.2 million in upgrades to special mention and \$4.2 million in paydowns and payoffs. Loans classified substandard increased by \$15.9 million in 2020, primarily due to downgrades totaling \$18.5 million. Of these loans, \$13.4 million were to borrowers that requested payment relief due to the pandemic, all of which were well-secured by commercial real estate. These downgrades to substandard were partially offset by approximately \$2.8 million in payoffs and risk rating upgrades. Loans classified substandard decreased by \$2.7 million during 2019 primarily due to the payoff of a land development loan.

Refer to Note 3 to the Consolidated Financial Statements in ITEM 8 of this report for an allocation of criticized and classified loans by loan class.

Other Assets

BOLI totaled \$61.5 million at December 31, 2021, compared to \$43.6 million at December 31, 2020, and is recorded in other assets. The increase of \$17.9 million was primarily due to the acquisition of \$15.7 million in ARB policies and the purchase of \$1.9 million in new policies.

Interest receivable and other assets totaled \$51.4 million and \$36.5 million at December 31, 2021 and 2020, respectively. The \$14.9 million increase was primarily due to a \$6.4 million increase in net deferred tax assets, a \$4.9 million increase in FHLB stock and a \$2.6 million increase in accrued interest on investment securities as discussed below.

Net deferred tax assets totaled \$13.3 million and \$6.9 million at December 31, 2021 and 2020, respectively. Deferred tax assets consist primarily of tax benefits expected to be realized in future periods related to temporary differences such as the allowances for credit losses and unfunded loan commitments, net operating loss carryforwards, and deferred compensation and salary continuation plans. The \$6.4 million increase in net deferred tax assets in 2021 was primarily due to a \$4.5 million decrease in deferred tax liabilities related to changes in unrealized gains on available-for-sale investment securities, a \$1.6 million increase in deferred tax assets related to the change in deferred compensation plan and salary continuation plan, a \$781 thousand increase in deferred tax assets related to accrued but unpaid expenses and a \$640 thousand increase in deferred tax assets related to fair value adjustments on acquired loans. These increases were partially offset by a \$820 thousand increase in deferred tax liabilities related to the increase in core deposit intangibles. Management believes deferred tax assets will be realizable due to our consistent record of earnings and the expectation that earnings will continue at a level adequate to realize such benefits. Therefore, no valuation allowance was established as of December 31, 2021 or 2020. For additional information, refer to Note 11 to the Consolidated Financial Statements in ITEM 8 of this report.

We held \$16.7 million and \$11.9 million of FHLB stock recorded at cost in other assets at December 31, 2021 and 2020, respectively. The increase in 2021 resulted from the acquisition of \$4.9 million of ARB's FHLB stock. The FHLB paid \$760 thousand, \$654 thousand and \$799 thousand in cash dividends in 2021, 2020 and 2019, respectively. For additional information, refer to Note 2 to the Consolidated Financial Statements in ITEM 8 of this report.

Accrued interest on investment securities totaled \$4.8 million and \$2.2 million at December 31, 2021 and 2020, respectively. The increase was primarily due to purchases of \$925.6 million in securities and acquisition of \$297.8 million in securities from ARB.

Deposits

Deposits grew by \$1.304 billion, to \$3.809 billion at December 31, 2021, compared to \$2.504 billion at December 31, 2020. Non-interest bearing deposits grew by \$555.6 million in 2021 and made up 50% of total

deposits at year-end. See ITEM 1A, Risk Factors, for a discussion of potential risks associated with concentrations and volatility due to activity of our large deposit customers and impact of the SBA PPP loans. Our relationship banking model is the foundation for the strong deposit base and allows us to proactively and strategically address changes in the interest rate environment and technology adoption by our customers.

Distribution of Average Deposits

The table below shows the relative composition of our average deposits for 2021 and 2020. For average rates paid on deposits, refer to Average Statements of Condition and Analysis of Net Interest Income table in ITEM 7-Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in thousands; unaudited)	As of December 31,			
	2021		2020	
	Average Amount	Percent of Total	Average Amount	Percent of Total
Non-interest bearing	\$ 1,628,289	52.7 %	\$ 1,308,199	52.3 %
Interest-bearing transaction	217,924	7.0	148,817	5.9
Savings	268,397	8.7	184,146	7.4
Money market ¹	864,625	27.9	763,689	30.5
Time deposits, including CDARS:	115,393	3.7	96,558	3.9
Total average deposits	\$ 3,094,628	100.0 %	\$ 2,501,409	100.0 %

¹ Money market balances include Insured Cash Sweep[®] ("ICS") in both 2021 and 2020. Demand Deposit MarketplaceSM ("DDM") and ICS balances are discussed in Note 6 to the Consolidated Financial Statements in ITEM 8 of this report.

Total estimated uninsured deposits as of December 31, 2021 and December 31, 2020 were \$1.830 billion and \$1.116 billion, respectively.

Maturities of Uninsured Time Deposits

The following table shows time deposits by account that are in excess of \$250,000 by time remaining to maturity at December 31, 2021.

(in thousands; unaudited)	December 31, 2021	
	Total	Uninsured Portion
Three months or less	\$ 17,568	\$ 10,568
Over three months through six months	5,155	1,405
Over six months through twelve months	10,991	5,491
Over twelve months	20,307	10,557
Total	\$ 54,021	\$ 28,021

Borrowings

As of December 31, 2021 and 2020, respectively, our available borrowing capacity included \$820.5 million and \$642.5 million in secured lines of credit with FHLB and \$70.8 million and \$78.7 million with the Federal Reserve Bank of San Francisco ("FRBSF"). We also had \$150.0 million and \$135.0 million in unsecured lines with correspondent banks to cover any short or long-term borrowing needs at December 31, 2021 and 2020, respectively. There were no FHLB overnight borrowings at December 31, 2021 or 2020. The FRBSF and correspondent bank lines were not utilized at December 31, 2021 or 2020.

As part of a bank acquisition in 2013, we assumed a subordinated debenture due to the NorCal Community Bancorp Trust II with a contractual balance of \$4.1 million. On March 15, 2021, we redeemed the \$2.8 million subordinated debenture (accrued value), which carried an average interest rate of 5.68% in 2020.

For additional information, see Note 7, Borrowings and Other Obligations, in ITEM 8 of this report.

Deferred Compensation Obligations

We maintain a non-qualified, unfunded deferred compensation plan for certain key management personnel. Under this plan, participating employees may defer compensation, which will entitle them to receive certain payments for

up to fifteen years commencing upon retirement, death, disability or termination of employment. The participating employee may elect to receive payments over periods not to exceed fifteen years. A similar Deferred Director Fee Plan entitles participating members of the Board of Directors to receive payments as elected by the participant upon separation from service, death, disability or termination of service. At December 31, 2021 and 2020, our aggregate payment obligations under both plans totaled \$7.9 million and \$4.7 million, respectively.

Our Salary Continuation Plan ("SERP") provides a percentage of salary continuation benefits to a select group of executive management upon retirement at age sixty-five and reduced benefits upon early retirement. At December 31, 2021 and 2020, our liability under the SERP was \$5.3 million and \$3.2 million, respectively, and is recorded in interest payable and other liabilities in the Consolidated Statements of Condition. The Plan is unfunded and non-qualified for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

Increases in obligations under both the deferred compensation plan and SERP in 2021 were due to the assumption of the liabilities from the ARB acquisition.

For additional information, see Note 10 to the Consolidated Financial Statements in ITEM 8 of this report.

Capital Adequacy

As discussed in Note 15 to the Consolidated Financial Statements in ITEM 8 of this report, the Bank's capital ratios were above regulatory guidelines to be considered "well capitalized" and Bancorp's ratios exceeded the required minimum ratios for capital adequacy purposes. For further discussion of bank capital requirements refer to the SUPERVISION AND REGULATION section in ITEM 1 of this report.

The Bank's total risk-based capital ratio decreased from 15.8% at December 31, 2020 to 14.4% at December 31, 2021, primarily due to \$64.0 million in dividends paid to Bancorp to cover share repurchases, quarterly common stock dividends, and operating costs, partially offset by the Bank's \$37.4 million net income in 2021. Bancorp's total risk-based capital ratio was 16.0% at December 31, 2020 and 14.6% at December 31, 2021. Bancorp's 2020 Tier 1 capital included a subordinated debenture due to NorCal Community Bancorp Trust II, which was recorded only at the parent company level and accounted for approximately 18 basis points of the total risk-based capital ratio as of December 31, 2020. This subordinated debenture was early redeemed on March 15, 2021.

Bancorp's share repurchase program and activity are discussed in detail in ITEM 5 and in Note 8 to the Consolidated Financial Statements in ITEM 8 of this report. We expect to maintain strong capital levels and do not expect that we will be required to raise additional capital in 2022. Our anticipated sources of capital in 2022 include future earnings and shares issued under the stock-based compensation program.

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 discussed in Note 7 to the Consolidated Financial Statement in ITEM 8 of this report. Our Asset Liability Management Committee ("ALCO"), which is comprised of independent Bank directors and the Bank's Chief Executive Officer, is responsible for approving and monitoring our liquidity targets and strategies. ALCO has adopted a contingency funding plan that provides 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, as discussed in Note 6 to the consolidated financial statements in ITEM 8 of this report.

We obtain funds from the repayment and maturity of loans, deposit inflows, investment security maturities and paydowns, federal funds purchases, FHLB advances, other borrowings, and cash flow from operations. 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, and dividends to common stockholders.

The most significant component of our daily liquidity position is customer deposits. The attraction and retention of new deposits depends 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. Since 2020 the banking industry has experienced abundant liquidity driven by pandemic-related government programs such as PPP and stimulus checks as well as an elevated savings rate system-wide.

Our cash and cash equivalents increased \$147.3 million from December 31, 2020. The most significant source of liquidity during 2021 was deposit growth of \$514.3 million (exclusive of deposits added through the ARB acquisition). Proceeds from loans collected net of origination was \$256.9 million, mainly due to SBA PPP loan forgiveness. Proceeds from principal paydowns, maturities and sales of investment securities totaled \$188.4 million. In addition, \$140.6 million of cash was acquired from ARB, and \$45.3 million in net cash was provided by operating activities.

Significant uses of liquidity during 2021 were \$925.6 million in investment securities purchased, \$40.8 million in common stock repurchases, 13.9 million for a repayment of an FHLB loan acquired from ARB, \$13.1 million in cash dividends paid on common stock to our shareholders, and \$4.1 million in repayment of a subordinated debenture. Refer to the Consolidated Statement of Cash Flows in this Form 10-K for additional information on our sources and uses of liquidity. Management anticipates that our current strong liquidity position and core deposit base are adequate to fund our operations.

Undrawn credit commitments, as discussed in Note 16 to the Consolidated Financial Statements in ITEM 8 of this report, totaled \$634.2 million at December 31, 2021. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, deposit growth and liquid assets. Over the next twelve months, 109.8 million of time deposits will mature. We expect to replace these funds with new deposits. Our emphasis on local deposits, combined with our liquid investment portfolio, provides a very stable funding base.

Since 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 stock repurchases, shareholder dividends and ordinary operating expenses. Bancorp held \$6.6 million of cash at December 31, 2021. Management anticipates that there will be sufficient earnings at the Bank to provide dividends to Bancorp to meet its funding requirements for the foreseeable future.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risk is defined as the risk of loss arising from an adverse change in the market value (or prices) of financial instruments. A significant form 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 maximize our net interest margin, earnings, and capital over a variety of interest rate scenarios. 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.

To mitigate interest rate risk, the structure of the Consolidated Statement of Condition is managed with the objective of correlating the effects of interest rate changes on loans and investments with those of deposits and borrowings. The asset liability management policy sets limits on the acceptable amount of change to net interest income and 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 specified long-term fixed-rate loans and firm commitments to enter into long-term fixed-rate loans caused by changes in interest rates. Refer to Note 14 to the Consolidated Financial Statements in ITEM 8 of this report.

ALCO and the Board of Directors review our exposure to interest rate risk at least quarterly. We use simulation models to measure interest rate risk and to evaluate strategies to improve profitability. A simplified static 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. At December 31, 2021, 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 is a series of immediate parallel shifts in the yield curve. These are provided in the following table as an example rather than an expectation of likely interest rate movements.

Effect of Interest Rate Change on Net Interest Income (NII)

Immediate Changes in Interest Rates (in basis points)	Estimated Change in NII in Year 1 (as percent of NII)	Estimated Change in NII in Year 2 (as percent of NII)
up 400	(6.7)%	4.9%
up 300	(4.8)%	4.2%
up 200	(3.0)%	3.1%
up 100	(1.4)%	1.8%
down 100	(2.2)%	(5.2)%

Interest rate sensitivity is a function of the repricing characteristics of our assets and liabilities. The Bank runs a combination of scenarios and sensitivities in its attempt to capture the range of interest rate risk including the simulations mentioned above. As with any simulation model or other method of measuring interest rate risk, limitations are inherent in the process and dependent on assumptions. For example, if we choose to pay interest on certain business deposits that are currently non-interest bearing, causing those deposits to become rate sensitive in the future, we would become less asset sensitive than the model currently indicates. Assets and liabilities may react differently to changes in market interest rates in terms of both timing and responsiveness to market rate movements. Important deposit modeling assumptions are the speed of deposit run-off and the amount by which interest-bearing deposit rates increase or decrease when market interest rates change, otherwise known as the deposit beta. We applied an average deposit beta of 58% to rates paid on interest-bearing deposits in rising rate scenarios, reflected in the table above. However, our historical beta in the prior rising rate cycle was less than half of the modeled beta. Further, the actual rates and timing of prepayments on loans and investment securities could vary significantly from the assumptions applied in the various scenarios. Lastly, changes in U.S. Treasury rates accompanied by a change in the shape of the yield curve could produce different results from those presented in the table. Accordingly, the results presented should not be relied upon as indicative of actual results in the event of changing market interest rates.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Bank of Marin Bancorp

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated statements of condition of Bank of Marin Bancorp and subsidiary (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021 and 2020, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail,

accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses - Loans

As discussed in Notes 1 and 3 to the consolidated financial statements, the allowance for credit losses on loans at December 31, 2021 was \$23 million on a total loan portfolio of \$2.2 billion. The allowance for credit losses provides an estimate of lifetime expected losses in the loan portfolio. The measurement of expected credit losses is based on relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

We identified the allowance for credit losses on loans as a critical audit matter. The principal considerations for our determination of allowance for credit losses on loans as a critical audit matter are subjectivity of the estimation and application of forecasted economic conditions, probabilities of default, loss given default, prepayments and curtailments over the contractual terms of the loan, and qualitative internal and external risk factors used in the calculation of the allowance for credit losses. The economic forecast component of the allowance for credit losses on loans is used to compare the conditions that existed during the historical period to current conditions and future expectations. The probabilities of default and loss given default are used to establish estimated losses at the loan portfolio segment level. Prepayments and curtailments over the contractual terms of the loans are used to estimate future cash flows. The qualitative internal and external risk factors are used to adjust for differences in segment-specific risk characteristics or to reflect the extent to which expected current conditions and reasonable and supportable forecasts of economic conditions differ from conditions that existed during the historical period included in the probability of default and loss given default development. Auditing management's judgements regarding forecasted economic conditions, probabilities of default, loss given default, prepayments and curtailments over the contractual terms of the loan, and qualitative internal and external risk factors applied to the allowance for credit losses involved a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included:

- a. Testing the design, implementation, and operating effectiveness of controls related to management's calculation of the allowance for credit losses on loans, including controls over the forecasted economic conditions used, probabilities of default, loss given default, prepayments and curtailments, and qualitative internal and external risk factors used.
- b. Obtaining management's analysis and supporting documentation related to the forecasted economic conditions, and testing whether the forecasts used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.

- c. Obtaining management's analysis and supporting documentation related to the probabilities of default, and loss given default, and testing whether factors used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.
- d. Obtaining management's analysis and supporting documentation related to prepayments and curtailments, and testing whether factors used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.
- e. Obtaining management's analysis and supporting documentation related to the qualitative internal and external risk factors, and testing whether the qualitative factors used in the calculation of the allowance for credit losses on loans are reasonable and supportable based on the analysis provided by management.
- f. Testing the appropriateness of the methodology and assumptions used in the calculation of the allowance for credit losses on loans, as well as testing completeness and accuracy of the data used in the calculation, application of the forecasted economic conditions, probabilities of default, loss given default, prepayments and curtailments over the contractual terms of the loan, and factors determined by management and used in the calculation, and verifying calculations in the allowance for credit losses on loans.

Merger of American River Bankshares – Valuation of Acquired Loans

As discussed in Notes 1 and 18 to the consolidated financial statements, on August 6, 2021 (the "merger date"), American River Bankshares ("AMRB") merged with and into Bank of Marin Bancorp ("Bancorp"), with Bank of Marin Bancorp surviving. On August 7, 2021, American River Bank ("ARB") merged with and into Bank of Marin, with Bank of Marin (the "Bank") surviving, (collectively the "Merger"). Total merger consideration, including cash paid for outstanding options and cash paid in lieu of fractional shares was approximately \$124.5 million. The merger was accounted for using the acquisition method of accounting in which assets, liabilities and consideration exchanged were recorded at their respective fair value at the merger date.

We identified the valuation of acquired loans as a critical audit matter. The principal considerations for our determination of valuation of acquired loans as a critical audit matter are the level of management judgement involved in evaluating management's identification of loans with evidence of credit deterioration, the need for specialized skill in evaluating the reasonableness of unobservable inputs and assumptions used in management's estimation of fair value of all acquired loans. Auditing management's judgements regarding identification of loans with evidence of credit deterioration and evaluating unobservable inputs and assumptions used in the measurement of allowance for credit loss require a high degree of subjectivity.

The primary procedures we performed to address this critical audit matter included:

- a. Testing the design, implementation, and operating effectiveness of internal controls related to the completeness and accuracy of acquired loan level data, management's estimate of fair value of acquired loans, including the method and assumptions used to estimate fair value, internal controls over the measurement of merger date allowance for credit loss on purchase credit deteriorated loans.
- b. Testing the completeness and accuracy of loans determined to have credit deterioration at merger date and evaluating the reasonableness of the criteria used by management in their identification of purchase credit deteriorated loans.
- c. Testing the completeness and accuracy of acquired loan level data used in the fair value estimate calculation.
- d. Utilizing an internal firm specialist to evaluate the reasonableness of significant assumptions and methods used by management, by preparing an independent fair value calculation, as well as an assessment of the overall reasonableness of the fair value estimates of all acquired loans.
- e. Testing the appropriateness of the methodology and significant assumptions used in the calculation of allowance for credit losses on acquired loans identified as purchase credit deteriorated.

/s/ Moss Adams LLP

Sacramento, California
March 15, 2022

We have served as the Company's auditor since 2004.

March 15, 2022

Management's Report on Internal Control over Financial Reporting

Management of Bank of Marin Bancorp and subsidiary, (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and board of directors; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2021.

The Company's independent registered public accounting firm, Moss Adams LLP, has issued an attestation report on our internal control over financial reporting, which appears on the previous page.

/s/ Timothy D. Myers

Timothy D. Myers, President and Chief Executive Officer

/s/ Tani Girton

Tani Girton, EVP and Chief Financial Officer

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CONDITION
December 31, 2021 and 2020

(in thousands, except share data)	2021	2020
Assets		
Cash, cash equivalents and restricted cash	\$ 347,641	\$ 200,320
Investment securities:		
Held-to-maturity, at amortized cost (net of zero allowance for credit losses at December 31, 2021 and 2020 ¹)	342,222	109,036
Available-for-sale, at fair value (net of zero allowance for credit losses at December 31, 2021 and 2020 ¹)	1,167,568	392,351
Total investment securities	1,509,790	501,387
Loans, at amortized cost	2,255,645	2,088,556
Allowance for credit losses on loans ¹	(23,023)	(22,874)
Loans, net of allowance for credit losses on loans	2,232,622	2,065,682
Goodwill	72,754	30,140
Bank-owned life insurance	61,473	43,552
Operating lease right-of-use assets	23,604	25,612
Bank premises and equipment, net	7,558	4,919
Core deposit intangible	6,605	3,831
Other real estate owned	800	—
Interest receivable and other assets	51,362	36,483
Total assets	\$ 4,314,209	\$ 2,911,926
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 1,910,240	\$ 1,354,650
Interest bearing:		
Transaction accounts	290,813	183,552
Savings accounts	340,959	201,507
Money market accounts	1,116,303	667,107
Time accounts	150,235	97,433
Total deposits	3,808,550	2,504,249
Borrowings and other obligations	419	58
Subordinated debenture	—	2,777
Operating lease liabilities	25,429	27,062
Interest payable and other liabilities	29,443	19,527
Total liabilities	3,863,841	2,553,673
Stockholders' Equity		
Preferred stock, no par value, Authorized - 5,000,000 shares, none issued	—	—
Common stock, no par value, Authorized - 30,000,000 shares; Issued and outstanding - 15,929,243 and 13,500,453 at December 31, 2021 and 2020, respectively	212,524	125,905
Retained earnings	239,868	219,747
Accumulated other comprehensive (loss) income, net of taxes	(2,024)	12,601
Total stockholders' equity	450,368	358,253
Total liabilities and stockholders' equity	\$ 4,314,209	\$ 2,911,926

¹ Refer to Note 1, Summary of Accounting Policies, for information on the adoption of ASU 2016-13 in 2020.

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

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2021, 2020 and 2019

(in thousands, except per share amounts)	2021	2020	2019
Interest income			
Interest and fees on loans	\$ 91,612	\$ 84,674	\$ 84,331
Interest on investment securities	16,342	14,503	14,785
Interest on federal funds sold and due from banks	399	461	1,321
Total interest income	108,353	99,638	100,437
Interest expense			
Interest on interest-bearing transaction accounts	172	186	347
Interest on savings accounts	94	68	70
Interest on money market accounts	1,520	2,009	3,439
Interest on time accounts	246	554	595
Interest on borrowings and other obligations	9	4	77
Interest on subordinated debentures	1,361	158	229
Total interest expense	3,402	2,979	4,757
Net interest income	104,951	96,659	95,680
(Reversal of) provision for credit losses on loans	(1,449)	4,594	900
(Reversal of) provision for credit losses on unfunded loan commitments	(992)	1,570	129
Net interest income after (reversal of) provision for credit losses and unfunded loan commitments	107,392	90,495	94,651
Non-interest income			
Wealth Management and Trust Services	2,222	1,851	1,907
Earnings from bank-owned life insurance, net	2,194	973	1,196
Debit card interchange fees, net	1,812	1,438	1,586
Service charges on deposit accounts	1,593	1,314	1,865
Dividends on FHLB stock	760	654	799
Merchant interchange fees, net	422	239	331
(Losses) gains on investment securities, net	(16)	915	55
Other income	1,145	1,166	1,345
Total non-interest income	10,132	8,550	9,084
Non-interest expense			
Salaries and employee benefits	41,939	34,393	34,253
Occupancy and equipment	7,302	6,943	6,143
Data processing	5,139	3,184	3,717
Professional services	4,974	2,181	2,132
Depreciation and amortization	1,740	2,149	2,228
Information technology	1,550	1,050	1,065
Amortization of core deposit intangible	1,135	853	887
Directors' expense	957	713	735
Federal Deposit Insurance Corporation insurance	889	474	361
Charitable contributions	587	1,034	508
Other expense	6,426	5,484	5,812
Total non-interest expense	72,638	58,458	57,841
Income before provision for income taxes	44,886	40,587	45,894
Provision for income taxes	11,658	10,345	11,653
Net income	\$ 33,228	\$ 30,242	\$ 34,241
Net income per common share:			
Basic	\$ 2.32	\$ 2.24	\$ 2.51
Diluted	\$ 2.30	\$ 2.22	\$ 2.48
Weighted average common shares:			
Basic	14,340	13,525	13,620
Diluted	14,422	13,617	13,794
Comprehensive income:			
Net income	\$ 33,228	\$ 30,242	\$ 34,241
Other comprehensive (loss) income:			
Change in net unrealized gains or losses on available-for-sale securities	(21,281)	11,891	11,839
Reclassification adjustment for losses (gains) on available-for-sale securities in net income	16	(915)	(55)
Amortization of net unrealized losses on securities transferred from available-for-sale to held-to-maturity	493	524	445
Other comprehensive (loss) income, before tax	(20,772)	11,500	12,229
Deferred tax (benefit) expense	(6,147)	3,402	3,624
Other comprehensive (loss) income, net of tax	(14,625)	8,098	8,605
Comprehensive income	\$ 18,603	\$ 38,340	\$ 42,846

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

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years ended December 31, 2021, 2020 and 2019

(in thousands, except share data)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Taxes	Total
	Shares	Amount			
Balance at December 31, 2018	13,844,353	\$ 140,565	\$ 179,944	\$ (4,102)	\$ 316,407
Net income	—	—	34,241	—	34,241
Other comprehensive income	—	—	—	8,605	8,605
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	45,553	669	—	—	669
Stock issued under employee stock purchase plan	1,355	54	—	—	54
Stock issued under employee stock ownership plan	30,075	1,245	—	—	1,245
Restricted stock granted	29,110	—	—	—	—
Restricted stock surrendered for tax withholdings upon vesting	(5,240)	(220)	—	—	(220)
Restricted stock forfeited / cancelled	(18,333)	—	—	—	—
Stock-based compensation - stock options	—	495	—	—	495
Stock-based compensation - restricted stock	—	1,017	—	—	1,017
Cash dividends paid on common stock (\$0.80 per share)	—	—	(10,958)	—	(10,958)
Stock purchased by directors under director stock plan	591	24	—	—	24
Stock issued in payment of director fees	5,544	231	—	—	231
Stock repurchased, net of commissions	(356,000)	(15,022)	—	—	(15,022)
Balance at December 31, 2019	13,577,008	\$ 129,058	\$ 203,227	\$ 4,503	\$ 336,788
Net income	—	—	30,242	—	30,242
Other comprehensive income	—	—	—	8,098	8,098
Cumulative effect of change in accounting principal ASU 2016-13 ¹	—	—	(1,216)	—	(1,216)
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	65,407	1,304	—	—	1,304
Stock issued under employee stock purchase plan	2,392	72	—	—	72
Stock issued under employee stock ownership plan	39,900	1,289	—	—	1,289
Restricted stock granted	29,100	—	—	—	—
Restricted stock surrendered for tax withholdings upon vesting	(2,200)	(73)	—	—	(73)
Restricted stock forfeited / cancelled	(14,314)	—	—	—	—
Stock-based compensation - stock options	—	319	—	—	319
Stock-based compensation - restricted stock	—	884	—	—	884
Cash dividends paid on common stock (\$0.92 per share)	—	—	(12,506)	—	(12,506)
Stock purchased by directors under director stock plan	1,146	43	—	—	43
Stock issued in payment of director fees	5,723	217	—	—	217
Stock repurchased, net of commissions	(203,709)	(7,208)	—	—	(7,208)
Balance at December 31, 2020	13,500,453	\$ 125,905	\$ 219,747	\$ 12,601	\$ 358,253
Net income	—	—	33,228	—	33,228
Other comprehensive loss	—	—	—	(14,625)	(14,625)
Stock options exercised, net of shares surrendered for cashless exercises and tax withholdings	36,338	463	—	—	463
Stock issued under employee stock purchase plan	2,648	90	—	—	90
Stock issued under employee stock ownership plan	36,075	1,330	—	—	1,330
Restricted stock granted	30,742	—	—	—	—
Restricted stock surrendered for tax withholdings upon vesting	(4,211)	(166)	—	—	(166)
Restricted stock forfeited / cancelled	(3,848)	—	—	—	—
Stock-based compensation - stock options	—	491	—	—	491
Stock-based compensation - restricted stock	—	481	—	—	481
Cash dividends paid on common stock (\$0.94 per share)	—	—	(13,107)	—	(13,107)
Stock purchased by directors under director stock plan	1,034	34	—	—	34
Stock issued in payment of director fees	6,443	217	—	—	217
Stock issued to American River Bankshares shareholders	3,441,235	124,401	—	—	124,401
Stock repurchased, net of commissions	(1,117,666)	(40,722)	—	—	(40,722)
Balance at December 31, 2021	15,929,243	\$ 212,524	\$ 239,868	\$ (2,024)	\$ 450,368

¹ Refer to Note 1, Summary of Accounting Policies, for information on the adoption of ASU 2016-13 in 2020.

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

BANK OF MARIN BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2021, 2020 and 2019

(in thousands)	2021	2020	2019
Cash Flows from Operating Activities:			
Net income	\$ 33,228	\$ 30,242	\$ 34,241
Adjustments to reconcile net income to net cash provided by operating activities:			
(Reversal of) provision for credit losses on loans	(1,449)	4,594	900
(Reversal of) provision for credit losses on unfunded loan commitments	(992)	1,570	129
Noncash contribution expense to employee stock ownership plan	1,330	1,289	1,245
Noncash director compensation expense	347	301	301
Stock-based compensation expense	972	1,203	1,512
Amortization of core deposit intangible	1,135	853	887
Amortization of investment security premiums, net of accretion of discounts	5,799	1,354	1,633
Accretion of discount on acquired loans	(571)	(165)	(353)
Accretion of discount on subordinated debentures	1,347	69	68
Net change in deferred loan origination costs/fees	(3,155)	5,040	(348)
Loss (gain) on sale of investment securities	16	(915)	(55)
Depreciation and amortization	1,740	2,149	2,228
Earnings on bank-owned life insurance policies	(2,194)	(973)	(1,196)
Net changes in:			
Interest receivable and other assets	5,554	(5,135)	(329)
Interest payable and other liabilities	2,146	(631)	70
Total adjustments	12,025	10,603	6,692
Net cash provided by operating activities	45,253	40,845	40,933
Cash Flows from Investing Activities:			
Purchase of held-to-maturity securities	(305,329)	—	(3,549)
Purchase of available-for-sale securities	(620,236)	(97,544)	(110,934)
Proceeds from sale of available-for-sale securities	6,632	33,756	66,081
Proceeds from paydowns/maturities of held-to-maturity securities	71,682	28,144	23,005
Proceeds from paydowns/maturities of available-for-sale securities	110,059	114,991	86,044
Loan principal collected, net of originations	256,856	(249,337)	(77,827)
Purchase of bank-owned life insurance policies	(1,943)	(941)	(2,997)
Cash receipts from bank-owned life insurance policies	2,478	—	1,533
Purchase of premises and equipment	(1,044)	(981)	(542)
Cash and cash equivalents acquired from American River Bankshares	140,577	—	—
Purchase of Federal Home Loan Bank stock	—	(176)	(616)
Cash paid for low income housing tax credit investment	(398)	(1,355)	(952)
Net cash used in investing activities	(340,666)	(173,443)	(20,754)
Cash Flows from Financing Activities:			
Net increase in deposits	514,279	167,760	161,649
Proceeds from stock options exercised	463	1,304	669
Payment of tax withholdings for vesting of restricted stock	(166)	(73)	(220)
Federal Home Loan Bank (repayment) borrowings	(13,885)	—	(7,000)
Repayment of subordinated debenture including execution costs	(4,126)	—	—
Repayment of finance lease obligations	(86)	(172)	(168)
Cash dividends paid on common stock	(13,107)	(12,506)	(10,958)
Stock repurchased, net of commissions	(40,762)	(6,898)	(15,062)
Proceeds from stock issued under employee and director stock purchase plans	124	115	78
Net cash provided by financing activities	442,734	149,530	128,988
Net increase in cash, cash equivalents and restricted cash	147,321	16,932	149,167
Cash, cash equivalents and restricted cash at beginning of period	200,320	183,388	34,221
Cash, cash equivalents and restricted cash at end of period	\$ 347,641	\$ 200,320	\$ 183,388
Supplemental disclosure of cash flow information:			
Cash paid in interest	\$ 2,105	\$ 2,948	\$ 4,659
Cash paid in income taxes	\$ 12,350	\$ 13,065	\$ 12,738
Supplemental disclosure of noncash investing and financing activities:			
Change in net unrealized gain or loss on available-for-sale securities	\$ (21,281)	\$ 11,891	\$ 11,839
Stock issued to employee stock ownership plan	\$ 1,330	\$ 1,289	\$ 1,245
Cumulative effect of change in accounting principle ASU 2016-13	\$ —	\$ (1,216)	\$ —
Amortization of net unrealized loss on available-for-sale securities transferred to held-to-maturity	\$ 493	\$ 524	\$ 445
Repurchase of stock not yet settled	\$ 373	\$ 413	\$ 103
Stock issued in payment of director fees	\$ 217	\$ 217	\$ 231
Acquisition: Fair value of assets acquired, excluding cash and cash equivalents	\$ 757,844	\$ —	\$ —
Fair value of liabilities assumed	\$ 816,558	\$ —	\$ —
Restricted cash ¹	\$ 4,395	\$ 2,700	\$ 6,516

¹Restricted 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Summary of Significant Accounting Policies

Nature of Operations - Bank of Marin Bancorp ("Bancorp"), headquartered in Novato, California, conducts business primarily through its wholly-owned subsidiary, Bank of Marin (the "Bank"), a California state-chartered commercial bank that provides a wide range of financial services through 31 retail branches and 8 commercial banking offices across 10 counties, including Alameda, Amador, Contra Costa, Marin, Napa, Placer, Sacramento, San Francisco, San Mateo and Sonoma. Our customer base is made up of business, not-for-profit and personal banking relationships from the communities within our Northern California footprint.

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. Effective August 6, 2021 (the "merger date"), American River Bankshares ("AMRB") merged with and into Bank of Marin Bancorp ("Bancorp"), with Bank of Marin Bancorp surviving, followed thereafter at 12:05 AM on August 7, 2021, by the merger of American River Bank ("ARB") with and into Bank of Marin, with Bank of Marin (the "Bank") surviving, (collectively the "Merger"). The Merger was accounted for under ASC 805, *Business Combinations*. See Note 18, Merger, for further detail. References to "we," "our," "us" mean Bancorp and the Bank that are consolidated for financial reporting purposes. Our accounting and reporting policies conform to U.S. generally accepted accounting principles ("GAAP"), general practice, and regulatory guidance within the banking industry. A summary of our significant policies follows. All material intercompany transactions have been eliminated. We monitor financial performance and evaluate the revenue streams of the various products, services, locations, and operations on a company-wide basis. Accordingly, all of the community banking and wealth management and trust services are considered by management to be aggregated into one reportable operating segment, community banking. We evaluated subsequent events through the date of filing with the Securities and Exchange Commission ("SEC") and determined that there were no subsequent events that require additional recognition or disclosure.

The NorCal Community Bancorp Trust II (the "Trust") was formed for the sole purpose of issuing trust preferred securities. Bancorp is not considered the primary beneficiary of the Trust (a variable interest entity), therefore the Trust is not consolidated in our consolidated financial statements, but rather the subordinated debenture is shown as a liability on our consolidated statements of condition. Bancorp's investment in the securities of the Trust is accounted for under the equity method and is included in interest receivable and other assets on the consolidated statements of condition. Refer to Note 7, Borrowings, for additional information on the subordinated debenture due to NorCal Community Bancorp Trust II and the early redemption that occurred on March 15, 2021.

Accounting Changes and Reclassifications - Certain items in prior financial statements have been reclassified to conform to the current presentation. In addition, on December 31, 2020, we adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and all applicable amendments as subsequently updated for certain clarifications, targeted relief and codification improvements. Accounting Standards Codification ("ASC") Topic 326 ("ASC 326") replaced the incurred loss method for measuring credit losses with a current expected credit loss ("CECL") method for financial assets recorded at amortized cost (i.e., loans originated by us and held-to-maturity investment securities). The previous incurred loss method included a general allowance on loans for known and inherent losses within the portfolio, which reflected adjusted historical loss rates and a specific allowance component for impaired loans. The CECL method requires the measurement of all expected credit losses for financial assets measured at amortized cost and certain off-balance-sheet credit exposures to consider credit losses expected to be incurred over the life of the financial asset based on past events, current conditions, and reasonable and supportable forecasts. ASC 326 also requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards. In addition, ASC 326 includes certain changes to the accounting for available-for-sale investment securities including the requirement to recognize an allowance when management intends to sell or believes that it is more likely than not they will be required to sell the security before recovery of its amortized cost.

ASC 326 was effective January 1, 2020. However, in accordance with the accounting relief provisions of the Coronavirus Aid, Relief and Economic Security ("CARES") Act passed in March 2020, we postponed the adoption of the CECL standard to the earlier of the end of the national emergency or December 31, 2020. Therefore, we adopted this standard using the modified retrospective method for all financial assets measured at amortized cost, and off-balance-sheet credit exposures, effective October 1, 2020 (the beginning of the first reporting period in

which the standard was effective due to the postponement of CECL) through a cumulative adjustment to retained earnings. Results for reporting periods beginning after September 30, 2020 have been presented under the new standard while prior period amounts continue to be reported in accordance with previously applicable GAAP. Upon adoption, we recorded a cumulative adjustment to retained earnings, net of taxes, based on economic forecasts and other assumptions as of December 31, 2019. That adjustment resulted in an increase to our allowance for credit losses of \$1.6 million and an increase to the allowance for unfunded loan commitments of \$122 thousand. In addition, we recognized the remaining difference between the allowance for credit losses calculated under the CECL model as of December 31, 2020 and the allowance for credit losses calculated under the incurred loss model as of September 30, 2020 as a reversal of the provision for credit losses and a provision for credit losses on unfunded loan commitments, as showed in the tables below.

The following tables show the impact to our financial statement line items due to adoption of ASC 326 as of and during the quarter ended December 31, 2020.

(in thousands)	Pre-Tax Increase (Decrease) Upon the Adoption of CECL	Deferred Tax Effect	After Tax Impact of Adoption of CECL
Impact to allowance for credit losses on loans:			
Allowance for credit losses on loans	\$ 748		
Retained earnings (cumulative transition adjustment)	\$ (1,604)	\$ 474	\$ (1,130)
Net income (reversal of provision for credit losses on loans)	\$ 856	\$ (253)	\$ 603
Impact to allowance for credit losses on unfunded loan commitments:			
Allowance for credit losses on unfunded commitments	\$ 1,082		
Retained earnings (cumulative transition adjustment)	\$ (122)	\$ 36	\$ (86)
Net income (provision for credit losses on unfunded commitments)	\$ (960)	\$ 284	\$ (676)

The following table shows the impact on the allowance for credit losses due to the transition from the incurred loss method to the CECL method by loan class.

(in thousands)	Pre-Adoption Balance at September 30, 2020	Cumulative Transition Adjustment ¹	Post Adoption Adjusted Balance at October 1, 2020
Allowance for credits losses on loans:			
Commercial and industrial	\$ 2,525	\$ (278)	\$ 2,247
Real estate:			
Commercial owner-occupied	3,135	138	3,273
Commercial investor-owned	11,624	1,755	13,379
Construction	860	201	1,061
Home equity	1,038	(361)	677
Other residential	1,260	(212)	1,048
Installment and other consumer loans	406	(125)	281
Unallocated	1,265	486	1,751
Total	\$ 22,113	\$ 1,604	\$ 23,717
Allowance for credit losses on unfunded commitments	\$ 1,697	\$ 122	\$ 1,819

¹ The cumulative transition adjustment resulted from applying the CECL method, which was based on economic forecasts and other assumptions as of December 31, 2019. Refer to Note 3, Loans and Allowance for Credit Losses, for more information.

The Bank did not record an allowance for credit losses on available-for-sale or held-to-maturity investment securities upon the adoption of CECL as the investment portfolio consisted primarily of debt securities backed by the U.S. government and high credit quality obligations of state and political subdivisions. Refer to Note 2, Investment Securities, for more information.

In the second quarter of 2021, we reclassified the provision for credit losses on unfunded commitments from non-interest expense to a separate line item under the provision for credit losses on loans in the consolidated statements of comprehensive income.

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant accounting estimates reflected in the consolidated financial statements include the allowance for credit losses, income taxes, and fair value measurements (including fair values of acquired assets and assumed liabilities at acquisition dates) as discussed in the Notes herein.

Cash, Cash Equivalents and Restricted Cash - include cash, due from banks, federal funds sold and other short-term investments with maturities of less than three months at the time of purchase. Restricted cash includes balances not immediately available for business operations such as Federal Reserve Bank of San Francisco reserve requirements and cash pledged for interest rate swap contracts and local agency deposits.

Investment Securities - are classified as "held-to-maturity," "trading securities" or "available-for-sale." Investments classified as held-to-maturity are those that we have the ability and intent to hold until maturity and are reported at cost, adjusted for the amortization or accretion of premiums or discounts. Investments held for resale in anticipation of short-term market movements are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings. Investments that are neither held-to-maturity nor trading are classified as available-for-sale and are reported at fair value. Unrealized gains and losses for available-for-sale securities, net of related taxes, are reported as a separate component of comprehensive income and included in stockholders' equity until realized. For discussion of our methodology in determining fair value, see Note 9, Fair Value of Assets and Liabilities.

Purchase premiums and discounts on investment securities are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. For certain callable debt securities purchased at a premium, we amortize the premium to the earliest call date.

Dividend and interest income are recognized when earned. Realized gains and losses on the sale of securities are included in non-interest income. The specific identification method is used to calculate realized gains and losses on sales of securities.

Securities transferred from the available-for-sale category to the held-to-maturity category are recorded at fair value at the date of transfer. Unrealized holding gains or losses on the dates of the transfer of securities from available-for-sale to held-to-maturity are included in the balance of accumulated other comprehensive income (loss), net of tax, in the consolidated balance sheets. These unrealized holding gains or losses on the dates of transfer are amortized over the remaining life of the securities as yield adjustments in a manner consistent with the amortization or accretion of the original purchase premium or discount on the associated security.

Allowance for Credit Losses on Investment Securities - The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account determined in accordance with ASC 326, which is deducted from the securities' amortized cost basis at the balance sheet date as a result of management's assessment of the net amount expected to be collected. The allowance is measured on a pooled basis for securities with similar risk characteristics using historical credit loss information, adjusted for current conditions and reasonable and supportable forecasts. Securities that are determined to be uncollectible are written off against the allowance.

For available-for-sale securities in an unrealized loss position ("impaired security"), we assess whether 1) we intend to sell the security, or, 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. Under either of these conditions, the security's amortized cost is written down to fair value through a charge to previously recognized allowances or earnings, as applicable. For impaired securities that do not meet these conditions, we assess whether the decline in fair value was due to credit loss or other factors. This assessment considers, among other things: 1) the extent to which the fair value is less than amortized cost, 2) the financial condition and near-term prospects of the issuer, 3) any changes to the rating of the security by a rating agency, and 4) our intent and ability to retain the investment for a period of time sufficient to allow for any anticipated recovery in fair value. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss component. Any impairment due to non-credit-related factors that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. The discount rate used in determining the present

value of the expected cash flows is based on the effective interest rate implicit in the security at the date of purchase.

Accrued interest receivable is excluded from the amortized costs and fair values of both held-to-maturity and available-for-sale securities and included in interest receivable and other assets on the consolidated statements of condition. Investment securities are placed on non-accrual status when principal or interest is contractually past due more than ninety days, or management does not expect full payment of principal and interest. We do not record an allowance for credit losses for accrued interest on investment securities, as the amounts are written-off when the investment is placed on non-accrual status. There were no non-accrual investment securities in any of the years presented in the consolidated financial statements.

Originated Loans - are reported at amortized cost, which is the principal amount outstanding net of deferred fees (costs), purchase premiums (discounts) and net charge-offs (recoveries). Amortized cost excludes accrued interest, which is reflected in interest receivable and other assets in the consolidated statements of condition. We do not measure an allowance for credit losses on accrued interest receivable balances because these balances are written off in a timely manner as a reduction to interest income when loans are placed on non-accrual status as discussed below. Interest income is accrued daily using the simple interest method. Fees collected upon loan origination and certain direct costs of originating loans are deferred and recognized over the contractual lives of the related loans as yield adjustments using the interest method or straight-line method, as applicable. Upon prepayment or other disposition of the underlying loans before their contractual maturities, any associated unearned fees or unamortized costs are recognized.

Acquired Loans - ASC 326 modified the accounting for purchased loans and requires that an allowance for credit losses be established at the date of acquisition. However, for purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than reported as a provision for credit losses. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the provision for credit losses.

Past-Due and Non-Accrual Loan Policy - A loan is considered past due when a payment has not been received by the contractual due date. Loans are placed on non-accrual status when management believes that there is substantial doubt as to the collection of principal or interest, generally when they become contractually past due by 90 days or more with respect to principal or interest, except for loans that are well-secured and in the process of collection. When loans are placed on non-accrual status, any accrued but uncollected interest is reversed from current-period interest income and the amortization of deferred loan origination fees and costs is suspended. Interest payments received on nonaccrual loans are either applied against principal or reported as interest income, according to management's judgment as to the ultimate collectability of principal. We may return non-accrual loans to accrual status when one of the following occurs:

- The borrower has resumed paying the full amount of the principal and interest and we are satisfied with the borrower's financial position. In order to meet this test, we must have received repayment of all past due principal and interest, unless the amounts contractually due are reasonably assured of repayment within a reasonable period of time, and there has been a sustained period of repayment performance (generally, six consecutive monthly payments), according to the original contractual terms or modified terms for loans whose contractual terms have been restructured in a manner which grants a concession to a borrower experiencing financial difficulties ("troubled debt restructuring").
- The loan has become well secured and is in the process of collection.

Loan Charge-Off Policy - For all loan types excluding overdraft accounts, we generally make a charge-off determination at or before 90 days past due. A collateral-dependent loan is partially charged down to the fair value of collateral securing it if: (1) it is deemed uncollectable, or (2) it has been classified as a loss by either our internal loan review process or external examiners. A non-collateral-dependent loan is partially charged down to its net realizable value under the same circumstances. Overdraft accounts are generally charged off when they exceed 60 days past due.

Troubled Debt Restructured Loans - Our loan portfolio includes certain loans modified in a troubled debt restructuring ("TDR"), where we have granted economic concessions to borrowers experiencing financial difficulties.

These concessions typically result from our loss mitigation activities and may include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs on non-accrual status at the time of restructure may be returned to accruing status after management considers the borrower's sustained repayment performance for a reasonable period, generally six months, and obtains reasonable assurance of repayment and performance. Additionally, we may remove a loan from TDR designation if it meets all of the following conditions:

- The loan is subsequently refinanced or restructured at current market interest rates and the new terms are consistent with the treatment of creditworthy borrowers under regular underwriting standards;
- The borrower is no longer considered to be in financial difficulty;
- Performance on the loan is reasonably assured; and
- Existing loan did not have any forgiveness of principal or interest.

Section 4013 of the 2020 CARES Act, subsequently amended by section 541 of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act of 2020 ("Economic Aid Act"), provided optional, temporary relief from evaluating loans that may have been considered TDRs under GAAP. This relief applies to loan modifications executed between March 1, 2020 and the earlier of 60 days after the national emergency is terminated or January 1, 2022. The Bank elected to apply these temporary accounting provisions to payment relief loans beginning in March 2020. Accordingly, modifications that met certain criteria of the CARES Act were not categorized as troubled debt restructurings during 2021 and 2020.

Collateral Dependent Loans - A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For collateral dependent loans, including those for which management determines foreclosure is probable, the allowance for credit losses is based on the fair value of the collateral, adjusted for estimated selling costs when repayment is expected from the sale of the collateral, less the loan's amortized cost. In determining the fair value, management considers such information as the appraised value of the collateral, observed and potential future changes in collateral value, and historical loss experience for loans that were secured by similar collateral. Generally, with problem credits that are collateral dependent, we obtain appraisals of the collateral at least annually. We may obtain appraisals more frequently if we believe the collateral value is subject to market volatility, if a specific event has affected the collateral, or if we believe foreclosure is imminent.

Allowance for Credit Losses on Loans ("ACL") - is a valuation account that is deducted from the amortized cost basis at the balance sheet date to present the net amount of loans expected to be collected. Amortized cost does not include accrued interest, which management elected to exclude from the estimate of expected credit losses (refer to the *Past-Due and Non-Accrual Loan Policy* section above). Management estimates the allowance quarterly using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Credit loss experience provides the basis for the estimation of expected credit losses.

The ACL model utilizes a discounted cash flow ("DCF") method to measure the expected credit losses on loans collectively evaluated that are sub-segmented by loan pools with similar credit risk characteristics, which are generally comprised of federal regulatory reporting codes (i.e., Call codes). Pooled segments include the following:

- Loans secured by real estate:
 - 1-4 family residential construction loans
 - Other construction loans and all land development and other land loans
 - Secured by farmland (including residential and other improvements)
 - Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit
 - Closed-end loans secured by 1-4 family residential properties, secured by first liens
 - Closed-end loans secured by 1-4 family residential properties, secured by junior liens
 - Secured by multifamily (5 or more) residential properties
 - Commercial real estate loans secured by owner-occupied non-farm nonresidential properties
 - Commercial real estate loans secured by other non-farm nonresidential properties
- Loans to finance agricultural production and other loans to farmers
- Commercial and industrial loans
- Loans to individuals for household, family and other personal expenditures (i.e., consumer loans)

- Municipal entities
- Non-profit organizations
- Other loans (overdraft credit lines)

The DCF method incorporates assumptions for probability of default ("PD"), loss given default ("LGD"), and prepayments and curtailments over the contractual terms of the loans. Under the DCF method, the ACL reflects the difference between the amortized cost basis and the present value of the expected cash flows using the loan's effective rate. We elected to report the change in present values from one reporting period to the next due to the passage of time and changes in the estimate of future expected cash flows through the provision for credit losses, rather than through interest income.

In determining the PD for each pooled segment, the Bank utilized regression analyses to identify certain economic drivers that were considered highly correlated to historical Bank or peer loan default experience. As a result, management chose the California unemployment rate as the primary economic forecast driver for all segments, except for municipal loans. In addition, the annual percentage change in the California gross domestic product was used in the commercial and industrial loan segment. For municipal loans, the ACL model utilized a constant default rate obtained from a nationally recognized default rate study, which is updated annually. In the third quarter of 2021, we eliminated the use of the annual percentage change in California retail sales in the owner-occupied and investor-owned commercial real estate segments as we determined that it was not highly correlated to peer loan default experience when we performed our annual validation of our peer group and regression analyses. The change in methodology did not have a material impact on the ACL. A third party provides LGD estimates for each segment based on a banking industry Frye-Jacobs Risk Index approach. The ACL model incorporates a one-year reasonable and supportable forecast of economic factors, updated quarterly, which is based on Moody's Analytics' Baseline Forecast. For periods beyond the forecast horizon the economic factors revert to historical averages on a straight-line basis over a one-year period.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments and curtailments, when appropriate. The pooled loans' contractual loan terms exclude extensions, renewals, and modifications unless one or more of the following applies: 1) management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower, 2) the extension or renewal options are included in the original or modified contract, or 3) an existing troubled debt restructuring is within six months of maturity.

Loans that do not share the same risk characteristics as pooled loans are evaluated individually for credit loss and generally include all non-accrual loans, collateral dependent loans, and certain troubled debt restructured loans and loans graded substandard or worse as determined by management.

Management considers whether adjustments to the quantitative portion of the ACL are needed for differences in segment-specific risk characteristics or to reflect the extent to which it expects current conditions and reasonable and supportable forecasts of economic conditions to differ from the conditions that existed during the historical period included in the development of PD and LGD. Qualitative internal and external risk factors include, but are not limited to, the following:

- Changes in the nature and volume of the loan portfolio
- Changes in the volume and severity of past due loans, the volume of non-accruals loans, and the volume and severity of adversely classified or graded loans
- The existence and effect of individual loan and loan segment concentrations
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in the quality of our systematic loan review processes
- Changes in economic and business conditions, and developments that affect the collectability of the portfolio
- Changes in the value of underlying collateral, where applicable
- The effect of other external factors such as legal and regulatory requirements on the level of estimated credit losses in the portfolio
- The effect of acquisitions of other loan portfolios on our infrastructure, including risk associated with entering new geographic areas as a result of such acquisitions

- The presence of specialized lending segments in the portfolio

While we believe we use the best information available to determine the allowance for credit losses, our results of operations could be significantly affected if circumstances differ substantially from the assumptions used in determining the allowance. Our ACL model is sensitive to changes in unemployment rate forecasts and certain other assumptions that could result in material fluctuations in the allowance for credit losses and adversely affect our financial condition and results of operations.

For further information regarding the allowance for loan losses, see Note 3, Loans and Allowance for Loan Losses.

Allowance for Credit Losses on Unfunded Loan Commitments - We make commitments to extend credit to meet the financing needs of our customers in the form of loans or standby letters of credit. We are exposed to credit losses over a loan's contractual period in the event that a decline in credit quality of the borrower leads to nonperformance. We record an allowance for losses on unfunded loan commitments at the balance sheet date based on estimates of probability that these commitments will be drawn upon according to historical utilization experience of different types of commitments and expected loss severity and loss rates determined for pooled funded loans. The allowance for credit losses on unfunded commitments is a liability account included in interest payable and other liabilities on the consolidated statements of condition. Adjustments to the allowance for unfunded commitments are included in non-interest expense as a provision for (or reversal of) the allowance for unfunded commitments.

Transfers of Financial Assets - We have entered into certain loan participation agreements with other organizations. We account for these transfers of financial assets as sales when control over the transferred financial assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets and liabilities have been isolated from us, 2) the transferee has the right to pledge or exchange the assets (or beneficial interests) it received, free of conditions that constrain it from taking advantage of that right, beyond a trivial benefit and 3) we do not maintain effective control over the transferred financial assets or third-party beneficial interests related to those transferred assets. No gain or loss has been recognized by us on the sale of these participation interests in 2021, 2020 and 2019.

Premises and Equipment - Land is carried at cost and not depreciated. Bank-owned buildings, leasehold improvements, furniture, fixtures, software and equipment and are stated at cost, less accumulated depreciation, and depreciated/amortized on a straight-line basis. Furniture and fixtures are depreciated over eight years and equipment is generally depreciated over three to twenty years. Bank-owned buildings are depreciated over twenty-five to thirty years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the terms of the leases. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to expense as incurred.

Leases - We lease certain premises under long-term non-cancelable operating leases, most of which include escalation clauses and one or more options to extend the lease term, and some of which contain lease termination clauses. Only those renewal and termination options that management determines are reasonably certain of exercising are included in the calculation of the lease liability. In addition, we lease certain equipment under finance leases. The equipment finance lease terms do not contain renewal options, bargain purchase options or residual value guarantees. We did not have any significant short-term leases during the reported periods.

Lease right-of-use assets represent the right to use the underlying asset while lease liabilities represent the present value of future lease obligations. We elected not to separate non-lease components from lease components and to exclude short-term leases (i.e., lease term of 12 months or less at the commencement date) from right-of-use assets and lease liabilities for all lease classifications. When calculating the lease liability, because most lease contracts do not contain an implicit interest rate, we discount lease payments over a lease's expected term based on the collateralized Federal Home Loan Bank borrowing rate that was commensurate with lease terms and minimum payments at the lease commencement date. Right-of-use assets for operating leases are amortized over the lease term by amounts that represent the difference between periodic straight-line lease expense and periodic interest accretion on the related liability to make lease payments, whereas finance leases are amortized on a straight-line basis over the term of the lease. Expense recognition for operating leases is recorded on a straight-line basis while expense recognition for finance leases represents the sum of periodic amortization of the associated

right-of-use asset and the interest accretion on the lease liability. Refer to Note 12, Commitments and Contingencies, for further information.

Business Combinations - Business combinations are accounted for under the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. A business is defined as a set of activities and assets that is both self-sustaining and managed to provide a return to investors and generally has three elements: inputs, processes and outputs. Under the acquisition method, the acquiring entity in a business combination recognizes the acquired assets and assumed liabilities at their estimated fair values as of the date of acquisition. Any excess of the purchase price over the fair value of net assets and other identifiable intangible assets acquired is recorded as goodwill. To the extent the fair value of net assets acquired, including other identifiable assets, exceed the purchase price, a bargain purchase gain is recognized. Assets acquired and liabilities assumed from a business combination are recognized at fair value, if the fair value can be determined during the measurement period. Results of operations of an acquired business are included in the consolidated statements of operations from the date of acquisition. Business acquisition-related costs, including conversion and restructuring charges, are expensed as incurred. If substantially all of an acquisition is made up of one asset or several similar assets, or without a substantive process that together contributes to the ability to create outputs, the acquisition is accounted for as an asset acquisition and acquisition costs will be capitalized as part of the assets acquired, rather than expensed in a business combinations.

Goodwill and Other Intangible Assets - Goodwill is determined as 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. Goodwill that arises from a business combination is periodically evaluated for impairment at the reporting unit level, at least annually. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Core deposit intangible ("CDI") represents the estimated future benefit of deposits related to an acquisition and is booked separately from the related deposits and evaluated periodically for impairment. The CDI asset is amortized on an accelerated method over its estimated useful life of ten years. At December 31, 2021, the future estimated amortization expense for the CDI arising from our past acquisitions is as follows:

(in thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Core deposit intangible amortization	\$ 1,489	\$ 1,350	\$ 975	\$ 875	\$ 773	\$ 1,143	\$ 6,605

We make a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit where goodwill is assigned is less than its carrying amount. If we conclude that it is more likely than not that the fair value is more than its carrying amount, no impairment is recorded. Goodwill is tested for impairment on an interim basis if circumstances change or an event occurs between annual tests that would more likely than not reduce the fair value of the reporting unit below its carrying amount. The qualitative assessment includes adverse events or circumstances identified that could negatively affect the reporting units' fair value as well as positive and mitigating events. Such indicators may include, among others, significant changes in legal factors or in the general business climate, significant changes in our stock price and market capitalization, unanticipated competition, and an action or assessment by a regulator. If the fair value of a reporting unit is less than its carrying amount, an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value is recognized. The loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

Other Real Estate Owned ("OREO") - OREO is comprised of property acquired through a business combination, foreclosure, in substance repossession or acceptance of deeds-in-lieu of foreclosure when the related loan receivable is de-recognized. OREO is recorded at fair value of the collateral less estimated costs to sell, establishing a new cost basis, and subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Any shortfall of collateral value from the recorded investment of the related loan is recognized as loss at the time of foreclosure and is charged against the allowance for loan losses. Fair value of collateral is generally based on an independent appraisal of the property. Revenues and expenses associated with OREO, and subsequent adjustments to the fair value of the property and to the estimated costs of disposal, are realized and reported as a component of non-interest income and expense when incurred.

Bank Owned Life Insurance ("BOLI") - The Bank owns life insurance policies on certain key current and former officers. BOLI is recorded in interest receivable and other assets on the consolidated statements of condition at the

amount that can be realized under the insurance contract at period-end, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement.

Federal Home Loan Bank of San Francisco ("FHLB") Stock - The Bank is a member of the FHLB. Members are required to own a certain amount of stock based on the level of borrowings and other factors. As of December 31, 2021 and 2020 our investment in FHLB stock was carried at cost, as there was no impairment or changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. We periodically evaluate FHLB stock for impairment based on ultimate recovery of par value. FHLB stock is included as part of interest receivable and other assets on the consolidated statements of condition. Both cash and stock dividends are reported as non-interest income.

Investments in Low Income Housing Tax Credit Funds - We have invested in limited partnerships that were formed to develop and operate affordable housing projects for low or moderate-income tenants throughout California. Our ownership percentage in each limited partnership ranges from 1.0% to 3.5%. We account for the investments in qualified affordable housing tax credit funds using the proportional amortization method, where the initial cost of the investment is amortized in proportion to the tax credits and other tax benefits received. Low income housing tax credits and other tax benefits received, net of the amortization of the investment is recognized as part of income tax benefit. Each of the partnerships must meet the regulatory minimum requirements for affordable housing for a minimum 15-year compliance period to fully utilize the tax credits. If the partnerships cease to qualify during the compliance period, the credit may be denied for any period in which the project is not in compliance and a portion of the credit previously taken is subject to recapture with interest. We record an impairment charge if the value of the future tax credits and other tax benefits is less than the carrying value of the investments.

Employee Stock Ownership Plan ("ESOP") - We recognize compensation cost for ESOP contributions when funds become committed for the purchase of Bancorp's common shares into the ESOP in the year in which the employees render service entitling them to the contribution. If we contribute stock, the compensation cost is the fair value of the shares when they are committed to be released (i.e., when the number of shares becomes known and formally approved). In 2021, 2020 and 2019, the Bank only made stock contributions to the ESOP.

Income Taxes - Income taxes reported in the consolidated financial statements are computed based on an asset and liability approach. We recognize the amount of taxes payable or refundable for the current year and we record deferred tax assets and liabilities for future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases using enacted tax rates in effect for the year in which the temporary differences are expected to reverse. We record net deferred tax assets to the extent it is more likely than not that they will be realized. In evaluating our ability to recover the deferred tax assets and the need to establish a valuation allowance against the deferred tax assets, management considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies. In projecting future taxable income, management develops assumptions including the amount of future state and federal pretax operating income, the reversal of temporary differences, and the implementation of feasible and prudent tax planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates being used to manage the underlying business. Bancorp files consolidated federal and combined state income tax returns.

We recognize the financial statement effect of a tax position when it is more likely than not, based on the technical merits and all available evidence, that the position will be sustained upon examination, including the resolution through protests, appeals or litigation processes. For tax positions that meet the more likely than not threshold, we measure and record the largest amount of tax benefit that is greater than fifty percent likely of being realized upon ultimate settlement with the taxing authority. The remainder of the benefits associated with tax positions taken is recorded as unrecognized tax benefits, along with any related interest and penalties. Interest and penalties related to unrecognized tax benefits are recorded in tax expense.

In deciding whether or not our tax positions taken meet the more likely than not recognition threshold, we must make judgments and interpretations about the application of inherently complex state and federal tax laws. To the extent tax authorities disagree with tax positions taken by us, our effective tax rates could be materially affected in the period of settlement with the taxing authorities. Revision of our estimate of accrued income taxes also may

result from our own income tax planning, which may affect effective tax rates and results of operations for any reporting period.

We present an unrecognized tax benefit as a reduction of a deferred tax asset for a net operating loss ("NOL") carryforward, or similar tax loss or tax credit carryforward, rather than as a liability, when (1) the uncertain tax position would reduce the NOL or other carryforward under the tax law of the applicable jurisdiction and (2) we intend to and are able to use the deferred tax asset for that purpose. Otherwise, the unrecognized tax benefit is presented as a liability instead of being netted with deferred tax assets.

Earnings per share ("EPS") - are based upon the weighted average number of common shares outstanding during each year. 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 EPS are calculated by dividing net income by the weighted average number of common shares outstanding during each annual 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 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 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.

(in thousands, except per share data) ¹	2021	2020	2019
Weighted average basic common shares outstanding	14,340	13,525	13,620
Potentially dilutive common shares related to:			
Stock options	62	69	148
Unvested restricted stock awards	20	23	26
Weighted average diluted common shares outstanding	14,422	13,617	13,794
Net income	\$ 33,228	\$ 30,242	\$ 34,241
Basic EPS	\$ 2.32	\$ 2.24	\$ 2.51
Diluted EPS	\$ 2.30	\$ 2.22	\$ 2.48
Weighted average anti-dilutive common shares not included in the calculation of diluted EPS	97	148	35

Share-Based Compensation - All share-based payments, including stock options and restricted stock, are recognized as stock-based compensation expense in the consolidated statements of comprehensive income based on the grant-date fair value of the award with a corresponding increase in common stock. The grant-date fair value of the award is amortized on a straight-line basis over the requisite service period, which is generally the vesting period. The stock-based compensation expense excludes stock grants to directors as compensation for their services, which are recognized as director expenses separately based on the grant-date value of the stock. We account for forfeitures as they occur. See Note 8, Stockholders' Equity and Stock Option Plans, for further discussion.

We determine the fair value of stock options at the grant date using a Black-Scholes pricing model that takes into account the stock price at the grant date, exercise price, expected life of the option, volatility of the underlying stock, expected dividend yield and risk-free interest rate over the expected life of the option. The expected term of options granted is derived from historical data on employee exercises and post-vesting employment termination behavior. The risk-free rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. Expected volatility is based on the historical volatility of the common stock over the most recent period that is generally commensurate with the expected life of the options. The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award and stock price volatility. The assumptions used represent management's best estimates based on historical information, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, the recorded stock-based compensation expense could have been materially different from that recorded in the consolidated financial statements. The fair value of restricted stock is based on the stock price on the grant date.

We record excess tax benefits resulting from the exercise of non-qualified stock options, the disqualifying disposition of incentive stock options and vesting of restricted stock awards as tax benefits in the consolidated statements of comprehensive income with a corresponding decrease to current taxes payable. In addition, we reflect excess tax benefits as an operating activity in the consolidated statements of cash flows.

Cash paid for tax withholdings when shares are surrendered in a cashless stock option exchange is classified as a financing activity in the consolidated statements of cash flows.

Derivative Financial Instruments and Hedging Activities - Fair Value Hedges - All of our interest rate swap contracts are designated and qualified as fair value hedges. The terms of our interest rate swap contracts are closely aligned to the terms of the designated fixed-rate loans. The hedging relationships are tested for effectiveness on a quarterly basis using a qualitative approach. The qualitative analysis includes verification that there are no changes to the derivative's or hedged item's key terms and conditions and no adverse developments regarding risk of counterparty default, and validation that we continue to have fair value hedge designation. The interest rate swaps are carried on the consolidated statements of condition at their fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative). The changes in the fair value of the interest rate swaps are recorded in interest income. The unrealized gains or losses due to changes in fair value of the hedged fixed-rate loans due to changes in benchmark interest rates are recorded as an adjustment to the hedged loans and offset in interest income. For derivative instruments executed with the same counterparty under a master netting arrangement, we do not offset fair value amounts of interest rate swaps in liability positions with the ones in asset positions.

From time to time, we make firm commitments to enter into long-term fixed-rate loans with borrowers backed by yield maintenance agreements and simultaneously enter into forward interest rate swap agreements with correspondent banks to mitigate the change in fair value of the yield maintenance agreement. Prior to loan funding, yield maintenance agreements with net settlement features that meet the definition of a derivative are considered as non-designated hedges and are carried on the consolidated statements of condition at their fair value in other assets (when the fair value is positive) or in other liabilities (when the fair value is negative). The offsetting changes in the fair value of the forward swap and the yield maintenance agreement are recorded in interest income. When the fixed-rate loans are originated, the forward swaps are designated to offset the change in fair value in the loans. Subsequent to the point of the swap designations, the fair value of the related yield maintenance agreements at the designation date that was recorded in other assets is amortized using the effective yield method over the life of the respective designated loans.

The net effect of the change in fair value of interest rate swaps, the amortization of the yield maintenance agreement and the change in the fair value of the hedged loans due to changes in benchmark interest rates result in an insignificant amount recognized in interest income. For further detail, see Note 14, Derivative Financial Instruments and Hedging Activities.

Revenue Recognition - We utilize the following five-step model for non-financial instrument related revenue that is in scope for ASC 606, *Revenue from Contracts with Customers*: 1) identify the contract, 2) identify the performance obligations in the contract, 3) determine the transaction price, 4) allocate the transaction price to the performance obligations in the contract, and, 5) recognize revenue when (or as) the entity satisfies the performance obligation. Our main revenue streams in scope for ASC 606 include:

- Wealth Management & Trust ("WM&T") fees - WM&T services include, but are not limited to: customized investment advisory and management; administrative services such as bill pay and tax reporting; trust administration, estate settlement, custody and fiduciary services. Performance obligations for investment advisory and management services are generally satisfied over time. Revenue is recognized monthly according to a tiered fee schedule based on the client's month-end market value of assets under our management. WM&T does not earn revenue based on performance or incentives. Costs associated with WM&T revenue-generating activities, such as payments to sub-advisors, are recorded separately as part of professional service expenses when incurred.
- Deposit account service charges - Service charges on deposit accounts consist of monthly maintenance fees, business account analysis fees, business online banking fees, check order charges, and other deposit

account-related fees. Performance obligations for monthly maintenance fees and account analysis fees are satisfied, and the related revenue recognized, when we complete our performance obligation each month. Performance obligations related to transaction-based services (such as check orders) are satisfied, and the related revenue recognized, at a point in time typically when the transaction is completed, except for business accounts subject to analysis where the transaction-based fees are part of the monthly account analysis fees.

- Debit card interchange fees - We issue debit cards to our consumer and small business customers that allow them to purchase goods and services from merchants in person, online, or via mobile devices using funds held in their demand deposit accounts held with us. Debit cards issued to our customers are part of global electronic payment networks (such as Visa) who pass a portion of the merchant interchange fees to debit card-issuing member banks like us when our customers make purchases through their networks. Performance obligations for debit card services are satisfied and revenue is recognized daily as the payment networks process transactions. Because we act in an agent capacity, we recognize network costs on a net basis with interchange fees in non-interest income.

Advertising Costs - are expensed as incurred. For the years ended December 31, 2021, 2020, and 2019, advertising costs totaled \$908 thousand, \$769 thousand, and \$775 thousand, respectively.

Comprehensive Income (Loss) - includes net income, changes in the unrealized gains or losses on available-for-sale investment securities, and amortization of net unrealized gains or losses on securities transferred from available-for-sale to held-to-maturity, net of related taxes, reported on the consolidated statements of comprehensive income and as components of stockholders' equity.

Fair Value Measurements - We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. We base our fair values on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., exit price notion) reflecting factors such as a liquidity premium. Securities available-for-sale and derivatives are recorded at fair value on a recurring basis. Our equity investments that do not have readily determinable fair values are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. FHLB stock and Visa Inc. Class B common stock are carried at cost as of December 31, 2021 and 2020, as there was no impairment or changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Additionally, from time to time, we may be required to record certain assets and liabilities at fair value on a non-recurring basis, such as purchased loans and acquired deposits recorded at acquisition date, certain impaired loans, other real estate owned and securities held-to-maturity that are other-than-temporarily impaired. These non-recurring fair value adjustments typically involve write-downs of individual assets due to application of lower-of-cost or market accounting.

When we develop our fair value measurement process, we maximize the use of observable inputs. Whenever there is no readily available market data, we use our best estimates and assumptions in determining fair value, but these estimates involve inherent uncertainties and the application of management's judgment. As a result, if other assumptions had been used, our recorded earnings or disclosures could have been materially different from those reflected in these consolidated financial statements.

Other Recently Adopted Accounting Standards

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (ASC Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to reduce the cost and complexity related to accounting for income taxes by removing certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and simplifying aspects of the accounting for franchise taxes and enacted changes in tax laws or rates. We adopted this ASU prospectively on January 1, 2021, which did not have a material impact on our financial condition or results of operations.

In January 2020, the FASB issued ASU No. 2020-01, *Investments - Equity Securities (ASC Topic 321), Investments - Equity Method and Joint Ventures (ASC Topic 323), and Derivatives and Hedging (ASC Topic 815) - Clarifying the Interactions between ASC 321, ASC 323, and ASC 815*. Among other things, this ASU clarifies that a company should consider observable transactions that require a company to either apply or discontinue the equity method of

accounting under ASC 323, for the purposes of applying the measurement alternative in accordance with ASC 321. We adopted this ASU prospectively on January 1, 2021, which did not have a material impact on our financial condition or results of operations.

In October 2020, the FASB issued ASU No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*. This ASU was issued as part of the Board's ongoing project to improve codification or correct unintended application. This ASU adds clarification to ASU 2017-08, which the Bank early-adopted in 2017, and delineates whether an entity with callable debt securities that have multiple call dates should amortize the amount above that which is repayable, to the next call date. We adopted this ASU prospectively on January 1, 2021. Because this ASU was narrow in scope and for clarification purposes, it did not have a material impact on our financial condition and results of operations.

Accounting Standards Not Yet Effective

In March 2020, the FASB issued 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. The amendments in this ASU may be elected as of March 12, 2020 through December 31, 2022. An entity may choose to elect the amendments in this update at an interim period subsequent to March 12, 2020 with adoption methods varying based on transaction type. We have not elected to apply amendments at this time and will assess the applicability of this ASU to us as we continue to monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

In January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848)*. The main amendments in this ASU are intended to clarify certain optional expedients and scope of derivative instruments. The amendments are elective and effective immediately upon issuance of this ASU. Amendments may be elected through December 31, 2022. We have four interest rate swap contracts with notional values totaling \$13.0 million indexed to LIBOR that will either be subject to the fall-back index rate stipulated by the ISDA protocol or modified to other reference rates such as Prime or SOFR as mutually agreed by us and our counterparty. We have not elected to apply the amendments at this time and will continue to assess the applicability of this ASU to us as we monitor guidance for reference rate reform from FASB and its impact on our financial condition and results of operations.

In October 2021, the FASB issued ASU No. 2021-08, *Accounting for Contract Assets and Contract Liabilities From Contracts With Customers (Topic 805)*. The amendments address diversity in accounting practices and requires acquiring companies to apply ASC 606, *Revenue from Contracts with Customers* to recognize and measure contract assets and contract liabilities from contracts with customers acquired in a business combination, as opposed to other methods such as fair value. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination. The amendments are to be applied prospectively to business combinations occurring on or after December 15, 2022 and early adoption is permitted. In the event of a future business combination, we will assess the impact of the ASU on our financial condition and results of operations.

Note 2: 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 Government National Mortgage Association ("GNMA") and Small Business Administration ("SBA"), U.S. government-sponsored enterprises ("GSEs") such as Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC), Federal Farm Credit Banks Funding Corporation and FHLB, U.S. Corporations and one asset-backed security collateralized by student loan pools. 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 December 31, 2021 and December 31, 2020 is presented below.

Held-to-maturity: (in thousands)	Amortized Cost ¹	Allowance for Credit Losses	Net Carrying Amount	Gross Unrealized		Fair Value
				Gains	(Losses)	
December 31, 2021						
Securities of U.S. government-sponsored enterprises:						
MBS pass-through securities issued by FHLMC and FNMA	\$ 126,990	\$ —	\$ 126,990	\$ 2,110	\$ (712)	\$ 128,388
CMOs issued by FHLMC	106,851	—	106,851	668	(1,045)	106,474
CMOs issued by FNMA	4,866	—	4,866	128	—	4,994
SBA-backed securities	4,840	—	4,840	198	—	5,038
Debentures of government-sponsored agencies	51,472	—	51,472	—	(901)	50,571
Obligations of state and political subdivisions	47,203	—	47,203	296	(209)	47,290
Total held-to-maturity	\$ 342,222	\$ —	\$ 342,222	\$ 3,400	\$ (2,867)	\$ 342,755
December 31, 2020						
Securities of U.S. government-sponsored enterprises:						
MBS pass-through securities issued by FHLMC and FNMA	\$ 65,579	\$ —	\$ 65,579	\$ 3,924	\$ —	\$ 69,503
CMOs issued by FHLMC	27,201	—	27,201	1,441	—	28,642
CMOs issued by FNMA	8,042	—	8,042	363	—	8,405
SBA-backed securities	6,547	—	6,547	400	—	6,947
Obligations of state and political subdivisions	1,667	—	1,667	21	—	1,688
Total held-to-maturity	\$ 109,036	\$ —	\$ 109,036	\$ 6,149	\$ —	\$ 115,185

¹ Amortized cost and fair values exclude accrued interest receivable of \$1.1 million and \$366 thousand at December 31, 2021 and 2020, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.

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

The following table summarizes the amortized cost of our portfolio of held-to-maturity securities issued by states and political subdivisions by Moody's and/or Standard & Poor's bond ratings as of December 31, 2021.

Ratings by S&P / Moody's (in thousands)	Obligations of state and political subdivisions	
	December 31, 2021	December 31, 2020
AAA / Aaa	\$ 34,229	\$ —
AA / Aa	12,873	1,461
A	101	206
Total	\$ 47,203	\$ 1,667

A summary of the amortized cost, fair value and allowance for credit losses related to securities available-for-sale as of December 31, 2021 and December 31, 2020 is presented below.

Available-for-sale:

(in thousands)	Amortized Cost ¹	Gross Unrealized		Allowance for Credit Losses	Fair Value
		Gains	(Losses)		
December 31, 2021					
Securities of U.S. government-sponsored enterprises:					
MBS pass-through securities issued by FHLMC, FNMA and GNMA	\$ 316,090	\$ 1,224	\$ (2,784)	\$ —	\$ 314,530
CMOs issued by FHLMC	343,047	3,209	(4,829)	—	341,427
CMOs issued by FNMA	48,187	152	(611)	—	47,728
CMOs issued by GNMA	56,345	99	(553)	—	55,891
SBA-backed securities	32,640	993	(155)	—	33,478
Debentures of government- sponsored agencies	191,449	25	(2,947)	—	188,527
U.S. Treasury securities	11,886	—	(256)	—	11,630
Obligations of state and political subdivisions	129,009	5,372	(381)	—	134,000
Corporate bonds	39,001	—	(506)	—	38,495
Asset-backed securities	1,866	—	(4)	—	1,862
Total available-for-sale	\$1,169,520	\$ 11,074	\$ (13,026)	\$ —	\$1,167,568
December 31, 2020					
Securities of U.S. government-sponsored enterprises:					
MBS pass-through securities issued by FHLMC and FNMA	\$ 50,686	\$ 2,530	\$ —	\$ —	\$ 53,216
CMOs issued by FHLMC	143,267	7,925	(1)	—	151,191
CMOs issued by FNMA	16,450	580	—	—	17,030
CMOs issued by GNMA	6,863	351	—	—	7,214
SBA-backed securities	30,941	1,976	(55)	—	32,862
Debentures of government- sponsored agencies	19,944	266	(24)	—	20,186
Obligations of state and political subdivisions	104,887	5,765	—	—	110,652
Total available-for-sale	\$ 373,038	\$ 19,393	\$ (80)	\$ —	\$ 392,351

¹ Amortized cost and fair value exclude accrued interest receivable of \$3.7 million and \$1.9 million at December 31, 2021 and 2020, respectively, which is included in interest receivable and other assets in the consolidated statements of condition.

The amortized cost and fair value of investment debt securities by contractual maturity at December 31, 2021 and 2020 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)	December 31, 2021				December 31, 2020			
	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
Within one year	\$ 101	\$ 103	\$ 10,785	\$ 10,841	\$ 246	\$ 250	\$ 11,530	\$ 11,687
After one but within five years	25,666	26,559	219,474	219,957	7,550	7,961	59,028	62,397
After five years through ten years	182,604	182,303	299,937	300,187	52,113	55,872	144,908	154,089
After ten years	133,851	133,790	639,324	636,583	49,127	51,102	157,572	164,178
Total	\$ 342,222	\$ 342,755	\$ 1,169,520	\$ 1,167,568	\$ 109,036	\$ 115,185	\$ 373,038	\$ 392,351

Sales of investment securities and gross gains and losses are shown in the following table.

(in thousands)	2021	2020	2019
Available-for-sale:			
Sales proceeds	\$ 6,632	\$ 33,756	\$ 66,081
Gross realized gains	\$ 1	\$ 916	\$ 214
Gross realized losses	\$ (17)	\$ (1)	\$ (159)

Pledged investment securities are shown in the following table.

(in thousands)	December 31, 2021	December 31, 2020
Pledged to the State of California:		
Secure public deposits in compliance with the Local Agency Security Program	\$ 213,861	\$ 131,051
Collateral for trust deposits	729	751
Collateral for Wealth Management and Trust Services checking account	614	629
Total investment securities pledged to the State of California	215,204	132,431
Bankruptcy trustee deposits pledged with Federal Reserve Bank	2,645	—
Total pledged investment securities	\$ 217,849	\$ 132,431

There were 217 and 10 securities in unrealized loss positions at December 31, 2021 and 2020, respectively. Those securities are summarized and classified according to the duration of the loss period in the tables below.

December 31, 2021	< 12 continuous months		≥ 12 continuous months		Total securities in a loss position	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Held-to-maturity:						
MBS pass-through securities issued by FHLMC and FNMA	\$ 76,619	\$ (712)	\$ —	\$ —	\$ 76,619	\$ (712)
CMOs issued by FHLMC	54,811	(1,045)	—	—	54,811	(1,045)
Obligations of state and political subdivisions	19,203	(209)	—	—	19,203	(209)
Debentures of government-sponsored agencies	50,571	(901)	—	—	50,571	(901)
Total held-to-maturity	\$ 201,204	\$ (2,867)	\$ —	\$ —	\$ 201,204	\$ (2,867)
Available-for-sale:						
MBS pass-through securities issued by FHLMC and FNMA	\$ 263,474	\$ (2,784)	\$ —	\$ —	\$ 263,474	\$ (2,784)
SBA-backed securities	7,478	(112)	1,209	(43)	8,687	(155)
CMOs issued by FHLMC	226,175	(4,677)	4,415	(152)	230,590	(4,829)
CMOs issued by GNMA	44,790	(553)	—	—	44,790	(553)
CMOs issued by FNMA	37,348	(611)	—	—	37,348	(611)
Debentures of government-sponsored agencies	148,979	(2,527)	8,549	(420)	157,528	(2,947)
U.S. Treasury securities	11,629	(256)	—	—	11,629	(256)
Obligations of state and political subdivisions	17,552	(381)	—	—	17,552	(381)
Corporate bonds	38,495	(506)	—	—	38,495	(506)
Asset-backed securities	1,861	(4)	—	—	1,861	(4)
Total available-for-sale	\$ 797,781	\$ (12,411)	\$ 14,173	\$ (615)	\$ 811,954	\$ (13,026)
Total securities at a loss position	\$ 998,985	\$ (15,278)	\$ 14,173	\$ (615)	\$ 1,013,158	\$ (15,893)

December 31, 2020	< 12 continuous months		> 12 continuous months		Total securities in a loss position	
(in thousands)	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Available-for-sale:						
SBA-backed securities	\$ —	\$ —	\$ 1,790	\$ (55)	\$ 1,790	\$ (55)
CMOs issued by FHLMC	5,975	(1)	—	—	5,975	(1)
Debentures of government-sponsored agencies	3,943	(24)	—	—	3,943	(24)
Total available-for-sale	9,918	(25)	1,790	(55)	11,708	(80)
Total	\$ 9,918	\$ (25)	\$ 1,790	\$ (55)	\$ 11,708	\$ (80)

As of December 31, 2021, the investment portfolio included 9 investment securities that had been in a continuous loss position for twelve months or more and 208 investment securities had been in a loss position for less than twelve months.

Securities issued by government-sponsored agencies, such as FNMA and FHLMC, usually have implicit credit support by 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. 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 in obligations of state and political subdivisions bonds are deemed credit worthy after our comprehensive analysis of the issuers' latest financial information, credit ratings by major credit agencies, and/or credit enhancements.

At December 31, 2021, management determined that it did not intend to sell any investment securities with unrealized losses, and it is more likely than not that we will not be required to sell securities with unrealized losses before recovery of their amortized cost. No allowances for credit losses have been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality at December 31, 2021.

Non-Marketable Securities

FHLB Capital Stock

As a member bank of the FHLB, we are required to maintain a minimum investment in FHLB capital stock 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 and \$11.9 million of FHLB stock included in other assets on the consolidated statements of condition at December 31, 2021 and 2020, respectively. 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 December 31, 2021 and 2020. On February 16, 2022, FHLB announced a cash dividend for the fourth quarter of 2021 at an annualized dividend rate of 6.00% to be distributed in mid-March 2022. 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 both December 31, 2021 and 2020. These shares have a carrying value of zero and are 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 lack a readily determinable fair value. When converting this Class B common stock to Class A common stock based on the conversion rate of 1.6181 and 1.6228, as of December 31, 2021 and 2020, respectively, and the closing stock price of Class A shares at those respective dates, the converted value of our shares of Class B common stock would have been \$3.7 million at both December 31, 2021 and 2020. The conversion rate is subject to further adjustment upon the final settlement of the covered litigation against Visa Inc. and its member banks. As such, the fair value of these Class B shares can differ significantly from their converted values. For further information, refer to Note 12, Commitments and Contingencies.

Low Income Housing Tax Credits

We invest in low income housing tax credit funds as a limited partner, which totaled \$3.0 million and \$3.5 million recorded in other assets as of December 31, 2021 and 2020, respectively. In 2021, we recognized \$645 thousand of low income housing tax credits and other tax benefits, net of \$542 thousand of amortization expense of low income housing tax credit investment, as a component of income tax expense. As of December 31, 2021, our unfunded commitments for these low income housing tax credit funds totaled \$422 thousand. We did not recognize

any impairment losses on these low income housing tax credit investments during 2021 or 2020, as the value of the future tax benefits exceeds the carrying value of the investments.

Note 3: Loans and Allowance for Credit Losses

We adopted the new current expected credit loss accounting guidance, CECL, and all related amendments as of December 31, 2020. Certain prior period credit quality disclosures related to impaired loans and individually and collectively evaluated loans were superseded with the current guidance and have not been included below. Refer to Note 3, Loans and Allowance for Loan Losses, under Part II, Item 8 of our 2019 Form 10-K for additional prior period information. Also refer to Note 1, Summary of Significant Accounting Policies, for additional information regarding the adoption of CECL.

The following table presents the amortized cost of loans by class as of December 31, 2021 and 2020.

(in thousands)	December 31,	
	2021	2020
Commercial and industrial	\$ 301,602	\$ 498,408
Real estate:		
Commercial owner-occupied	392,345	304,963
Commercial investor-owned	1,189,021	961,208
Construction	119,840	73,046
Home equity	88,746	104,813
Other residential	114,558	123,395
Installment and other consumer loans	49,533	22,723
Total loans, at amortized cost ¹	2,255,645	2,088,556
Allowance for credit losses on loans	(23,023)	(22,874)
Total loans, net of allowance for credit losses on loans	\$ 2,232,622	\$ 2,065,682

¹ Amortized cost includes net deferred loan origination (fees) costs of \$(901) thousand and \$(4.1) million at December 31, 2021 and 2020, respectively. Amounts are also net of unrecognized purchase discounts of \$2.5 million and \$815 thousand at December 31, 2021 and 2020, respectively. Amortized cost excludes accrued interest, which totaled \$7.1 million and \$8.8 million at December 31, 2021 and 2020, respectively, and is included in interest receivable and other assets in the consolidated statements of condition.

Lending Risks

Concentrations of Credit - Virtually all of our loans are from customers located in Northern California. Approximately 86% and 77%, of total loans were secured by real estate at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, 70% and 61%, respectively, of our loans were for commercial real estate, the majority of which were secured by real estate located in Marin, Sonoma, Napa, Alameda, San Francisco, Sacramento, and Contra Costa counties (California). The increase in the percentages secured by real estate from 2020 to 2021 was primarily due to a \$180.4 million reduction in unsecured loans guaranteed by the SBA under the Paycheck Protection Program ("PPP"), which are included in commercial and industrial loans.

Commercial and Industrial Loans - Commercial loans are generally made to established small and mid-sized businesses to provide financing for their growth and working capital needs, equipment purchases and acquisitions. Management examines historical, current, and projected cash flows to determine the ability of the borrower to repay obligations as agreed. Commercial loans are made based primarily on the identified cash flows of the borrower and secondarily on the underlying collateral and guarantor support. The cash flows of borrowers, however, may not occur as expected, and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed, such as accounts receivable and inventory, and typically include personal guarantees. We target stable businesses with guarantors who provide additional sources of repayment and have proven to be resilient in periods of economic stress. A weakened economy, and resultant decreased consumer and/or business spending, will have an effect on the credit quality of commercial loans.

Pursuant to the 2020 CARES Act, Bank of Marin originated 2,876 SBA-guaranteed loans totaling \$444.1 million under the PPP to eligible small businesses and non-profit organizations in two rounds of PPP loan financing. PPP loans have terms of two to five years and earn interest at 1%. In addition, the SBA paid the Bank a fee of 1%-5% depending on the loan amount, which was netted with loan origination costs and amortized into interest income

using the effective yield method over the contractual life of each loan. The recognition of fees and costs is accelerated when the loan is forgiven by the SBA and/or paid off prior to maturity. PPP loans are fully guaranteed by the SBA and are expected to be forgiven by the SBA if they meet the requirements of the program. PPP loans totaling \$111.2 million (net of \$2.5 million in unrecognized fees and costs) and \$291.6 million (net of \$5.4 million in unrecognized fees and costs) were included in commercial and industrial loan balances at December 31, 2021 and 2020, respectively. The December 31, 2021 amount includes 13 PPP loans totaling \$2.8 million assumed in the ARB acquisition. In 2021 and 2020, respectively, Bank of Marin recognized \$8.3 million and \$3.8 million in PPP fees, net of costs.

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

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

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

Credit Quality Indicators

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

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

the primary source of repayment has been delayed. "Watch" is intended to be a transitional grade, with either an upgrade or downgrade within a reasonable period.

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

Substandard - Inadequately protected by either the current sound worth and paying capacity of the obligor or the collateral pledged, if any. A Substandard asset has 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. 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 class, origination year and internal risk rating as of December 31, 2021 and 2020. 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.

December 31, 2021 (in thousands)	Term Loans - Amortized Cost by Origination Year						Revolving Loans Amortized Cost	Total
	2021	2020	2019	2018	2017	Prior		
Commercial and industrial:								
Pass and Watch	\$ 96,643	\$ 35,967	\$ 25,754	\$ 12,763	\$ 2,729	\$ 31,280	\$ 90,744	\$ 295,880
Special Mention	—	1,700	584	273	—	—	2,088	4,645
Substandard	—	—	—	—	—	—	1,077	1,077
Total commercial and industrial	\$ 96,643	\$ 37,667	\$ 26,338	\$ 13,036	\$ 2,729	\$ 31,280	\$ 93,909	\$ 301,602
Commercial real estate, owner-occupied:								
Pass and Watch	\$ 58,395	\$ 43,216	\$ 49,485	\$ 36,174	\$ 42,430	\$ 104,898	—	\$ 334,598
Special Mention	16,748	—	—	7,846	—	16,996	—	41,590
Substandard	—	7,155	285	—	—	8,603	—	16,043
Doubtful	—	114	—	—	—	—	—	114
Total commercial real estate, owner-occupied	\$ 75,143	\$ 50,485	\$ 49,770	\$ 44,020	\$ 42,430	\$ 130,497	\$ —	\$ 392,345
Commercial real estate, investor-owned:								
Pass and Watch	\$ 225,722	\$ 186,214	\$ 187,418	\$ 143,028	\$ 75,419	\$ 325,882	\$ 84	\$ 1,143,767
Special Mention	—	1,214	2,714	11,773	1,787	9,540	—	27,028
Substandard	—	—	—	695	—	17,531	—	18,226
Total commercial real estate, investor-owned	\$ 225,722	\$ 187,428	\$ 190,132	\$ 155,496	\$ 77,206	\$ 352,953	\$ 84	\$ 1,189,021

December 31, 2021

(in thousands)	Term Loans - Amortized Cost by Origination Year						Revolving Loans Amortized Cost	Total
	2021	2020	2019	2018	2017	Prior		
Construction:								
Pass and Watch	\$ 31,269	\$ 70,528	\$ 8,935	\$ 9,108	\$ —	\$ —	\$ —	\$ 119,840
Total construction	\$ 31,269	\$ 70,528	\$ 8,935	\$ 9,108	\$ —	\$ —	\$ —	\$ 119,840
Home equity:								
Pass and Watch	\$ —	\$ —	\$ —	\$ —	\$ 10	\$ 268	\$ 87,693	\$ 87,971
Substandard	—	—	—	—	—	377	398	775
Total home equity	\$ —	\$ —	\$ —	\$ —	\$ 10	\$ 645	\$ 88,091	\$ 88,746
Other residential:								
Pass and Watch	\$ 15,800	\$ 31,981	\$ 25,529	\$ 15,411	\$ 7,964	\$ 17,873	\$ —	\$ 114,558
Total other residential	\$ 15,800	\$ 31,981	\$ 25,529	\$ 15,411	\$ 7,964	\$ 17,873	\$ —	\$ 114,558
Installment and other consumer:								
Pass and Watch	\$ 17,207	\$ 7,748	\$ 9,436	\$ 5,633	\$ 1,123	\$ 6,620	\$ 1,766	\$ 49,533
Total installment and other consumer	\$ 17,207	\$ 7,748	\$ 9,436	\$ 5,633	\$ 1,123	\$ 6,620	\$ 1,766	\$ 49,533
Total loans:								
Pass and Watch	\$ 445,036	\$ 375,654	\$ 306,557	\$ 222,117	\$ 129,675	\$ 486,821	\$ 180,287	\$ 2,146,147
Total Special Mention	\$ 16,748	\$ 2,914	\$ 3,298	\$ 19,892	\$ 1,787	\$ 26,536	\$ 2,088	\$ 73,263
Total Substandard	\$ —	\$ 7,155	\$ 285	\$ 695	\$ —	\$ 26,511	\$ 1,475	\$ 36,121
Total Doubtful	\$ —	\$ 114	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 114
Totals	\$ 461,784	\$ 385,837	\$ 310,140	\$ 242,704	\$ 131,462	\$ 539,868	\$ 183,850	\$ 2,255,645

December 31, 2020

(in thousands)	Term Loans - Amortized Cost by Origination Year						Revolving Loans Amortized Cost	Total
	2020	2019	2018	2017	2016	Prior		
Commercial and industrial:								
Pass and Watch	\$ 308,237	\$ 22,589	\$ 12,596	\$ 4,508	\$ 5,915	\$ 34,282	\$ 85,889	\$ 474,016
Special Mention	—	2,034	1,318	141	11	49	19,092	22,645
Substandard	1,747	—	—	—	—	—	—	1,747
Total commercial and industrial	\$ 309,984	\$ 24,623	\$ 13,914	\$ 4,649	\$ 5,926	\$ 34,331	\$ 104,981	\$ 498,408
Commercial real estate, owner-occupied:								
Pass and Watch	\$ 31,029	\$ 27,581	\$ 32,603	\$ 43,843	\$ 12,768	\$ 101,014	\$ —	\$ 248,838
Special Mention	—	—	11,764	17,062	7,343	6,601	—	42,770
Substandard	7,147	—	—	—	6,208	—	—	13,355
Total commercial real estate, owner-occupied	\$ 38,176	\$ 27,581	\$ 44,367	\$ 60,905	\$ 26,319	\$ 107,615	\$ —	\$ 304,963
Commercial real estate, investor-owned:								
Pass and Watch	\$ 162,300	\$ 144,751	\$ 173,955	\$ 100,842	\$ 94,862	\$ 253,611	\$ 117	\$ 930,438
Special Mention	—	10,695	—	1,819	—	8,124	—	20,638
Substandard	—	2,716	4,435	—	1,553	1,428	—	10,132
Total commercial real estate, investor-owned	\$ 162,300	\$ 158,162	\$ 178,390	\$ 102,661	\$ 96,415	\$ 263,163	\$ 117	\$ 961,208
Construction:								
Pass and Watch	\$ 31,654	\$ 30,150	\$ 11,242	\$ —	\$ —	\$ —	\$ —	\$ 73,046
Total construction	\$ 31,654	\$ 30,150	\$ 11,242	\$ —	\$ —	\$ —	\$ —	\$ 73,046
Home equity:								
Pass and Watch	\$ —	\$ —	\$ —	\$ —	\$ 128	\$ 694	\$ 102,614	\$ 103,436
Special Mention	—	—	—	—	—	—	799	799
Substandard	—	—	—	—	—	391	187	578
Total home equity	\$ —	\$ —	\$ —	\$ —	\$ 128	\$ 1,085	\$ 103,600	\$ 104,813
Other residential:								
Pass and Watch	\$ 34,447	\$ 31,079	\$ 23,673	\$ 10,574	\$ 6,035	\$ 17,587	\$ —	\$ 123,395
Total other residential	\$ 34,447	\$ 31,079	\$ 23,673	\$ 10,574	\$ 6,035	\$ 17,587	\$ —	\$ 123,395
Installment and other consumer:								
Pass and Watch	\$ 2,361	\$ 4,382	\$ 3,483	\$ 1,543	\$ 3,423	\$ 4,921	\$ 2,593	\$ 22,706
Substandard	—	—	—	17	—	—	—	17
Total installment and other consumer	\$ 2,361	\$ 4,382	\$ 3,483	\$ 1,560	\$ 3,423	\$ 4,921	\$ 2,593	\$ 22,723
Total loans:								
Pass and Watch	\$ 570,028	\$ 260,532	\$ 257,552	\$ 161,310	\$ 123,131	\$ 412,109	\$ 191,213	\$ 1,975,875
Total Special Mention	\$ —	\$ 12,729	\$ 13,082	\$ 19,022	\$ 7,354	\$ 14,774	\$ 19,891	\$ 86,852
Total Substandard	\$ 8,894	\$ 2,716	\$ 4,435	\$ 17	\$ 7,761	\$ 1,819	\$ 187	\$ 25,829
Totals	\$ 578,922	\$ 275,977	\$ 275,069	\$ 180,349	\$ 138,246	\$ 428,702	\$ 211,291	\$ 2,088,556

The following table shows the amortized cost of loans by class, payment aging and non-accrual status as of December 31, 2021 and 2020.

Loan Aging Analysis by Class								
(in thousands)	Commercial and industrial	Commercial real estate, owner-occupied	Commercial real estate, investor-owned	Construction	Home equity	Other residential	Installment and other consumer	Total
December 31, 2021								
30-59 days past due	\$ 2	\$ —	\$ —	\$ —	\$ 498	\$ —	\$ 1,036	\$ 1,536
60-89 days past due	394	—	—	—	67	—	—	461
90 days or more past due	229	—	—	—	88	—	—	317
Total past due	625	—	—	—	653	—	1,036	2,314
Current	300,977	392,345	1,189,021	119,840	88,093	114,558	48,497	2,253,331
Total loans ¹	\$ 301,602	\$ 392,345	\$ 1,189,021	\$ 119,840	\$ 88,746	\$ 114,558	\$ 49,533	\$ 2,255,645
Non-accrual loans ²	\$ —	\$ 7,269	\$ 694	\$ —	\$ 413	\$ —	\$ —	\$ 8,376
Non-accrual loans with no allowance	\$ —	\$ 7,269	\$ 694	\$ —	\$ 413	\$ —	\$ —	\$ 8,376
December 31, 2020								
30-59 days past due	\$ —	\$ —	\$ 1,673	\$ —	\$ 274	\$ —	\$ 136	\$ 2,083
60-89 days past due	—	—	—	—	—	—	622	622
90 days or more past due	—	—	—	—	—	—	—	—
Total past due	—	—	1,673	—	274	—	758	2,705
Current	498,408	304,963	959,535	73,046	104,539	123,395	21,965	2,085,851
Total loans ¹	\$ 498,408	\$ 304,963	\$ 961,208	\$ 73,046	\$ 104,813	\$ 123,395	\$ 22,723	\$ 2,088,556
Non-accrual loans ²	\$ —	\$ 7,147	\$ 1,610	\$ —	\$ 459	\$ —	\$ 17	\$ 9,233
Non-accrual loans with no allowance	\$ —	\$ 7,147	\$ 1,610	\$ —	\$ 459	\$ —	\$ 17	\$ 9,233

¹ There were two SBA-PPP loans past due more than ninety days totaling \$229 thousand accruing interest at December 31, 2021 for which we requested "guarantee" payment from the SBA. The SBA subsequently purchased both loans in January 2022. There were no loans past due more than ninety days accruing interest at December 31, 2020.

² None of the non-accrual loans as of December 31, 2021 or 2020 were earning interest on a cash basis. We recognized no interest income on non-accrual loans for the years ended December 31, 2021, 2020 or 2019. There was no accrued interest reversed from interest income for the single loan that was placed on non-accrual status in 2021, as interest due was paid current. Accrued interest of \$36 thousand was reversed from interest income for loans that were placed on non-accrual status during the year ended December 31, 2020.

Collateral Dependent Loans

The following table presents the amortized cost basis of individually analyzed collateral-dependent non-accrual loans by class at December 31, 2021 and 2020.

(in thousands)	Amortized Cost by Collateral Type				Allowance for Credit Losses
	Commercial Real Estate	Residential Real Estate	Other	Total	
December 31, 2021					
Commercial real estate, owner-occupied	\$ 7,269	\$ —	\$ —	\$ 7,269	\$ —
Commercial real estate, investor-owned	694	—	—	694	—
Home equity	—	413	—	413	—
Total	\$ 7,963	\$ 413	\$ —	\$ 8,376	\$ —
December 31, 2020					
Commercial real estate, owner-occupied	\$ 7,147	\$ —	\$ —	\$ 7,147	\$ —
Commercial real estate, investor-owned	1,610	—	—	1,610	—
Home equity	—	459	—	459	—
Installment and other consumer	—	—	17	17	—
Total	\$ 16,720	\$ 872	\$ 17	\$ 17,609	\$ —

No collateral-dependent loans were in process of foreclosure at December 31, 2021 and 2020. In addition, the weighted average loan-to-value of collateral dependent loans was approximately 67% and 56% at December 31, 2021 and 2020, respectively.

Troubled Debt Restructuring

The following table summarizes the amortized cost of TDR loans by loan class as of December 31, 2021 and 2020.

(in thousands)	December 31,	
	2021	2020
Commercial and industrial	\$ 1,183	\$ 1,021
Commercial real estate, owner-occupied	7,155	7,147
Commercial real estate, investor-owned	179	3,305
Home equity	386	281
Installment and other consumer	607	752
Total ¹	\$ 9,510	\$ 12,506

¹ TDR loans on non-accrual status totaled \$7.4 million at both December 31, 2021 and 2020. Unfunded commitments for TDR loans totaled \$441 thousand and \$704 thousand as of December 31, 2021 and 2020, respectively.

After meeting all of the conditions specified in Note 1, we removed one commercial loan with a remaining amortized cost of \$2 thousand and an unfunded commitment of \$600 thousand from TDR designation during 2021. There were no loans removed from TDR designation during 2020 and one commercial loan with an amortized cost of \$3 thousand removed from TDR designation in 2019.

In accordance with section 4013 of the 2020 CARES Act, subsequently amended by section 541 of the 2020 Economic Aid Act, we elected to apply the temporary accounting relief provisions for loan modifications that met certain criteria, which would otherwise be designated as a TDR under existing GAAP. Since the onset of the pandemic, the Bank granted payment relief for 269 loans that included full payment deferral or interest-only payments on loan balances exceeding \$402.9 million. As of December 31, 2020, there were 21 borrowing relationships with 29 loans totaling \$71.0 million on payment relief. As of December 31, 2021, two borrowing relationships with three loans totaling \$23.6 million were continuing to benefit from payment relief. The weighted average loan-to-value ratio of the remaining payment relief loans was approximately 44%. We accrue and recognize interest income on loans under payment relief based on the original contractual interest rates. When payments resume at the end of the relief period, the payments will generally be applied to accrued interest due until accrued interest is fully paid. We monitor the financial situation of these clients closely and expect them to resume payments as the economy continues to recover.

The following table presents information for loans modified in a TDR during the presented periods, including the number of modified contracts, the amortized cost of the loans prior to modification, and the amortized cost of the loans at period end after being restructured. The table excludes fully charged-off TDR loans and loans modified in a TDR and subsequently paid-off during the years presented, if applicable.

(dollars in thousands)	Number of Contracts Modified	Pre-Modification Amortized Cost	Post-Modification Amortized Cost	Post-Modification Amortized Cost at Period End
TDRs modified during 2021:				
Commercial and industrial	1	\$ 1,101	\$ 1,101	\$ 901
Home equity	1	120	120	120
Total	2	\$ 1,221	\$ 1,221	\$ 1,021
TDRs modified during 2020:				
Commercial and industrial	1	\$ 170	\$ 162	\$ 96
Commercial real estate, investor-owned	1	1,553	1,553	1,553
Home equity	1	276	276	271
Installment and other consumer	2	204	204	201
Total	5	\$ 2,203	\$ 2,195	\$ 2,121
TDRs modified during 2019:				
Commercial and industrial	1	\$ 298	\$ 298	\$ 150

The loans modified during 2021 and 2020 reflected debt consolidation, interest rate concessions, and/or other loan term and payment modifications that did not meet the criteria specified by the 2020 CARES Act for temporary relief from TDR accounting. The loan modified during 2019 reflected a maturity extension and interest rate concession. During 2021, 2020 and 2019, there were no other defaults on loans that had been modified in a TDR within the prior

twelve-month period. We report defaulted TDRs based on a payment default definition of more than ninety days past due.

Purchased Loans with Credit Deterioration

For purchased loans with a more-than-insignificant amount of credit deterioration since origination ("PCD loans") the initial allowance for credit losses at the date of acquisition was added to the purchase price (or fair value) to determine the initial amortized cost basis. Subsequent changes in expected credit losses (favorable or unfavorable) are recognized through net income as adjustments to the allowance for credit losses on loans. Refer to Note 1, Summary of Significant Accounting Policies, for additional information regarding the accounting for PCD and non-PCD loans.

A reconciliation of the unpaid principal balance (or par value) to the purchase price (or fair value) for PCD loans as of the August 6, 2021 merger date is presented below.

(in thousands)

Unpaid principal balance (par value)	\$	92,029
Non-credit discount		(1,662)
Amortized cost basis		90,367
Initial allowance for credit losses on PCD loans		(1,505)
Purchase price (PCD loans at fair value)	\$	88,862

Allowance for Credit Losses on Loans Rollforward

The following tables disclose activity in the allowance for credit losses.

Allowance for Credit Losses on Loans Rollforward

(in thousands)	Commercial and industrial	Commercial real estate, owner-occupied	Commercial real estate, investor-owned	Construction	Home equity	Other residential	Installment and other consumer	Unallocated	Total
Year ended December 31, 2021									
Beginning balance	\$ 2,530	\$ 2,778	\$ 12,682	\$ 1,557	\$ 738	\$ 998	\$ 291	\$ 1,300	\$ 22,874
Provision (reversal) - CECL method	(1,240)	(561)	(476)	62	(193)	(360)	333	986	(1,449)
Initial allowance for PCD loans	405	559	533	—	—	6	2	—	1,505
(Charge-offs)	—	—	—	—	—	—	(5)	—	(5)
Recoveries	14	—	—	34	50	—	—	—	98
Ending balance	\$ 1,709	\$ 2,776	\$ 12,739	\$ 1,653	\$ 595	\$ 644	\$ 621	\$ 2,286	\$ 23,023
Year ended December 31, 2020									
Beginning balance	\$ 2,334	\$ 2,462	\$ 8,483	\$ 638	\$ 850	\$ 973	\$ 284	\$ 653	\$ 16,677
Provision - incurred loss method	208	673	3,141	219	188	287	122	612	5,450
(Charge-offs)	(30)	—	—	—	—	—	—	—	(30)
Recoveries	13	—	—	3	—	—	—	—	16
Balance at September 30, 2020	2,525	3,135	11,624	860	1,038	1,260	406	1,265	22,113
Impact of CECL adoption	(278)	138	1,755	201	(361)	(212)	(125)	486	1,604
Post adoption balance at October 1, 2020	2,247	3,273	13,379	1,061	677	1,048	281	1,751	23,717
Provision (reversal) - CECL method	269	(495)	(697)	496	61	(50)	11	(451)	(856)
(Charge-offs)	—	—	—	—	—	—	(1)	—	(1)
Recoveries	14	—	—	—	—	—	—	—	14
Ending balance	\$ 2,530	\$ 2,778	\$ 12,682	\$ 1,557	\$ 738	\$ 998	\$ 291	\$ 1,300	\$ 22,874
Year ended December 31, 2019									
Beginning balance	\$ 2,436	\$ 2,407	\$ 7,703	\$ 756	\$ 915	\$ 800	\$ 310	\$ 494	\$ 15,821
Provision (reversal) - incurred loss method	(49)	55	768	(118)	(65)	173	(23)	159	900
(Charge-offs)	(75)	—	—	—	—	—	(3)	—	(78)
Recoveries	22	—	12	—	—	—	—	—	34
Ending balance	\$ 2,334	\$ 2,462	\$ 8,483	\$ 638	\$ 850	\$ 973	\$ 284	\$ 653	\$ 16,677

We adopted the CECL accounting standard on December 31, 2020, which we had previously postponed under the optional accounting relief provisions of the CARES Act passed in March 2020 to the earlier of the end of the national emergency or December 31, 2020. During the first nine months of 2020, we applied the incurred loss method under previous GAAP in determining the allowance for credit losses on loans. Refer to Note 1, Summary of Significant Accounting Policies, for additional information on the adoption of CECL.

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 \$1.330 billion and \$1.165 billion at December 31, 2021 and 2020, respectively. In addition, we pledge eligible TIC loans, which totaled \$106.2 million and \$113.6 million at December 31, 2021 and 2020, respectively, to secure our borrowing capacity with the Federal Reserve Bank ("FRB"). For additional information, see Note 7, 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 December 31, 2021, 2020 and 2019.

(in thousands)		2021		2020		2019
Balance at beginning of year	\$	6,423	\$	8,333	\$	10,635
Assumed in the ARB acquisition		4,037		—		—
Repayments		(2,518)		(1,910)		(2,320)
Reclassified due to a change in borrower status		—		—		18
Balance at end of year	\$	7,942	\$	6,423	\$	8,333

Undisbursed commitments to related parties totaled \$8.6 million and \$9.1 million as of December 31, 2021 and 2020, respectively.

Note 4: Bank Premises and Equipment

A summary of Bank premises and equipment follows:

(in thousands)	December 31,	
	2021	2020
Leasehold improvements	\$ 15,282	\$ 14,426
Furniture and equipment	11,384	10,959
Buildings ¹	1,195	—
Land ¹	1,170	—
Finance lease right-of-use assets ²	499	365
Subtotal	29,530	25,750
Accumulated depreciation and amortization	(21,972)	(20,831)
Bank premises and equipment, net	\$ 7,558	\$ 4,919

¹ Buildings and land were acquired in the merger with American River Bankshares. See Note 18, Merger, for more information.

² See Note 12, Commitments and Contingencies, for more information.

The amount of depreciation and amortization totaled \$1.7 million, \$2.1 million and \$2.2 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Note 5: Bank Owned Life Insurance

We own life insurance policies on the lives of certain current and former officers designated by the Board of Directors to fund our employee benefit programs. Death benefits provided under the specific terms of these insurance policies are estimated to be \$122.9 million at December 31, 2021. The benefits to employees' beneficiaries are limited to each employee's active service period. The investment in BOLI policies are reported at their cash surrender value, net of surrender charges, of \$61.5 million and \$43.6 million at December 31, 2021 and 2020, respectively. The cash surrender value includes both the original premiums paid for the life insurance policies and the accumulated accretion of policy income since inception of the policies, net of mortality costs and other fees. Earnings on BOLI totaled \$2.2 million, \$973 thousand and \$1.2 million in 2021, 2020 and 2019, respectively. These earnings included death benefit proceeds in excess of the cash surrender values of the BOLI policies of \$1.1 million in 2021 and \$562 thousand in 2019. There were no death benefits on BOLI in 2020. We regularly monitor the financial information and credit ratings of our insurance carriers to ensure that they are credit worthy and comply with our policy.

Note 6: Deposits

A stratification of time deposits is presented in the following table:

(in thousands)	December 31,	
	2021	2020
Time deposits of less than or equal to \$250 thousand	\$ 96,214	\$ 66,789
Time deposits of more than \$250 thousand	54,021	30,644
Total time deposits	\$ 150,235	\$ 97,433

Interest on time deposits was \$246 thousand, \$554 thousand and \$595 thousand in 2021, 2020 and 2019, respectively.

Scheduled maturities of time deposits at December 31, 2021 are presented as follows:

(in thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Scheduled time deposit maturities	\$ 109,785	\$ 15,963	\$ 8,187	\$ 8,357	\$ 7,943	—	\$ 150,235

As of December 31, 2021, \$213.9 million in securities were pledged as collateral for our local agency deposits.

Our deposit portfolio includes deposits offered through the Promontory Interfinancial Network that are comprised of Certificate of Deposit Account Registry Service[®] ("CDARS") balances included in time deposits and Insured Cash Sweep[®] ("ICS") balances included in money market deposits. In addition, we offer deposits through Reich & Tang Deposit Networks, LLC, comprised of Demand Deposit MarketplaceSM ("DDM") balances. Through these two networks we are able to offer our customers access to FDIC-insured deposit products in aggregate amounts exceeding current insurance limits. When we place funds through CDARS, ICS and DDM, on behalf of a customer, we have the option of receiving matching deposits through the network's reciprocal deposit program, or placing deposits "one-way" for which we receive no matching deposits. We consider the reciprocal deposits to be in-market deposits as distinguished from traditional out-of-market brokered deposits. The following table shows the composition of our network deposits at December 31, 2021 and 2020.

(in thousands)	December 31, 2021		December 31, 2020	
	Reciprocal ¹	One-Way ¹	Reciprocal ¹	One-Way ¹
CDARS	\$ 21,413	\$ 2,160	\$ 7,622	\$ 2,434
ICS	—	110,900	—	110,929
DDM	52,365	60,000	30,544	60,000
Total network deposits	\$ 73,778	\$ 173,060	\$ 38,166	\$ 173,363

¹ Reciprocal deposits are on-balance-sheet while one-way deposits are off-balance-sheet.

The aggregate amount of deposit overdrafts that have been reclassified as loan balances was \$346 thousand and \$219 thousand at December 31, 2021 and 2020, respectively.

The Bank accepts deposits from shareholders, board of directors and employees in the normal course of business, and the terms are comparable to those with non-affiliated parties. The total deposits from board directors and their businesses, and executive officers were \$25.3 million and \$28.1 million at December 31, 2021 and 2020, respectively.

Note 7: Borrowings and Other Obligations

Federal Funds Purchased – The Bank had unsecured available lines of credit with correspondent banks for overnight borrowings totaling \$150.0 million and \$135.0 million at December 31, 2021 and 2020, respectively. In general, interest rates on these lines approximate the federal funds target rate. We had no overnight borrowings under these credit facilities at December 31, 2021 and 2020.

Federal Home Loan Bank Borrowings – As of December 31, 2021 and 2020, the Bank had available lines of credit with the FHLB totaling \$820.5 million and \$642.5 million, respectively, based on eligible collateral of certain loans. There were no FHLB overnight borrowings at December 31, 2021 and 2020. As part of our acquisition of ARB, we assumed FHLB advances in the amount of \$13.9 million that we early redeemed on August 25, 2021.

Federal Reserve Line of Credit – The Bank has an available line of credit with the FRBSF secured by certain residential loans. At December 31, 2021 and 2020, the Bank had borrowing capacity under this line totaling \$70.8 million and \$78.7 million, respectively, and had no outstanding borrowings with the FRBSF.

Subordinated Debentures - As part of an acquisition in 2013, Bancorp assumed a subordinated debenture with a contractual balance of \$4.1 million due to NorCal Community Bancorp Trust II (the "Trust"), established for the sole purpose of issuing trust preferred securities. On March 15, 2021, Bancorp redeemed in full the \$2.8 million (book value) subordinated debenture due to the Trust, which had an effective rate of 5.7% for the twelve months ended December 31, 2020. The 251.5% effective rate for the twelve months ended December 31, 2021 included accelerated accretion of the \$1.3 million remaining purchase discount due to the early redemption. Accretion on the subordinated debenture totaled \$69 thousand and \$68 thousand for the years ended December 31, 2020 and 2019, respectively.

Other Obligations - The Bank leases certain equipment under finance leases, which are included in borrowings and other obligations in the consolidated statements of condition. Refer to Note 12, Commitments and Contingencies, for additional information.

Borrowings and other obligations at and for the years ended December 31, 2021, 2020 and 2019 are summarized as follows:

(dollars in thousands)	2021			2020			2019		
	Carrying Value	Average Balance	Average Rate	Carrying Value	Average Balance	Average Rate	Carrying Value	Average Balance	Average Rate
FHLB overnight borrowings	\$ —	\$ —	— %	\$ —	\$ 42	0.75 %	\$ —	\$ 2,656	2.55 %
Other obligations (finance leases)	\$ 419	\$ 250	0.71 %	\$ 58	\$ 132	2.62 %	\$ 212	\$ 279	2.85 %
FHLB fixed-rate advances ¹	\$ —	\$ 642	1.18 %	\$ —	\$ —	— %	\$ —	\$ —	— %
Subordinated debenture	\$ —	\$ 534	251.54 %	\$ 2,777	\$ 2,741	5.68 %	\$ 2,708	\$ 2,673	8.44 %

¹ Average balance and rate consider \$13.9 million in FHLB borrowings acquired from ARB on August 6, 2021 and redeemed on August 25, 2021.

Note 8: Stockholders' Equity and Stock Plans

Share-Based Awards

On May 12, 2020, our shareholders approved the 2020 Director Stock Plan, replacing and superseding the 2010 Director Stock Plan (collectively "the Plan"). The Plan provides for the payment of director fees in common shares of Bancorp's common stock not to exceed 250,000 shares and a way for directors to purchase shares at fair market

value. During 2021, 2020 and 2019 we issued 6,443, 5,723 and 5,544 shares of common stock, respectively, for director fees. As of December 31, 2021, 238,664 shares were available for future director fees and purchases.

The 2017 Employee Stock Purchase Plan ("ESPP") gives our employees an opportunity to purchase Bancorp's common shares through payroll deductions of between one percent and fifteen percent of their pay in each pay period. Shares are purchased quarterly at a five percent discount from the closing market price on the last day of the quarter. As of December 31, 2021, 377,475 shares were available for future purchases under the ESPP.

Under the 2017 Equity Plan, the Compensation Committee of the Board of Directors has the discretion to determine, among other things, which employees, advisors and non-employee directors will receive share-based awards, the number and timing of awards, the vesting schedule for each award, and the type of award to be granted. As of December 31, 2021, there were 868,222 shares available for future grants to employees, advisors and non-employee directors. Options are issued at an exercise price equal to the fair value of the stock at the date of grant. Options granted to officers and employees generally vest by one-third on each anniversary of the grant for three years and expire ten years from the grant date. Options granted to non-employee directors vest immediately and expire ten years from the grant date. Stock options and restricted stock may be net settled in a cashless exercise by a reduction in the number of shares otherwise deliverable upon exercise or vesting in satisfaction of the exercise payment and/or applicable tax withholding requirements. Shares withheld under net settlement arrangements are available for future grants. The table below depicts the total number of shares, amount, and weighted average price withheld for cashless exercises in each of the respective years.

	2021	2020	2019
Number of shares withheld	27,929	10,001	7,795
Total amount withheld (in thousands)	\$ 1,085	\$ 398	\$ 326
Weighted-average price	\$ 38.85	\$ 39.83	\$ 41.84

Performance-based stock awards (restricted stock) are issued to a selected group of employees under the 2017 Equity Plan. 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.

A summary of stock option activity for the years ended December 31, 2021, 2020, and 2019 is presented in the following table. The intrinsic value of options outstanding and exercisable is calculated as the number of in-the-money options times the difference between the market price of our stock and the exercise prices of the in-the-money options as of each year-end period presented.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (in thousands)	Weighted Average Grant-Date Fair Value	Weighted Average Remaining Contractual Term (in years)
Options outstanding at December 31, 2018	425,700	\$ 25.01	\$ 6,910		5.85
Granted	53,370	44.01		\$ 9.37	
Cancelled, expired or forfeited	(13,580)	38.88			
Exercised	(48,108)	16.11	1,247		
Options outstanding at December 31, 2019	<u>417,382</u>	28.01	7,112		5.50
Exercisable (vested) at December 31, 2019	<u>333,870</u>	25.34	6,581		4.76
Options outstanding at December 31, 2019	<u>417,382</u>	28.01	7,112		5.50
Granted	44,632	39.18		6.84	
Cancelled, expired or forfeited	(17,222)	40.31			
Exercised	(73,208)	22.26	1,370		
Options outstanding at December 31, 2020	<u>371,584</u>	29.92	2,262		5.12
Exercisable (vested) at December 31, 2020	<u>315,377</u>	28.05	2,254		4.53
Options outstanding at December 31, 2020	<u>371,584</u>	29.92	2,262		5.12
Granted	55,861	36.39		8.84	
Cancelled, expired or forfeited	(2,008)	42.50			
Exercised	(60,056)	23.01	885		
Options outstanding at December 31, 2021	<u>365,381</u>	31.97	2,326		5.57
Exercisable (vested) at December 31, 2021	<u>315,744</u>	30.85	2,264		5.15

A summary of the options outstanding and exercisable by price range as of December 31, 2021 is presented in the following table:

Range of Exercise Prices	Stock Options Outstanding as of December 31, 2021			Stock Options Exercisable as of December 31, 2021	
	Stock Options Outstanding	Remaining Contractual Life (in years)	Weighted Average Exercise Price	Stock Options Exercisable	Weighted Average Exercise Price
\$10.00 - \$20.00	32,852	0.7	\$ 19.34	32,852	\$ 19.34
\$20.01 - \$30.00	102,374	3.4	\$ 24.47	102,374	\$ 24.47
\$30.01 - \$40.00	156,415	7.1	\$ 34.67	133,131	\$ 34.18
\$40.01 - \$50.00	73,740	7.5	\$ 42.29	47,387	\$ 42.62
	<u>365,381</u>			<u>315,744</u>	

The following table summarizes non-vested restricted stock awards and changes during the years ended December 31, 2021, 2020, and 2019.

	Number of Shares	Weighted Average Grant-Date Fair Value
Non-vested awards at December 31, 2018	87,388	\$ 31.26
Granted	29,110	44.45
Vested	(28,099)	27.88
Cancelled or forfeited	(18,333)	32.34
Non-vested awards at December 31, 2019	<u>70,066</u>	37.81
Granted	29,100	40.10
Vested	(23,524)	36.35
Cancelled or forfeited	(14,314)	37.63
Non-vested awards at December 31, 2020	<u>61,328</u>	39.50
Granted	30,742	38.00
Vested	(26,392)	36.81
Cancelled or forfeited	(3,848)	33.96
Non-vested awards at December 31, 2021	<u>61,830</u>	40.25

We determine the fair value of stock options at the grant date using the Black-Scholes pricing model that takes into account the stock price at the grant date, exercise price, and the following assumptions (weighted-average shown).

	Years ended December 31,		
	2021	2020	2019
Risk-free interest rate	0.98 %	0.91 %	2.51 %
Expected dividend yield on common stock	2.57 %	2.38 %	1.75 %
Expected life in years	6.1	6.1	5.8
Expected price volatility	33.12 %	24.43 %	22.71 %

The fair value of stock options as of the grant date is recorded as stock-based compensation expense in the consolidated statements of comprehensive income over the requisite service period, which is generally the vesting period, with a corresponding increase in common stock. Stock-based compensation also includes compensation expense related to the issuance of restricted stock awards. The grant-date fair value of the restricted stock awards, which equals the grant date price, is recorded as compensation expense over the requisite service period with a corresponding increase in common stock as the shares vest. Beginning in 2018, stock option 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. Total compensation expense for stock options and restricted stock awards was \$972 thousand, \$1.2 million, and \$1.5 million during 2021, 2020, and 2019, respectively, and the total recognized deferred tax benefits related thereto were \$213 thousand, \$341 thousand, and \$389 thousand, respectively.

As of December 31, 2021, there was \$652 thousand of total unrecognized compensation expense related to non-vested stock options and restricted stock awards, which is expected to be recognized over a weighted-average period of approximately 2.3 years. The total grant-date fair value of stock options vested during the years ended December 31, 2021, 2020, and 2019 was \$514 thousand, \$484 thousand, and \$473 thousand, respectively. The total grant-date fair value of restricted stock awards vested was \$1.0 million during 2021, and \$1.2 million during both 2020 and 2019.

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. In 2021, 2020, and 2019 we recognized \$87 thousand, \$120 thousand, and \$145 thousand, respectively, in excess tax benefits recorded as a reduction to income tax expense related to these types of transactions. The tax benefits realized from disqualifying dispositions of incentive stock options were recognized in tax expense to the extent of the book compensation cost recorded.

Dividends

Presented below is a summary of cash dividends paid in 2021, 2020 and 2019 to common shareholders, recorded as a reduction from retained earnings. On January 21, 2022, the Board of Directors declared a \$0.24 per share cash dividend, paid February 11, 2022 to the shareholders of record at the close of business on February 4, 2022.

(in thousands except per share data)	Years ended December 31,		
	2021	2020	2019
Cash dividends to common stockholders	\$ 13,107	\$ 12,506	\$ 10,958
Cash dividends per common share	\$ 0.94	\$ 0.92	\$ 0.80

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.

Under the California Corporations Code, payment of dividends by Bancorp to its shareholders is restricted to the amount of retained earnings immediately prior to the distribution or the amount of assets that exceeds the total liabilities immediately after the distribution. As of December 31, 2021, Bancorp's retained earnings and amount of total assets that exceeds total liabilities were \$239.9 million and \$450.4 million, respectively.

Under the California Financial Code, payment of dividends by the Bank to Bancorp is restricted to the lesser of retained earnings or the amount of undistributed net profits of the Bank from the three most recent fiscal years. Under this restriction, approximately \$6.2 million of the Bank's retained earnings balance was available for payment of dividends to Bancorp as of December 31, 2021. Bancorp held \$6.7 million in cash at December 31, 2021.

Preferred Stock and Shareholder Rights Plan

On July 6, 2017, Bancorp adopted a new shareholder rights agreement ("Rights Agreement"), which replaced the existing Rights Agreement that expired on July 23, 2017. The Rights Agreement, which expires on July 23, 2022, is designed to discourage takeovers that involve abusive tactics or do not provide fair value to shareholders. The Rights Agreement defines the percentage of share ownership of an "acquiring person" as 10% of the outstanding common shares. Currently, each right entitles the registered holder to purchase from Bancorp one two-hundredth of a share of Series A Junior Participating Preferred Stock, no par value, of Bancorp at an initial price of \$90 per one one-hundredth of a preferred share, subject to adjustment upon the occurrence of certain events. As of December 31, 2021, Bancorp was authorized to issue five million shares of preferred stock with no par value, one million shares of which have been designated as Series A Junior Participating Preferred Stock, with no par value under the Rights Agreement. In the event of a proposed merger, tender offer or other attempt to gain control of Bancorp that the Board of Directors does not approve, the Board of Directors may authorize the issuance of shares of common or preferred stock that would impede the completion of such a transaction. An effect of the possible issuance of common or preferred stock, therefore, may be to deter a future takeover attempt. The Board of Directors has no present plans or understandings for the issuance of any common or preferred stock in connection with the Rights Agreement.

Share Repurchase Program

On April 23, 2018, Bancorp announced that its Board of Directors approved a Share Repurchase Program under which Bancorp may repurchase up to \$25.0 million of its outstanding common stock through May 1, 2019. Bancorp's Board of Directors subsequently extended the Share Repurchase Program through February 28, 2020. A new Share Repurchase Program was approved by the Board of Directors on January 24, 2020, which began on March 1, 2020 and allowed Bancorp to repurchase up to \$25.0 million of its outstanding common stock and ended May 2021. 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's Board of Directors approved an amendment to the current share repurchase program, which increased the total authorization from \$25.0 million to \$57.0 million and left the expiration date unchanged. Bancorp repurchased 1,117,666 shares totaling \$40.7 million in 2021.

Under the Share Repurchase Program, Bancorp may purchase shares of its common stock through various means such as open market transactions, including block purchases, and privately negotiated transactions. The number of shares repurchased and the timing, manner, price and amount of any repurchases will be determined at Bancorp's discretion. Factors include, but are not limited to, stock price, trading volume and general market conditions, along with Bancorp's general business conditions. The program may be suspended or discontinued at any time and does not obligate Bancorp to acquire any specific number of shares of its common stock.

As part of the Share Repurchase Program, Bancorp entered into a trading plan adopted in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. The 10b5-1 trading plan permits common stock to be repurchased at times that might otherwise be prohibited under insider trading laws or self-imposed trading restrictions. The 10b5-1 trading plan is administered by an independent broker and is subject to price, market volume and timing restrictions.

Note 9: Fair Value of Assets and Liabilities

Fair Value Hierarchy and Fair Value Measurement

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

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

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

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

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

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

(in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measurement Categories: Changes in Fair Value Recorded In ¹
December 31, 2021					
Securities available for sale:					
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	\$ 759,576	\$ —	\$ 759,576	\$ —	OCI
SBA-backed securities	\$ 33,478	\$ —	\$ 33,478	\$ —	OCI
Debentures of government sponsored agencies	\$ 188,527	\$ —	\$ 188,527	\$ —	OCI
U.S. Treasury securities	\$ 11,630	\$ 11,630	\$ —	\$ —	OCI
Obligations of state and political subdivisions	\$ 134,000	\$ —	\$ 134,000	\$ —	OCI
Corporate bonds	\$ 38,495	\$ —	\$ 38,495	\$ —	OCI
Asset-backed securities	\$ 1,862	\$ —	\$ 1,862	\$ —	OCI
Derivative financial liabilities (interest rate contracts)	\$ 1,085	\$ —	\$ 1,085	\$ —	NI
December 31, 2020					
Securities available for sale:					
Mortgage-backed securities and collateralized mortgage obligations issued by U.S. government-sponsored agencies	\$ 228,651	\$ —	\$ 228,651	\$ —	OCI
SBA-backed securities	\$ 32,862	\$ —	\$ 32,862	\$ —	OCI
Debentures of government sponsored agencies	\$ 20,186	\$ —	\$ 20,186	\$ —	OCI
Obligations of state and political subdivisions	\$ 110,652	\$ —	\$ 110,652	\$ —	OCI
Derivative financial liabilities (interest rate contracts)	\$ 1,912	\$ —	\$ 1,912	\$ —	NI

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

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1) are used to determine the fair value of available-for-sale securities. Level 1 securities include U.S.

Treasury securities. If quoted market prices are not available, we obtain pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity and credit spreads (Level 2). Level 2 securities include obligations of state and political subdivisions, U.S. agencies or government-sponsored agencies' debt securities, mortgage-backed securities, government agency-issued, privately-issued collateralized mortgage obligations, corporate bonds and asset-backed securities. As of December 31, 2021 and 2020, there were no Level 3 securities.

Held-to-maturity securities may be written down to fair value as a result of an other-than-temporary impairment, and we did not record any write-downs during 2021 or 2020. Fair value of held-to-maturity securities is determined using the same techniques discussed above for available-for-sale securities.

On a recurring basis, derivative financial instruments are recorded at fair value, which is based on the income approach using observable Level 2 market inputs, reflecting market expectations of future interest rates as of the measurement date. Standard valuation techniques are used to calculate the present value of the future expected cash flows assuming an orderly transaction. Valuation adjustments may be made to reflect both our own credit risk and the counterparties' credit risk in determining the fair value of the derivatives. Level 2 inputs for the valuations are limited to observable market prices for London Interbank Offered Rate ("LIBOR") and Overnight Index Swap ("OIS") rates (for the very short term), quoted prices for LIBOR futures contracts, observable market prices for LIBOR and OIS swap rates, and one-month and three-month LIBOR 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 LIBOR for the closest maturity term corresponding to the duration of the swaps to derive the CVA. A similar credit risk adjustment, correlated to the credit standing of the counterparty, is made when collateral posted by the counterparty does not fully cover their liability to the Bank. For further discussion on our methodology in valuing our derivative financial instruments, refer to Note 14, 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 impaired loans that are collateral dependent and other real estate owned ("OREO").

OREO 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. OREO values are reviewed on an ongoing basis and any subsequent decline in fair value is recorded as a foreclosed asset expense in the current period. The value of OREO is classified as Level 3. Our current OREO resulted from the ARB Merger.

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 December 31, 2021 and December 31, 2020.

(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)
December 31, 2021				
Other real estate owned	\$ 800	\$ —	\$ —	\$ 800
December 31, 2020				
Other real estate owned	\$ —	\$ —	\$ —	\$ —

Disclosures about Fair Value of Financial Instruments

The table below is a summary of fair value estimates for financial instruments as of December 31, 2021 and 2020, 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 BOLI and non-maturity deposit liabilities. Additionally, we held shares of FHLB stock and Visa Inc. Class B common stock, both recorded at cost, as there was no impairment or changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer as of December 31, 2021 and 2020. See further discussion on values within Note 2, *Investment Securities*, above.

(in thousands)	December 31, 2021			December 31, 2020		
	Carrying Amounts	Fair Value	Fair Value Hierarchy	Carrying Amounts	Fair Value	Fair Value Hierarchy
Financial assets (recorded at amortized cost)						
Cash and cash equivalents	\$ 347,641	\$ 347,641	Level 1	\$ 200,320	\$ 200,320	Level 1
Investment securities held-to-maturity	342,222	342,755	Level 2	109,036	115,185	Level 2
Loans, net of allowance for credit losses	2,232,622	2,234,430	Level 3	2,065,682	2,089,192	Level 3
Interest receivable	11,889	11,889	Level 2	10,922	10,922	Level 2
Financial liabilities (recorded at amortized cost)						
Time deposits	150,235	150,475	Level 2	97,433	97,769	Level 2
Subordinated debenture	—	—	Level 3	2,777	3,115	Level 3
Interest payable	81	81	Level 2	97	97	Level 2

Commitments - The value of unrecognized 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 December 31, 2021 and 2020.

Note 10: Benefit Plans

Deferred Compensation Plan

We established a Deferred Compensation Plan which allows certain key management personnel designated by the Board of Directors of the Bank to defer up to 80% of their salary and 100% of their annual bonus. Amounts deferred earn interest that is equal to the prime rate as published in the Wall Street Journal, on the first business day of the year, which was 3.25% on January 1, 2021 and 4.75% on January 1, 2020.

As part of the acquisition of ARB in August 2021, we assumed \$2.9 million of deferred compensation plans for former members of ARB's management team and non-employee directors. Amounts deferred earn interest based on the 5 year U.S. Government Treasury rate plus 4.0%. This rate was 4.36% for 2021. Beginning January 1, 2022, the rate will convert to the prime rate.

Our deferred compensation obligation totaled \$7.7 million and \$4.7 million at December 31, 2021 and 2020, respectively, and is included in interest payable and other liabilities.

A similar Deferred Director Fee Plan, which allows members of the Board of Directors to defer the cash portion of their director compensation, went into effect on January 1, 2021, and the first deferral of their fees was in July 2021. Our deferred compensation obligation for members of the Board of Directors totaled \$237 thousand at December 31, 2021.

401(k) Defined Contribution Plan

Our 401(k) Defined Contribution Plan, which includes a Roth 401(k) option (the "401(k) Plan"), is available to all regular employees at least eighteen years of age who complete ninety days of service, and enter the plan during one of the four open enrollment dates (January 1, April 1, July 1, and October 1) of each year. Under the 401(k) Plan, employees can defer between 1% and 50% of their eligible compensation, up to the maximum amount

allowed by the Internal Revenue Code. The Bank provides employer-match of 70% of each participant's contribution, with a maximum of \$5 thousand of matching contribution per participant per year. Employer matching contributions to the 401(k) Plan vest at a rate of 20% per year over five years, per plan provisions. Employer contributions totaled \$991 thousand, \$929 thousand and \$874 thousand for the years ended December 31, 2021, 2020 and 2019, respectively and are recorded as part of salaries and benefits expense.

Employee Stock Ownership Plan

Our Employee Stock Ownership Plan (the "Plan") is also available to all employees under the same eligibility criteria of the 401(k) Plan, while employee contribution is not permitted. The Board of Directors determines a specific portion of the Bank's profits to be contributed to the employee stock ownership each year either in common stock or in cash for the purchase of Bancorp stock to be allocated to all eligible employees based on a percentage of their salaries, regardless of whether an employee is participating in the 401(k) plan or not. For all participants, employer contributions vest over a five year service period, per plan provisions. After five years of service, all employer contributions vest immediately.

Bancorp issued shares of common stock, contributed them to the ESOP and recognized expenses of \$1.3 million in 2021 and 2020 and \$1.2 million in 2019, based on the quoted market price on the date of contribution. Cash dividends paid on Bancorp stock held by the ESOP are used to purchase additional shares in the open market. All shares of Bancorp stock held by the ESOP are included in the calculations of basic and diluted earnings per share. The employer contributions to the ESOP are included in salaries and benefits expense.

Salary Continuation Plan

A Salary Continuation Plan was established for a select group of executive management, who, upon retirement, will receive twenty-five percent of their estimated salary at retirement as salary continuation benefit payments that are fixed and will be made between seven to fifteen years, depending on the executives' service period at the Bank. Each participant will need to participate in this plan for five years before vesting begins. After five years, the participant will vest ratably in the benefit over the remaining period until age 65. This Plan is unfunded and nonqualified for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974.

As part of the acquisition of Bank of Napa in November 2017, we assumed the salary continuation agreements for four former executive officers of Bank of Napa, under which, fixed annual retirement benefit payments will be made for ten years beginning the first day of the month following the executive reaching the age of 65.

As part of the acquisition of ARB in August 2021, we assumed \$1.7 million of salary continuation agreements for six former executive officers and directors of ARB, under which, fixed annual retirement benefit payments will be made following separation from service with varying payment end dates, the latest being fifteen years.

At December 31, 2021 and 2020, respectively, our liability under the Salary Continuation Plan was \$5.3 million and \$3.2 million recorded in interest payable and other liabilities.

Note 11: Income Taxes

The current and deferred components of the income tax provision for each of the three years ended December 31 are as follows:

(in thousands)	2021	2020	2019
Current tax provision			
Federal	\$ 6,627	\$ 7,108	\$ 7,838
State	4,815	4,895	5,183
Total current tax provision	11,442	12,003	13,021
Deferred tax provision (benefit)			
Federal	274	(964)	(907)
State	(58)	(694)	(461)
Total deferred tax provision (benefit)	216	(1,658)	(1,368)
Total income tax provision	\$ 11,658	\$ 10,345	\$ 11,653

The following table shows the tax effect of our cumulative temporary differences as of December 31:

(in thousands)	2021	2020
Deferred tax assets:		
Operating and finance lease liabilities	\$ 7,642	\$ 8,018
Allowance for credit losses on loans and unfunded loan commitments	7,335	7,584
Deferred compensation plan and salary continuation plan	3,911	2,343
Accrued but unpaid expenses	1,884	1,103
Net operating loss carryforwards	1,406	1,660
State franchise tax	930	1,017
Fair value adjustment on acquired loans	894	254
Stock-based compensation	599	658
Depreciation and disposals on premises and equipment	188	635
Interest received on non-accrual loans	24	23
Other	120	100
Total gross deferred tax assets	24,933	23,395
Deferred tax liabilities:		
Operating and finance lease right-of-use assets	(7,098)	(7,589)
Core deposit intangible assets	(1,953)	(1,133)
Deferred loan origination costs and fees	(1,526)	(1,945)
Net unrealized gains on securities available-for-sale	(745)	(5,237)
Accretion on investment securities	(33)	(33)
Unaccreted discount on subordinated debenture	—	(398)
Other	(259)	(132)
Total gross deferred tax liabilities	(11,614)	(16,467)
Net deferred tax assets	\$ 13,319	\$ 6,928

As of December 31, 2021, federal and California net operating loss carryforwards ("NOLs") of \$304 thousand and \$15.7 million, respectively, corresponded to the total \$1.4 million deferred tax asset above. If not fully utilized, the federal NOLs will begin to expire in 2031 and the California NOLs will begin to expire in 2030. Based upon the level of historical taxable income and projections for future taxable income over the periods during which the deferred tax assets are expected to be deductible, management believes it is more likely than not we will realize the benefit of the remaining deferred tax assets. Accordingly, no valuation allowance has been established as of December 31, 2021 or 2020.

The effective tax rate for 2021, 2020 and 2019 differs from the current federal statutory income tax rate as follows:

	2021	2020	2019
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
Increase (decrease) due to:			
California franchise tax, net of federal tax benefit	8.4 %	8.1 %	8.2 %
Tax exempt interest on municipal securities and loans	(2.5)%	(2.4)%	(1.8)%
Tax exempt earnings on bank owned life insurance	(1.0)%	(0.5)%	(0.6)%
Non-deductible acquisition related expenses	0.6 %	— %	— %
Non-deductible executive compensation	0.4 %	— %	— %
Low income housing and qualified zone academy bond tax credits	(0.4)%	(0.5)%	(0.4)%
Stock-based compensation and excess tax benefits	(0.1)%	(0.2)%	(0.1)%
Other	(0.4)%	— %	(0.9)%
Effective Tax Rate	26.0 %	25.5 %	25.4 %

Bancorp and the Bank have entered into a tax allocation agreement, which provides that income taxes shall be allocated between the parties on a separate entity basis. The intent of this agreement is that each member of the consolidated group will incur no greater tax liability than it would have incurred on a stand-alone basis.

We file a consolidated return in the U.S. federal tax jurisdiction and a combined return in the State of California tax jurisdiction. There were no ongoing federal or state income tax examinations at the issuance of this report. We are no longer subject to examinations by tax authorities for years before 2018 for federal income tax and before 2017 for California. At December 31, 2021 and 2020, there were no unrecognized tax benefits, and neither the Bank nor Bancorp had accruals for interest and penalties related to unrecognized tax benefits.

Note 12: Commitments and Contingencies

Leases

We lease premises under long-term non-cancelable operating leases with remaining terms of approximately 6 months to 11 years, most of which include escalation clauses and one or more options to extend the lease term, and some of which contain lease termination clauses. Lease terms may include certain renewal options that were considered reasonably certain to be exercised.

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

The following table shows the balances of operating and finance lease right-of-use assets and lease liabilities as of December 31, 2021 and 2020.

(in thousands)	December 31, 2021		December 31, 2020	
Operating leases:				
Operating lease right-of-use assets	\$	23,604	\$	25,612
Operating lease liabilities		25,429		27,062
Finance leases:				
Finance lease right-of-use assets		499		365
Accumulated amortization		(93)		(307)
Finance lease right-of-use assets, net ¹	\$	406	\$	58
Finance lease liabilities ²	\$	419	\$	58

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

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

The following table shows supplemental disclosures of noncash investing and financing activities for the years ended December 31, 2021, 2020 and 2019.

(in thousands)	2021		2020		2019	
Right-of-use assets obtained in exchange for operating lease liabilities	\$	2,376	\$	18,633	\$	1,661
Right-of-use assets obtained in exchange for finance lease liabilities	\$	444	\$	18	\$	31
Reclassification of deferred rent and unamortized lease incentives from other liabilities to operating lease right-of-use assets upon adoption of ASC 842	\$	—	\$	—	\$	1,967

The following table shows components of operating and finance lease cost for the years ended December 31, 2021, 2020 and 2019.

(in thousands)	2021		2020		2019	
Operating lease cost ¹	\$	4,823	\$	4,498	\$	4,144
Variable lease cost		—		5		—
Total operating lease cost	\$	4,823	\$	4,503	\$	4,144
Finance lease cost:						
Amortization of right-of-use assets ²	\$	96	\$	169	\$	172
Interest on finance lease liabilities ³		2		3		8
Total finance lease cost	\$	98	\$	172	\$	180
Total lease cost	\$	4,921	\$	4,675	\$	4,324

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

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

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

The following table shows the future minimum lease payments, weighted average remaining lease terms, and weighted average discount rates under operating and finance lease arrangements as of December 31, 2021.

(in thousands)	December 31, 2021	
	Operating Leases	Finance Leases
Year		
2022	\$ 5,203	\$ 127
2023	4,377	117
2024	3,667	113
2025	3,152	66
2026	2,354	—
Thereafter	8,330	—
Total minimum lease payments	27,083	423
Amounts representing interest (present value discount)	(1,654)	(4)
Present value of net minimum lease payments (lease liability)	\$ 25,429	\$ 419
Weighted average remaining term (in years)	7.0	3.5
Weighted average discount rate	1.69 %	0.63 %

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"). 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. Visa established an escrow account to pay for settlements or judgments in the Covered Litigation. Under the terms of the U.S. retrospective responsibility plan, when Visa funds the litigation escrow account, it triggers a conversion rate reduction of the Class B common stock to shares of Class A common stock, effectively reducing the aggregate value of the Class B common stock held by Visa's member banks like us.

In 2012, Visa had reached a \$4.0 billion interchange multidistrict litigation class settlement agreement with plaintiffs representing a class of U.S. retailers. The escrow balance of \$1.1 billion as of December 31, 2021, combined with funds previously deposited with the court, are expected to cover the settlement payment obligations.

The outcome of the Covered Litigation affects the conversion rate of Visa Class B common stock held by us to Visa Class A common stock, as discussed above and in Note 2, Investment Securities. The final conversion rate is subject to change depending on the final settlement payments, and the full effect on member banks is still uncertain. 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. For further information, including a discussion of a reduction to our holdings of Class B Visa shares, refer to Note 2, Investment Securities.

Note 13: Concentrations of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing us to greater risks resulting from adverse economic,

political, regulatory, geographic, industrial or credit developments. Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investment securities and loans.

Our cash in correspondent bank accounts, at times, may exceed FDIC insured limits. We place cash and cash equivalents with the Federal Reserve Bank and other high credit quality financial institutions, periodically monitor their credit worthiness and limit the amount of credit exposure to any one institution according to regulations. Concentrations of credit risk with respect to investment securities primarily related to the U.S. government and GSEs, which accounted for \$1.277 billion, or 85% of our total investment portfolio at December 31, 2021 and \$389.1 million, or 78% at December 31, 2020. The increase is due to both the acquired ARB investment security portfolio, including U.S. government and GSEs totaling \$261.3 million at the date of acquisition, as well as the deployment of excess liquidity throughout 2021 into securities with purchases of \$827.9 million in this security type. Our largest investment security issued by a non-GSE issuer accounted for approximately 2% of our total investment portfolio at December 31, 2021, and 3% at December 31, 2020.

We also manage our credit exposure related to our loan portfolio to avoid the risk of undue concentration of credits in a particular industry by reducing significant exposure to highly leveraged transactions or to any individual customer or counterparty, and by obtaining collateral as appropriate. No single borrower relationship accounts for more than 3% of outstanding loan balances at December 31, 2021 or 2020. The largest loan concentration group by industry of the borrowers is real estate, which accounted for 84% and 76% of our loan portfolio at December 31, 2021 and 2020, respectively. The increase in the percentage in real estate from 2020 to 2021 was primarily due to a \$180.4 million reduction in unsecured loans guaranteed by the SBA under the Paycheck Protection Program ("PPP"), which are included in commercial and industrial loans.

Note 14: Derivative Financial Instruments and Hedging Activities

We entered into interest rate swap agreements, primarily as an asset/liability management strategy, in order to mitigate the changes in the fair value of specified long-term fixed-rate loans (or firm commitments to enter into long-term fixed-rate loans) caused by changes in interest rates. These hedges allow 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 LIBOR index, protects us against changes in the fair value of our loans associated with fluctuating interest rates.

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.

As of December 31, 2021, we had four interest rate swap agreements, which are scheduled to mature in June 2031, October 2031, July 2032 and October 2037. All of our derivatives are accounted for as fair value hedges. The notional amounts of the interest rate contracts are equal to the notional amounts of the hedged loans. Our interest rate swap payments are settled monthly with counterparties. Accrued interest on the swaps totaled \$11 thousand at both December 31, 2021 and 2020. Information on our derivatives follows:

(in thousands)	Asset derivatives		Liability derivatives	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Fair value hedges:				
Interest rate contracts notional amount	\$ —	\$ —	\$ 13,037	\$ 13,991
Interest rate contracts fair value ¹	\$ —	\$ —	\$ 1,085	\$ 1,912

¹ Refer to Note 9, Fair Value of Assets and Liabilities, for valuation methodology.

The following table presents the carrying amount associated cumulative basis adjustment related to the application of fair value hedge accounting that is included in the carrying amount of hedged assets as of December 31, 2021 and 2020:

(in thousands)	Carrying Amounts of Hedged Assets		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Loans	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
Loans	\$ 13,976	\$ 15,745	\$ 939	\$ 1,753

The following table presents the net losses recognized in interest income on loans on the consolidated statements of comprehensive income related to our derivatives designated as fair value hedges:

(in thousands)	Years ended December 31,		
	2021	2020	2019
Interest and fees on loans ¹	\$ 91,612	\$ 84,674	\$ 84,331
Increase (decrease) in value of designated interest rate swaps due to LIBOR interest rate movements	\$ 827	\$ (734)	\$ (964)
Payment on interest rate swaps	(369)	(360)	(90)
(Decrease) increase in value of hedged loans	(814)	809	938
Decrease in value of yield maintenance agreement	(11)	(12)	(13)
Net losses on fair value hedging derivatives recognized in interest income	\$ (367)	\$ (297)	\$ (129)

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

Our derivative transactions with counterparties are under International Swaps and Derivative Association (“ISDA”) master agreements that include “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 Liabilities and Derivative Liabilities

(in thousands)	Gross Amounts of Recognized Liabilities ¹	Gross Amounts Offset in the Statements of Condition	Net Amounts of Liabilities Presented in the Statements of Condition ¹	Gross Amounts Not Offset in the Statements of Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
December 31, 2021						
Derivatives by Counterparty:						
Counterparty A	\$ 1,085	\$ —	\$ 1,085	\$ —	(1,085)	\$ —
December 31, 2020						
Derivatives by Counterparty:						
Counterparty A	\$ 1,912	\$ —	\$ 1,912	\$ —	(1,912)	\$ —

¹ Amounts exclude accrued interest on swaps.

Note 15: Regulatory Matters

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 to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet our anticipated future needs. 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 December 31, 2021. 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.

In August 2018, the Board of Governors of the Federal Reserve System changed the definition of a "Small Bank Holding Company" by increasing the asset threshold from \$1.0 billion to \$3.0 billion. Bancorp's total assets were \$4.3 billion and \$2.9 billion at December 31, 2021 and 2020, respectively. As a result, Bancorp was only subject to separate minimum capital requirements for year ending December 31, 2021; however, we disclosed comparative capital ratios for Bancorp, which would have exceeded well-capitalized levels had Bancorp been subject to the same minimum capital requirements as of December 31, 2020.

The Bancorp's and Bank's capital adequacy ratios as of December 31, 2021 and 2020 are presented in the following tables. The decrease in capital ratios as of December 31, 2021 from December 31, 2020 was largely attributable to shares repurchased totaling \$40.7 million during 2021. Tier 1 Capital to average assets was also reduced by an increase in cash driven by deposit growth over and above that attributable to the Merger. In addition, as of December 31, 2020, Bancorp's Tier 1 capital included a subordinated debenture, which was not included at the Bank level. On March 15, 2021, Bancorp redeemed in full our last subordinated debenture due to NorCal Community Bancorp Trust II. Partially offsetting those factors, the Merger served to increase capital ratios as the proportion of risk-weighted assets to total assets was lower for ARB.

Capital Ratios for Bancorp (dollars in thousands)	Actual Ratio		Adequately Capitalized Threshold		Ratio to be a Well Capitalized Bank Holding Company	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total Capital (to risk-weighted assets)	\$ 397,101	14.58 %	≥ \$286,035	≥ 10.50 %	≥ \$272,414	≥ 10.00 %
Tier 1 Capital (to risk-weighted assets)	\$ 373,286	13.70 %	≥ \$231,552	≥ 8.50 %	≥ \$217,931	≥ 8.00 %
Tier 1 Capital (to average assets)	\$ 373,286	8.85 %	≥ \$168,750	≥ 4.00 %	≥ \$210,937	≥ 5.00 %
Common Equity Tier 1 (to risk-weighted assets)	\$ 373,286	13.70 %	≥ \$190,690	≥ 7.00 %	≥ \$177,069	≥ 6.50 %
December 31, 2020						
Total Capital (to risk-weighted assets)	\$ 339,544	16.03 %	≥ \$222,393	≥ 10.50 %	≥ \$211,802	≥ 10.00 %
Tier 1 Capital (to risk-weighted assets)	\$ 313,891	14.82 %	≥ \$180,032	≥ 8.50 %	≥ \$169,442	≥ 8.00 %
Tier 1 Capital (to average assets)	\$ 313,891	10.80 %	≥ \$116,224	≥ 4.00 %	≥ \$145,280	≥ 5.00 %
Common Equity Tier 1 (to risk-weighted assets)	\$ 311,114	14.69 %	≥ \$148,262	≥ 7.00 %	≥ \$137,672	≥ 6.50 %

Capital Ratios for the Bank (dollars in thousands)	Actual Ratio		Adequately Capitalized Threshold		Ratio to be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total Capital (to risk-weighted assets)	\$ 390,924	14.35 %	≥ \$286,009	≥ 10.50 %	≥ \$272,390	≥ 10.00 %
Tier 1 Capital (to risk-weighted assets)	\$ 367,109	13.48 %	≥ \$231,531	≥ 8.50 %	≥ \$217,912	≥ 8.00 %
Tier 1 Capital (to average assets)	\$ 367,109	8.70 %	≥ \$168,724	≥ 4.00 %	≥ \$210,905	≥ 5.00 %
Common Equity Tier 1 (to risk-weighted assets)	\$ 367,109	13.48 %	≥ \$190,673	≥ 7.00 %	≥ \$177,053	≥ 6.50 %
December 31, 2020						
Total Capital (to risk-weighted assets)	\$ 334,686	15.80 %	≥ \$222,391	≥ 10.50 %	≥ \$211,801	≥ 10.00 %
Tier 1 Capital (to risk-weighted assets)	\$ 309,033	14.59 %	≥ \$180,031	≥ 8.50 %	≥ \$169,441	≥ 8.00 %
Tier 1 Capital (to average assets)	\$ 309,033	10.64 %	≥ \$116,224	≥ 4.00 %	≥ \$145,280	≥ 5.00 %
Common Equity Tier 1 (to risk-weighted assets)	\$ 309,033	14.59 %	≥ \$148,261	≥ 7.00 %	≥ \$137,671	≥ 6.50 %

Note 16: Financial Instruments with Off-Balance Sheet Risk

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

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

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

(in thousands)	December 31, 2021	December 31, 2020
Commercial lines of credit	\$ 330,234	\$ 297,898
Revolving home equity lines	210,938	191,969
Undisbursed construction loans	78,381	101,307
Personal and other lines of credit	11,001	10,611
Standby letters of credit	3,657	2,657
Total unfunded loan commitments and standby letters of credit	\$ 634,211	\$ 604,442

As of December 31, 2021, approximately 39% of the commitments expire in 2022, 49% expire between 2023 and 2029 and 12% expire thereafter.

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 \$1.8 million and \$2.8 million as of December 31, 2021 and December 31, 2020, respectively, which is included in interest payable and other liabilities in the consolidated statements of condition.

The \$993 thousand decrease in the allowance for unfunded commitments in 2021 was largely due to ongoing improvements in the underlying economic forecasts under the CECL accounting method.

We adopted the CECL accounting standard on December 31, 2020, which was previously postponed under the optional accounting relief provisions of the CARES Act (refer to Note 1, Summary of Significant Accounting Policies and Note 3, Loans and Allowance for Credit Losses for additional information). During the first nine months of 2020, we increased the allowance for credit losses on unfunded loan commitments under the incurred loss method ("previous GAAP") by \$610 thousand. Upon adoption of the CECL standard, we increased the allowance for unfunded loan commitments by \$1.1 million, which represented the difference between the allowance calculated under the CECL method as of December 31, 2020 and the incurred loss method as of September 30, 2020. The \$1.1 million increase in the allowance for unfunded loan commitments included approximately \$550 thousand related to a \$36.9 million increase in available commitments during the fourth quarter of 2020. The remaining increase was due to changes in credit loss assumptions between the CECL and incurred loss methods.

Note 17: Condensed Bank of Marin Bancorp Parent Only Financial Statements

Presented below is financial information for Bank of Marin Bancorp, parent holding company only.

CONDENSED UNCONSOLIDATED STATEMENTS OF CONDITION			
December 31, 2021 and 2020			
(in thousands)	2021		2020
Assets			
Cash and due from Bank of Marin	\$	6,624	\$ 5,329
Investment in bank subsidiary		444,191	356,172
Other assets		243	336
Total assets	\$	451,058	\$ 361,837
Liabilities and Stockholders' Equity			
Subordinated debenture	\$	—	\$ 2,777
Accrued expenses payable		318	74
Other liabilities		372	733
Total liabilities		690	3,584
Stockholders' equity		450,368	358,253
Total liabilities and stockholders' equity	\$	451,058	\$ 361,837

CONDENSED UNCONSOLIDATED STATEMENTS OF INCOME			
Years ended December 31, 2021, 2020 and 2019			
(in thousands)	2021	2020	2019
Income			
Dividends from bank subsidiary	\$ 64,000	\$ 16,200	\$ 17,600
Miscellaneous Income	—	3	5
Total income	64,000	16,203	17,605
Expense			
Interest expense	1,361	158	229
Non-interest expense	4,025	1,325	1,399
Total expense	5,386	1,483	1,628
Income before income taxes and equity in undistributed net income of subsidiary	58,614	14,720	15,977
Income tax benefit	1,235	437	480
Income before equity in undistributed net income of subsidiary	59,849	15,157	16,457
Earnings of bank subsidiary (less) greater than dividends received from bank subsidiary	(26,621)	15,085	17,784
Net income	\$ 33,228	\$ 30,242	\$ 34,241

CONDENSED UNCONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2021, 2020 and 2019

(in thousands)	2021	2020	2019
Cash Flows from Operating Activities:			
Net income	\$ 33,228	\$ 30,242	\$ 34,241
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Earnings of bank subsidiary less (greater) than dividends received from bank subsidiary	26,621	(15,085)	(17,784)
Accretion of discount on subordinated debentures	1,347	69	68
Noncash director compensation expense	35	31	30
Net changes in:			
Other assets	(1,655)	(4)	—
Other liabilities	(88)	59	80
Net cash provided by operating activities	59,488	15,312	16,635
Cash Flows from Investing Activities:			
Capital contribution to bank subsidiary	(619)	(1,464)	(747)
Net cash used in investing activities	(619)	(1,464)	(747)
Cash Flows from Financing Activities:			
Proceeds from stock options exercised and stock issued under employee and director stock purchase plans	587	1,419	747
Repayment of subordinated debenture including execution costs	(4,126)	—	—
Payment of tax withholdings for vesting of restricted stock	(166)	(73)	(220)
Dividends paid on common stock	(13,107)	(12,506)	(10,958)
Stock repurchased, net of commissions	(40,762)	(6,898)	(15,062)
Net cash used in financing activities	(57,574)	(18,058)	(25,493)
Net increase (decrease) in cash and cash equivalents	1,295	(4,210)	(9,605)
Cash and cash equivalents at beginning of year	5,329	9,539	19,144
Cash and cash equivalents at end of year	\$ 6,624	\$ 5,329	\$ 9,539
Supplemental schedule of non-cash investing and financing activities:			
Stock issued in payment of director fees	\$ 217	\$ 217	\$ 231
Repurchase of stock not yet settled	\$ 373	\$ 413	\$ 103
Stock issued to ESOP	\$ 1,330	\$ 1,289	\$ 1,245

Note 18: Merger

Bancorp completed its merger with American River Bankshares ("AMRB") on August 6, 2021 (the "merger date"), with Bancorp continuing as the surviving entity, followed thereafter at 12:05 a.m. on August 7, 2021 by the merger of American River Bank with and into Bank of Marin (collectively, the "Merger"), with Bank of Marin surviving.

On August 6, 2021, each share of AMRB's common stock issued and outstanding immediately prior to the Merger was converted into 0.575 shares of Bancorp's common stock resulting in the issuance of 3,441,235 shares of Bancorp common stock. In addition, merger consideration included cash paid for outstanding stock options and cash paid in lieu of fractional shares, as summarized in the following table.

(in thousands)	Merger Consideration
Value of common stock consideration paid to shareholders (0.575 fixed exchange ratio, stock price \$36.15)	\$ 124,401
Cash consideration for stock options	63
Cash paid in lieu of fractional shares	13
Total merger consideration	\$ 124,477

Bancorp accounted for the Merger using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. We recorded the estimated fair values of acquired assets and liabilities based on initial valuations as of August 6, 2021. Under ASC 805, during the measurement period of up to one year, the acquirer is allowed to adjust the amounts recognized at the acquisition date and may recognize additional assets or liabilities to reflect new information obtained from facts and circumstances that existed as of the merger date that, if known, would have affected the measurement of the amounts recognized as of that date. Measurement period adjustments are recognized in the reporting period in which they are determined. As such, the estimated fair values are

considered preliminary and subject to adjustment for up to one year after August 6, 2021 (as of December 31, 2021 we have not needed to make any adjustments). Fair value amounts subject to change include, but are not limited to, loans, certain deposits, deferred tax assets and liabilities and certain other assets and other liabilities.

The following table presents the preliminary fair values of the assets acquired and liabilities assumed, and the resulting goodwill as of August 6, 2021.

(in thousands)

Total merger consideration	\$ 124,477
Assets acquired:	
Cash and cash equivalents	140,577
Investment securities	297,797
Loans	419,435
Bank-owned life insurance	16,259
Operating lease right-of-use assets	2,376
Bank premises and equipment, net	2,891
Core deposit intangible	3,909
Other real estate owned	800
Interest receivable and other assets	14,377
Total assets acquired	898,421
Liabilities assumed:	
Deposits:	
Non-interest bearing	331,459
Interest bearing	458,563
Total deposits	790,022
FHLB borrowings	13,885
Operating lease liabilities	2,798
Interest payable and other liabilities	9,853
Total liabilities assumed	816,558
Fair value of net assets acquired	81,863
Goodwill	\$ 42,614

We recorded \$42.6 million in goodwill, which represents the excess of the total merger consideration paid over the fair value of the assets acquired, net of the fair values of liabilities assumed. Goodwill mainly reflects expected value created through the combined operations of AMRB and Bancorp. It is evaluated for impairment annually.

The following are descriptions of the methods used to determine the fair values of significant assets and liabilities presented above.

Cash and cash equivalents - The carrying amount of cash and cash equivalents is a reasonable estimate of fair value based on the short-term nature of these assets.

Investment securities - Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair value estimates are based on observable inputs including quoted market prices for similar instruments, quoted market prices that are not in an active market or other inputs that are observable in the market. In the absence of observable inputs, fair value is estimated based on pricing models and/or discounted cash flow methodologies.

Loans - The loan valuation methodology was based on a discounted cash flow approach that considered factors including the type of loan, risk classification status, fixed or variable interest rates, term, amortization status and current discount rates. Loans were grouped according to similar credit risk characteristics when applying various valuation techniques. The discount rates applied were based on current market rates for new originations of comparable loans and included adjustments for interest rate risk, equity return, servicing, credit and liquidity risk. ARB's allowance for credit losses and any existing deferred fees or costs and premiums and discounts were not carried over at the merger date.

Bank-owned life insurance - The cash surrender values of bank-owned life insurance policies approximated fair value.

Operating lease right-of-use assets and lease liabilities - Operating lease right-of-use assets were measured at the present value of the remaining lease payments, as if the acquired leases commenced on the merger date, and adjusted to reflect favorable and unfavorable terms of the leases when compared to current market terms. Lease liabilities were measured at the present value of the remaining lease payments.

Bank premises and equipment - The value of the land and buildings acquired were based on independent third-party appraisals. The fair values of other premises and equipment, such as tenant improvements, furniture and fixtures and equipment, approximated their carrying values.

Core deposit intangible - The core deposit intangible ("CDI") represents the estimated future benefits of acquired deposits and is recorded separately from the related deposits. The value of the core deposit intangible asset was calculated using a discounted cash flow approach to arrive at the cost differential between the core deposits (non-maturity deposits such as transaction, savings and money market accounts) and alternative funding sources. It was calculated as the present value of the difference in cash flows between maintaining the core deposits (interest and net maintenance costs) and the cost of an equal amount of funds with a similar term from an alternative source. The core deposit intangible is amortized on an accelerated basis over an estimated ten-year life, and is evaluated periodically for impairment.

We recorded a core deposit intangible asset of \$3.9 million at acquisition, of which \$318 thousand was amortized from the merger date to December 31, 2021. The future amortization expense for the CDI arising from the Merger is as follows:

(in thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Core deposit intangible amortization	\$ 707	\$ 630	\$ 552	\$ 475	\$ 397	\$ 830	\$ 3,591

Other real estate owned - The value of other real estate owned was based on an independent third-party appraisal.

Deposits - The fair values for the demand and savings deposits equaled the amount payable on demand at the merger date. The fair values for time deposits were estimated using a discounted cash flow calculation using current offering rates on time deposits with similar remaining maturities.

FHLB borrowings - The estimated fair value of Federal Home Loan Bank borrowings was the contractual repayment amount adjusted for prepayment penalty fees.

Pro Forma Results of Operations (Unaudited)

AMRB's unaudited contributions to net interest income and net income from the August 6, 2021 merger date to December 31, 2021 included in the consolidated statements of comprehensive income are presented in the following table.

(in thousands)	
Net interest income ¹	\$ 9,167
Net loss ¹	\$ (1,444)

¹ AMRB's net interest income and net loss include merger-related costs incurred from the merger date to December 31, 2021, accretion of the net purchase discount on acquired loans, premises fair value adjustment depreciation, CDI amortization and time deposit premium amortization, as applicable. The pro forma net loss does not include allowance for credit losses adjustments related to acquired loans.

The following table presents certain unaudited pro forma net interest income and net income for illustrative purposes only for the years ended December 31, 2021 and 2020 as if AMRB was acquired on January 1, 2020. This unaudited pro forma information combines Bancorp's and AMRB's historical results and includes adjustments reflecting the estimated impact of certain fair value adjustments for the respective periods. The pro forma information is not indicative of what would have occurred had the acquisition consummated as of the beginning of the year prior to the acquisition. The unaudited pro forma information does not consider any changes to the provision for credit losses resulting from recording loans at fair value, cost savings, or business synergies. As a

result, actual amounts would have differed from the unaudited pro forma information presented, and the differences could be significant.

(in thousands)	Year ended	
	December 31, 2021	December 31, 2020
Net interest income - Pro forma	\$ 120,513	\$ 122,608
Net interest income - Actual	\$ 104,951	\$ 96,659
Net income - Pro forma ¹	\$ 42,997	\$ 28,445
Net income - Actual	\$ 33,228	\$ 30,242

¹ The 2021 pro forma combined net income was adjusted to exclude merger-related costs of \$4.9 million (net of tax benefits), incurred by Bancorp and \$3.0 million (net of tax benefits) incurred by AMRB. These merger-related costs were included in the combined net income for the year ended December 31, 2020 as if the merger occurred on January 1, 2020.

Merger-related one-time and conversion costs are recognized as incurred and continue until all systems have been converted and operational functions are fully integrated. Bancorp's pretax merger-related costs reflected in the consolidated statements of comprehensive income are summarized in the following table.

(in thousands)	Year ended	
	December 31, 2021	December 31, 2020
Personnel and severance	\$ 3,005	\$ —
Professional services	1,976	—
Data processing	1,127	—
Other expense	350	—
Total merger-related one-time and conversion costs	\$ 6,458	\$ —

End of 2021 Audited Consolidated Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(A) Evaluation of Disclosure Controls and Procedures

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

(B) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) promulgated under the 1934 Act). The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Management conducted an assessment of the effectiveness of internal control over financial reporting as of December 31, 2021, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2021.

There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's report on internal control over financial reporting is set forth in ITEM 8 and is incorporated herein by reference.

(C) Audit Report of the Registered Public Accounting Firm

The Company's independent registered public accounting firm, Moss Adams, LLP, has audited the effectiveness of internal control over financial reporting as of December 31, 2021 as stated in their audit report, which is included in ITEM 8 and incorporated herein by reference.

(D) Changes in Internal Control over Financial Reporting

During the third quarter of 2021, we completed the merger with American River Bankshares and we continue to integrate and incorporate their business processes and systems into our internal control over financial reporting. Other than the interim effects of the Merger, there were no significant changes that

materially affected, or are reasonably likely to affect, our internal control over financial reporting mentioned in item (B) above. The term internal control over financial reporting, as defined by Rule 15d-15(f) of the Act, is a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item is incorporated by reference from our Proxy Statement for the 2022 Annual Meeting of Shareholders. Bancorp and the Bank have adopted a Code of Ethics that applies to all staff including the Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. A copy of the Code of Ethical Conduct, which is also included on our website, will be provided to any person, without charge, upon written request to Corporate Secretary, Bank of Marin Bancorp, 504 Redwood Boulevard, Suite 100, Novato, CA 94947. During 2021 there were no changes in the procedures for the election or nomination of directors.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from our Proxy Statement for the 2022 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference from ITEM 5 above, Note 8 to our audited consolidated financial statements and our Proxy Statement for the 2022 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference from our Proxy Statement for the 2022 Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Company's independent registered public accounting firm is Moss Adams LLP, Issuing Office: Sacramento, CA, PCAOB ID: 659.

The information required by this Item is incorporated by reference from our Proxy Statement for the 2022 Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(A) Documents Filed as Part of this Report:

1. Financial Statements

The financial statements and supplementary data listed below are filed as part of this report under ITEM 8, captioned *Financial Statements and Supplementary Data*.

Report of Independent Registered Public Accounting Firm for the years ended December 31, 2021, 2020 and 2019

Management's Report on Internal Control over Financial Reporting

Consolidated Statements of Condition as of December 31, 2021 and 2020

Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019

Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2021, 2020 and 2019

Consolidated Statement of Cash Flows for the years ended December 31, 2021, 2020 and 2019

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All financial statement schedules have been omitted, as they are inapplicable or the required information is included in the financial statements or notes thereto.

(B) Exhibits Filed:

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		
2.01	<u>Agreement to Merge and Plan of Reorganization, dated April 16, 2021 by and among Bank of Marin Bancorp and American River Bankshares</u>	8-K	001-33572	2.1	April 19, 2021		
3.01	<u>Articles of Incorporation, as amended</u>	S-4	333-257025	3.01	June 11, 2021		
3.02	<u>Bylaws, as amended</u>	S-4	333-257025	3.02	June 11, 2021		
4.01	<u>Rights Agreement, dated July 6, 2017</u>	8-A12B	001-33572	4.1	July 7, 2017		
4.02	<u>Description of Capital Stock</u>	10-K	001-33572	4.02	March 13, 2020		
10.01	<u>Employee Stock Ownership Plan</u>	S-8	333-218274	4.1	May 26, 2017		
10.02	<u>2017 Employee Stock Purchase Plan</u>	S-8	333-221219	4.1	October 30, 2017		
10.03	<u>2017 Equity Plan, as amended</u>	S-8	333-227840	4.1	October 15, 2018		
10.04	<u>2020 Director Stock Plan</u>	S-8	333-239555	4.1	June 30, 2020		
10.05	<u>Form of Indemnification Agreement for Directors and Executive Officers, dated August 9, 2007</u>	10-Q	001-33572	10.06	November 7, 2007		
10.06	<u>Form of Employment Agreement, dated January 23, 2009</u>	8-K	001-33572	10.1	January 26, 2009		
10.07	<u>2010 Annual Individual Incentive Compensation Plan, revised 2019</u>	10-K	001-33572	10.07	March 15, 2021		
10.08	<u>Salary Continuation Agreement for executive officer Russell Colombo, Chief Executive Officer, dated January 1, 2011</u>	8-K	001-33572	10.1	January 6, 2011		
10.09	<u>Salary Continuation Agreement for executive officer Tani Girtan, Chief Financial Officer, dated October 18, 2013</u>	8-K	001-33572	10.2	November 4, 2014		
10.10	<u>Salary Continuation Agreement for executive officer Elizabeth Reizman, Chief Credit Officer, dated July 20, 2014</u>	8-K	001-33572	10.3	November 4, 2014		
10.11	<u>2007 Form of Change in Control Agreement</u>	8-K	001-33572	10.1	October 31, 2007		
10.12	<u>Director Deferred Fee Plan, dated December 17, 2020</u>	10-K	001-33572	10.13	March 15, 2021		
10.13	<u>Employment Agreement with Timothy Myers, President and Chief Executive Officer, dated September 23, 2021</u>	8-K	001-33572	10.1	September 24, 2021		
14.01	<u>Code of Ethical Conduct, dated December 16, 2021</u>					Filed	
23.01	<u>Consent of Moss Adams LLP</u>					Filed	
31.01	<u>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</u>					Filed	
31.02	<u>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</u>					Filed	
32.01	<u>Certification pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002</u>					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	

Copies of any exhibit to our Annual Report on Form 10-K listed in the index above will be furnished to shareholders as of the record date without charge upon written request by such shareholder addressed as follows: Corporate Secretary, Bank of Marin Bancorp, 504 Redwood Boulevard, Suite 100, Novato, CA 94947.

ITEM 16. Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bank of Marin Bancorp (registrant)

March 15, 2022

Date

/s/ Tani Girton

Tani Girton

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

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

Dated: March 15, 2022

/s/ Timothy D. Myers

Timothy D. Myers
President & Chief Executive Officer, Director
(Principal Executive Officer)

Dated: March 15, 2022

/s/ Tani Girton

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

Dated: March 15, 2022

/s/ David A. Merck

David A. Merck
Vice President & Financial Reporting Manager
(Principal Accounting Officer)

Members of Bank of Marin Bancorp's Board of Directors

Dated: March 15, 2022

/s/ Brian M. Sobel

Brian M. Sobel
Chairman of the Board

Dated: March 15, 2022

/s/ Nicolas C. Anderson

Nicolas C. Anderson

Dated: March 15, 2022

/s/ Steven I. Barlow

Steven I. Barlow

Dated: March 15, 2022

/s/ Russell A. Colombo

Russell A. Colombo

Dated: March 15, 2022

/s/ Charles D. Fite

Charles D. Fite

Dated: March 15, 2022

/s/ James C. Hale

James C. Hale

Dated: March 15, 2022

/s/ Robert Heller

Robert Heller

Dated: March 15, 2022

/s/ Kevin R. Kennedy

Kevin R. Kennedy

Dated: March 15, 2022

/s/ William H. McDevitt, Jr.

William H. McDevitt, Jr.

Dated: March 15, 2022

/s/ Sanjiv S. Sanghvi

Sanjiv S. Sanghvi

Dated: March 15, 2022

/s/ Joel Sklar

Joel Sklar, M.D.

Dated: March 15, 2022

/s/ Secil Tabli Watson

Secil Tabli Watson

EXHIBIT 23.01

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-218274, No. 333-221219, No. 333-227840, and No. 333-239555 on Form S-8 of our report dated March 15, 2022, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K, of Bank of Marin Bancorp for the year ended December 31, 2021.

/s/ Moss Adams LLP

Sacramento, California
March 15, 2022

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 annual report on Form 10-K 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.

March 15, 2022

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 annual report on Form 10-K 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.

March 15, 2022

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 annual report on Form 10-K of Bank of Marin Bancorp (the Registrant) for the year ended December 31, 2021, 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-K 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-K fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

March 15, 2022

Date

/s/ Timothy D. Myers

Timothy D. Myers

President &

Chief Executive Officer

March 15, 2022

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.

