

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ending **March 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 **001-39123**

SILVERGATE CAPITAL CORPORATION

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

33-0227337

(I.R.S. Employer Identification No.)

4250 Executive Square, Suite 300, La Jolla, CA 92037
(Address of principal executive offices, including zip code)
(858) 362-6300

(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock, par value \$0.01 per share	SI	New York Stock Exchange

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

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

Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Emerging growth company	<input checked="" type="checkbox"/>
Non-accelerated Filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" 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 revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of May 4, 2021, the registrant had 25,337,473 shares of Class A voting common stock outstanding.

**SILVERGATE CAPITAL CORPORATION
FORM 10-Q
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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In Thousands, Except Par Value Amounts)
(Unaudited)

	March 31, 2021	December 31, 2020
ASSETS		
Cash and due from banks	\$ 16,422	\$ 16,405
Interest earning deposits in other banks	4,315,100	2,945,682
Cash and cash equivalents	4,331,522	2,962,087
Trading securities	1,990	—
Securities available-for-sale, at fair value	1,717,418	939,015
Loans held-for-sale, at lower of cost or fair value	897,227	865,961
Loans held-for-investment, net of allowance for loan losses of \$6,916 at March 31, 2021 and December 31, 2020	728,390	746,751
Federal home loan and federal reserve bank stock, at cost	14,851	14,851
Accrued interest receivable	9,432	8,698
Premises and equipment, net	1,758	2,072
Derivative assets	34,442	31,104
Other assets	20,122	15,696
Total assets	<u>\$ 7,757,152</u>	<u>\$ 5,586,235</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest bearing demand accounts	\$ 6,889,281	\$ 5,133,579
Interest bearing accounts	113,090	114,447
Total deposits	7,002,371	5,248,026
Subordinated debentures, net	15,834	15,831
Accrued expenses and other liabilities	25,326	28,079
Total liabilities	7,043,531	5,291,936
Commitments and contingencies		
Preferred stock, \$0.01 par value—authorized 10,000 shares; no shares issued or outstanding at March 31, 2021 and December 31, 2020	—	—
Class A common stock, \$0.01 par value—authorized 125,000 shares; 24,820 and 18,770 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	248	188
Class B non-voting common stock, \$0.01 par value—authorized 25,000 shares; 0 and 64 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	—	1
Additional paid-in capital	551,798	129,726
Retained earnings	131,058	118,348
Accumulated other comprehensive income	30,517	46,036
Total shareholders' equity	713,621	294,299
Total liabilities and shareholders' equity	<u>\$ 7,757,152</u>	<u>\$ 5,586,235</u>

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Interest income		
Loans, including fees	\$ 16,597	\$ 13,121
Taxable securities	3,592	6,048
Tax-exempt securities	1,695	48
Other interest earning assets	1,279	724
Dividends and other	143	121
Total interest income	23,306	20,062
Interest expense		
Deposits	46	4,051
Federal home loan bank advances	—	227
Subordinated debentures and other	245	306
Total interest expense	291	4,584
Net interest income before provision for loan losses	23,015	15,478
Provision for loan losses	—	367
Net interest income after provision for loan losses	23,015	15,111
Noninterest income		
Mortgage warehouse fee income	954	382
Service fees related to off-balance sheet deposits	—	70
Deposit related fees	7,124	1,766
Gain on sale of securities, net	—	1,197
Gain on sale of loans, net	—	506
Gain on extinguishment of debt	—	925
Other income	12	85
Total noninterest income	8,090	4,931
Noninterest expense		
Salaries and employee benefits	10,990	8,955
Occupancy and equipment	614	907
Communications and data processing	1,621	1,261
Professional services	1,717	985
Federal deposit insurance	2,296	123
Correspondent bank charges	497	373
Other loan expense	174	122
Other general and administrative	1,697	1,149
Total noninterest expense	19,606	13,875
Income before income taxes	11,499	6,167
Income tax (benefit) expense	(1,211)	1,774
Net income	\$ 12,710	\$ 4,393
Basic earnings per share	\$ 0.56	\$ 0.24
Diluted earnings per share	\$ 0.55	\$ 0.23
Weighted average shares outstanding:		
Basic	22,504	18,668
Diluted	23,010	19,117

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Net income	\$ 12,710	\$ 4,393
Other comprehensive income (loss):		
Change in net unrealized loss on available-for-sale securities	(13,434)	(9,313)
Less: Reclassification adjustment for net gain included in net income	—	(1,197)
Income tax effect	3,690	3,007
Unrealized loss on available-for-sale securities, net of tax	(9,744)	(7,503)
Change in net unrealized (loss) gain on derivative assets	(7,460)	23,466
Less: Reclassification adjustment for net gain included in net income	(504)	(171)
Income tax effect	2,189	(6,667)
Unrealized (loss) gain on derivative instruments, net of tax	(5,775)	16,628
Other comprehensive (loss) income	(15,519)	9,125
Total comprehensive (loss) income	\$ (2,809)	\$ 13,518

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In Thousands, Except Share Data)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2020	17,775,160	\$ 178	892,836	\$ 9	\$ 132,138	\$ 92,310	\$ 6,401	\$ 231,036
Total comprehensive income, net of tax	—	—	—	—	—	4,393	9,125	13,518
Conversion of Class B common stock to Class A common stock	596,000	6	(596,000)	(6)	—	—	—	—
Stock-based compensation	—	—	—	—	199	—	—	199
Exercise of stock options, net of shares withheld for employee taxes	134	—	—	—	(1)	—	—	(1)
Balance at March 31, 2020	<u>18,371,294</u>	<u>\$ 184</u>	<u>296,836</u>	<u>\$ 3</u>	<u>\$ 132,336</u>	<u>\$ 96,703</u>	<u>\$ 15,526</u>	<u>\$ 244,752</u>

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance at January 1, 2021	18,769,771	\$ 188	64,197	\$ 1	\$ 129,726	\$ 118,348	\$ 46,036	\$ 294,299
Total comprehensive income (loss), net of tax	—	—	—	—	—	12,710	(15,519)	(2,809)
Net proceeds from stock issuance	5,860,858	58	—	—	423,482	—	—	423,540
Conversion of Class B common stock to Class A common stock	64,197	1	(64,197)	(1)	—	—	—	—
Stock-based compensation	—	—	—	—	290	—	—	290
Exercise of stock options and issuance of share-based awards, net of shares withheld for employee taxes	125,142	1	—	—	(1,700)	—	—	(1,699)
Balance at March 31, 2021	<u>24,819,968</u>	<u>\$ 248</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 551,798</u>	<u>\$ 131,058</u>	<u>\$ 30,517</u>	<u>\$ 713,621</u>

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2021	2020
Cash flows from operating activities		
Net income	\$ 12,710	\$ 4,393
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	644	830
Amortization of securities premiums and discounts, net	1,212	679
Amortization of loan premiums and discounts and deferred loan origination fees and costs, net	250	399
Stock-based compensation	290	199
Provision for loan losses	—	367
Originations/purchases of loans held-for-sale	(3,384,431)	(1,222,816)
Proceeds from sales of loans held-for-sale	3,353,164	1,153,515
Other gains, net	(1,141)	(2,885)
Other, net	891	576
Changes in operating assets and liabilities:		
Accrued interest receivable and other assets	(4,119)	(520)
Accrued expenses and other liabilities	469	87
Net cash used in operating activities	<u>(20,061)</u>	<u>(65,176)</u>
Cash flows from investing activities		
Purchases of securities available-for-sale	(817,734)	(98,986)
Proceeds from sale of securities available-for-sale	—	14,016
Proceeds from paydowns and maturities of securities available-for-sale	21,403	7,936
Loan originations/purchases and payments, net	18,112	(41,254)
Proceeds from sale of loans held-for-sale previously classified as held-for-investment	—	36,400
Purchase of federal home loan and federal reserve bank stock, net	—	(5)
Purchase of premises and equipment	(32)	(391)
(Payments for) proceeds from derivative contracts, net	(8,439)	13,370
Other, net	—	128
Net cash used in investing activities	<u>(786,690)</u>	<u>(68,786)</u>
Cash flows from financing activities		
Net change in noninterest bearing deposits	1,755,702	401,552
Net change in interest bearing deposits	(1,357)	(213,250)
Net change in federal home loan bank advances	—	(18,075)
Payments made on notes payable	—	(3,714)
Proceeds from common stock issuance, net	423,540	—
Proceeds from stock option exercise	261	—
Taxes paid related to net share settlement of equity awards	(1,960)	(1)
Other, net	—	46
Net cash provided by financing activities	<u>2,176,186</u>	<u>166,558</u>
Net increase in cash and cash equivalents	1,369,435	32,596
Cash and cash equivalents, beginning of period	2,962,087	133,604
Cash and cash equivalents, end of period	<u>\$ 4,331,522</u>	<u>\$ 166,200</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 444	\$ 4,928
Income taxes paid (refunded), net	(6)	(22)
Supplemental noncash disclosures:		
Loans held-for-investment transferred to loans held-for-sale	\$ —	\$ 30,792
Loans held-for-sale transferred to loans held-for-investment	—	5,098
Right-of-use assets obtained in exchange for new operating lease liabilities	71	—

See accompanying notes to unaudited consolidated financial statements

SILVERGATE CAPITAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Nature of Business and Summary of Significant Accounting Policies

Nature of Business

The accompanying consolidated financial statements include the accounts of Silvergate Capital Corporation, a Maryland corporation and its wholly-owned subsidiary, Silvergate Bank (the “Bank”), collectively referred to as (the “Company” or “Silvergate”).

The Company’s assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Bank was incorporated in 1987 and commenced business in 1988 under the California Financial Code as an industrial bank. In February 2009 the Bank converted its charter to a California commercial bank, which gave it the added authority to accept demand deposits. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve (“Federal Reserve”). The Bank is subject to regulation by the California Department of Financial Protection and Innovation, Division of Financial Institutions (“DFPI”), and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco (“FRB”). The Bank’s deposits are insured up to legal limits by the Federal Deposit Insurance Corporation (“FDIC”).

On January 26, 2021, the Company completed its underwritten public offering of 4,563,493 shares of Class A common stock at a price of \$63.00 per share, including 595,238 shares of Class A common stock upon the exercise in full by the underwriters of their option to purchase additional shares. The aggregate gross proceeds of the offering were approximately \$287.5 million and net proceeds to the Company were \$272.4 million after deducting underwriting discounts and offering expenses.

On March 9, 2021, the Company entered into an equity distribution agreement pursuant to which the Company may issue and sell, from time to time, up to an aggregate gross sales price of \$300.0 million of the Company’s shares of Class A common stock through an “at-the-market” offering program, or ATM Program. As of March 31, 2021, the Company had sold 1,297,365 shares of Class A common stock at an average price of \$118.39 under the ATM Program. The transactions resulted in gross proceeds of \$153.6 million and net proceeds to the Company of \$151.1 million after deducting commissions and expenses.

Financial Statement Preparation and Presentation

The accompanying interim consolidated financial statements have been prepared by the Company, without an audit, in accordance with the instructions to the Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X promulgated by the United States Securities and Exchange Commission (the “SEC”) and, therefore, do not include all information and footnotes necessary for a fair presentation of its consolidated financial statements in accordance with accounting principles generally accepted in the United States (“GAAP”).

In the opinion of management, the unaudited financial information for the interim periods presented reflects all adjustments, consisting of only normal and recurring adjustments, necessary for a fair statement of the Company’s consolidated financial statements. These consolidated statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2020, included in the Company’s Annual Report on Form 10-K dated March 8, 2021. Operating results for interim periods are not necessarily indicative of operating results for an entire fiscal year.

The consolidated financial statements include the accounts of the Company and all other entities in which it has a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless the context requires otherwise, all references to the Company include its wholly owned subsidiaries. The accounting and reporting policies of the Company are based upon GAAP and conform to predominant practices within the financial services industry.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the Company’s financial statements and the accompanying notes. We evaluate estimates on an ongoing basis including the economic impact of Coronavirus Disease 2019 (or “COVID-19”). Actual results could materially differ from those estimates.

Recently issued accounting pronouncements not yet effective

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (or “ASU”) 2016-13, Financial Instruments-Credit Losses (Topic 326) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (or “CECL”) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held to maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a

lessor. These amendments were initially effective for fiscal years beginning after December 15, 2019 for SEC registrants and after December 15, 2020, for Public Business Entities, or PBEs. In November 2019, the FASB issued ASU 2019-10, Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates, which finalized the delay of the effective date for smaller reporting companies, such as the Company to apply the standards related to CECL, until fiscal years beginning after December 15, 2022. For debt securities with other than temporary impairment (OTTI), the guidance will be applied prospectively and for existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance. For all other assets with the scope of CECL, the cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses, which clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The Company formed a CECL implementation committee in 2018 which prepared a project plan to migrate towards the adoption date. As part of the project plan, the Company contracted a third-party vendor to assist in the application and analysis of ASU 2016-13 as well as a third party vendor to perform an independent model validation. As part of this process, the Company has determined preliminary loan pool segmentation under CECL, as well as evaluated the key economic loss drivers for each segment. The Company operationalized an initial CECL model during the second quarter of 2019 and is running this preliminary CECL model alongside the existing incurred loss methodology. The Company intends to continue to refine and run the model until the expected adoption date on January 1, 2023. The Company continues to evaluate the effects of ASU 2016-13 on its financial statements and disclosures.

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting (or “ASU 2020-04”), which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the London Interbank Offered Rate (or “LIBOR”) or other interbank offered rate (reference rates) on financial reporting. In the fourth quarter of 2020 the Office of the Comptroller of the Currency, amongst others, announced that the overnight and one, three, six and twelve month USD LIBOR will be discontinued on June 30, 2023. It was originally expected that LIBOR would be discontinued by the end of 2021. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. The expedients and exceptions in this update are available to all entities starting March 12, 2020 through December 31, 2022. In January 2020, the FASB issued ASU 2021-01, Reference Rate Reform (Topic 848), which clarifies the scope of Topic 848 to include derivative instruments impacted by discounting transition. The Company has created a subcommittee of the Asset Liability Management Committee to address the LIBOR transition and phase-out issues. The Company has identified its LIBOR-based contracts that will be impacted by the transition away from of LIBOR, and is incorporating fallback language in negotiated contracts and incorporating non-LIBOR reference rate and/or fallback language in new contracts to prepare for these changes. The Company is evaluating the impact that ASU 2020-04 will have on those financial assets where LIBOR is used as an index rate.

Except for the updated standards discussed above, there have been no new accounting pronouncements not yet effective that have significance, or potential significance, to the Company’s consolidated financial statements.

Note 2—Securities

Trading

The Company engages in trading activities for its own account. Securities that are held principally for resale in the near term are recorded at fair value with changes in fair value included in earnings. Trading securities consists of U.S. Treasury Bills which had a fair value of \$2.0 million at March 31, 2021. The carrying values of trading securities included an immaterial amount of net unrealized losses at March 31, 2021.

Available-for-sale

The fair value of available-for-sale securities and their related gross unrealized gains and losses at the dates indicated are as follows:

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
March 31, 2021				
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	\$ 152,253	\$ 167	\$ (1,202)	\$ 151,218
Government agency collateralized mortgage obligation	686,030	194	(2,844)	683,380
Private-label collateralized mortgage obligation	18,688	530	(170)	19,048
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	49,135	2	(24)	49,113
Government agency collateralized mortgage obligation	42,435	—	(35)	42,400
Private-label collateralized mortgage obligation	163,993	10,504	—	174,497
Municipal bonds:				
Tax-exempt	318,132	18,801	(13)	336,920
Taxable	14,206	1,485	(48)	15,643
Asset backed securities:				
Government sponsored student loan pools	245,716	298	(815)	245,199
	<u>\$ 1,690,588</u>	<u>\$ 31,981</u>	<u>\$ (5,151)</u>	<u>\$ 1,717,418</u>

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(Dollars in thousands)				
December 31, 2020				
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	\$ 5,701	\$ 18	\$ (55)	\$ 5,664
Government agency collateralized mortgage obligation	197,978	371	(298)	198,051
Private-label collateralized mortgage obligation	20,544	399	(256)	20,687
Commercial mortgage-backed securities:				
Private-label collateralized mortgage obligation	164,214	18,322	—	182,536
Municipal bonds:				
Tax-exempt	246,159	24,200	—	270,359
Taxable	15,307	695	—	16,002
Asset backed securities:				
Government sponsored student loan pools	248,848	17	(3,149)	245,716
	<u>\$ 898,751</u>	<u>\$ 44,022</u>	<u>\$ (3,758)</u>	<u>\$ 939,015</u>

There were no investment securities pledged for borrowings or for other purposes as required or permitted by law as of March 31, 2021 and December 31, 2020.

At March 31, 2021, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses as of the dates indicated, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
March 31, 2021						
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	\$ 102,614	\$ (1,202)	\$ —	\$ —	\$ 102,614	\$ (1,202)
Government agency collateralized mortgage obligation	478,392	(2,699)	52,294	(145)	530,686	(2,844)
Private-label collateralized mortgage obligation	—	—	8,609	(170)	8,609	(170)
Commercial mortgage-backed securities:						
Government agency mortgage-backed securities	18,203	(24)	—	—	18,203	(24)
Government agency collateralized mortgage obligation	30,900	(35)	—	—	30,900	(35)
Municipal bonds:						
Tax-exempt	23,800	(13)	—	—	23,800	(13)
Taxable	5,767	(48)	—	—	5,767	(48)
Asset backed securities:						
Government sponsored student loan pools	44,065	(80)	120,704	(735)	164,769	(815)
	<u>\$ 703,741</u>	<u>\$ (4,101)</u>	<u>\$ 181,607</u>	<u>\$ (1,050)</u>	<u>\$ 885,348</u>	<u>\$ (5,151)</u>

	Available-for-sale securities					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(Dollars in thousands)						
December 31, 2020						
Residential mortgage-backed securities:						
Government agency mortgage-backed securities	\$ 5,165	\$ (55)	\$ —	\$ —	\$ 5,165	\$ (55)
Government agency collateralized mortgage obligation	120,912	(172)	56,976	(126)	177,888	(298)
Private-label collateralized mortgage obligation	290	(7)	9,950	(249)	10,240	(256)
Asset backed securities:						
Government sponsored student loan pools	—	—	240,825	(3,149)	240,825	(3,149)
	<u>\$ 126,367</u>	<u>\$ (234)</u>	<u>\$ 307,751</u>	<u>\$ (3,524)</u>	<u>\$ 434,118</u>	<u>\$ (3,758)</u>

As indicated in the tables above, as of March 31, 2021, the Company's investment securities had gross unrealized losses totaling approximately \$5.2 million, compared to approximately \$3.8 million at December 31, 2020. The Company analyzes all of its securities with an unrealized loss position. For each security, the Company analyzed the credit quality and performed a projected cash flow analysis. In analyzing the credit quality, management may consider whether the securities are issued by the federal government, its agencies or its sponsored entities, or non-governmental entities, whether downgrades by bond rating agencies have occurred, and if credit quality has deteriorated. When performing a cash flow analysis, the Company uses models that project prepayments, default rates, and loss severities on the collateral supporting the security, based on underlying loan level borrower and loan characteristics and interest rate assumptions. The unrealized losses on government sponsored student

loan pools are due primarily to increased credit spreads since purchase. The Company believes it has an adequate amount of credit enhancement and government assurance to cover any expected losses at this time. Based on these analyses and reviews conducted by the Company, and assisted by independent third parties, the Company determined that none of its securities required an other-than-temporary impairment charge at March 31, 2021. Management continues to expect to recover the adjusted amortized cost basis of these bonds.

As of March 31, 2021, the Company had 51 securities whose estimated fair value declined 0.58% from the Company’s amortized cost; at December 31, 2020, the Company had 30 securities whose estimated fair value declined 0.86% from the Company’s amortized cost. The Company’s securities that have unrealized losses are due to widened credit spreads and changes in market interest rates since their purchase dates. Current unrealized losses are expected to recover as the securities approach their respective maturity dates. Management believes it will more than likely not be required to sell before recovery of the amortized cost basis.

There were no sales or calls of available-for-sale securities for the three months ended March 31, 2021. For the three months ended March 31, 2020 the Company received \$14.0 million in proceeds and recognized a \$1.2 million gain and no loss on sales and calls of securities.

There were no credit losses associated with our securities portfolio recognized in earnings for the three months ended March 31, 2021 and 2020.

The amortized cost and estimated fair value of investment securities as of the periods presented by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of the following table, the entire outstanding balance of residential and commercial mortgage-backed securities is categorized based on the final maturity date.

	March 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Available-for-sale securities				
Within one year	\$ —	\$ —	\$ —	\$ —
After one year through five years	—	—	—	—
After five years through ten years	56,363	57,091	14,021	15,694
After ten years	1,634,225	1,660,327	884,730	923,321
Total	\$ 1,690,588	\$ 1,717,418	\$ 898,751	\$ 939,015

Note 3—Loans

The following disclosure reports the Company’s loan portfolio segments and classes. Segments are groupings of similar loans at a level in which the Company has adopted systematic methods of documentation for determining its allowance for loan and credit losses. Classes are a disaggregation of the portfolio segments. The Company’s loan portfolio segments are:

Real estate. Real estate loans includes loans for which the Company holds one-to-four family, multi-family, commercial and construction real property as collateral. Commercial real estate lending activity is typically restricted to owner-occupied properties or to investor properties that are owned by customers with a current banking relationship. The primary risks of real estate mortgage loans include the borrower’s inability to pay, material decreases in the value of the real estate that is being held as collateral and significant increases in interest rates, which may make the real estate mortgage loan unprofitable. Real estate loans also may be adversely affected by conditions in the real estate markets or in the general economy.

Commercial and industrial. Commercial and industrial loans consist of loans and lines of credit to businesses that are generally collateralized by accounts receivable, inventory, equipment, loan and lease receivables, digital currency assets such as bitcoin and other commercial assets, and may be supported by other credit enhancements such as personal guarantees. Risks may arise from differences between expected and actual cash flows and/or liquidity levels of the borrowers, as well as the type of collateral securing these loans and the reliability of the conversion thereof to cash. Currently, commercial and industrial loans consist primarily of asset based loans. In January 2020, the Company began offering a new lending product called SEN Leverage, which allows Silvergate customers to obtain U.S. dollar loans collateralized by bitcoin held at select digital currency exchanges and other custodians that are also customers of the Bank. The outstanding balance of SEN Leverage loans was \$117.3 million and \$77.2 million at March 31, 2021 and December 31, 2020, respectively.

Reverse mortgage and other. From 2012 to 2014, the Company purchased home equity conversion mortgage (“HECM”) loans (also known as reverse mortgage loans) which are a special type of home loan, for homeowners aged 62 years or older, that requires no monthly mortgage payments and allows the borrower to receive payments from the lender. Reverse mortgage

loan insurance is provided by the U.S. Federal Housing Administration through the HECM program which protects lenders from losses due to non-repayment of the loans when the outstanding loan balance exceeds collateral value at the time the loan is required to be repaid. Other loans consist of consumer loans and loans secured by personal property.

Mortgage warehouse. The Company's mortgage warehouse lending division provides short-term interim funding for single-family residential mortgage loans originated by mortgage bankers or other lenders pending the sale of such loans in the secondary market. The Company's risk is mitigated by comprehensive policies, procedures, and controls governing this activity, partial loan funding by the originating lender, guaranties or additional monies pledged to the Company as security, and the short holding period of funded loans on the Company's balance sheet. In addition, the loss rates of this portfolio have historically been minimal, and these loans are all subject to written purchase commitments from takeout investors or are hedged. The Company's mortgage warehouse loans may either be held-for-investment or held-for-sale depending on the underlying contract. The Company sold approximately \$0.8 million and \$21.7 million of loans to participants during the three months ended March 31, 2021 and 2020, respectively. At March 31, 2021 and December 31, 2020, gross mortgage warehouse loans were approximately \$973.2 million and \$963.9 million, respectively.

A summary of loans as of the periods presented are as follows:

	March 31, 2021	December 31, 2020
(Dollars in thousands)		
Real estate loans:		
One-to-four family	\$ 171,045	\$ 187,855
Multi-family	74,003	77,126
Commercial	287,411	301,901
Construction	5,172	6,272
Commercial and industrial	118,598	78,909
Reverse mortgage and other	1,346	1,495
Mortgage warehouse	76,014	97,903
Total gross loans held-for-investment	733,589	751,461
Deferred fees, net	1,717	2,206
Total loans held-for-investment	735,306	753,667
Allowance for loan losses	(6,916)	(6,916)
Total loans held-for-investment, net	\$ 728,390	\$ 746,751
Total loans held-for-sale ⁽¹⁾	\$ 897,227	\$ 865,961

(1) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented.

At March 31, 2021 and December 31, 2020, approximately \$539.0 million and \$574.5 million, respectively, of the Company's loan portfolio was collateralized by various forms of real estate. A significant percentage of such loans are collateralized by properties located in California (64.7% and 68.8% as of March 31, 2021 and December 31, 2020, respectively) and Arizona (4.4% and 5.9% as of March 31, 2021 and December 31, 2020, respectively) with no other state greater than 5%. The Company attempts to address and mitigate concentrations of credit risk by making loans that are diversified by collateral type, placing limits on the amounts of various categories of loans relative to total Company capital, and conducting quarterly reviews of its portfolio by collateral type, geography, and other characteristics. While management believes that the collateral presently securing its portfolio and the recorded allowance for loan losses are adequate to absorb potential losses, there can be no assurances that significant deterioration in the California and Arizona real estate markets would not expose the Company to significantly greater credit risk.

Recorded investment in loans excludes accrued interest receivable, loan origination fees, net and unamortized premium or discount, net due to immateriality. Accrued interest on loans held-for-investment totaled approximately \$3.1 million and \$2.7 million and deferred fees totaled approximately \$1.7 million and \$2.2 million at March 31, 2021 and December 31, 2020, respectively.

Allowance for Loan Losses

At March 31, 2021, the Company's total allowance for loan losses remained flat at \$6.9 million, compared to December 31, 2020. The overall level of the allowance was based on Silvergate's historically strong credit quality and minimal loan charge-offs, and the loan-to-value ratios in the low- to mid-50% range, based on last required appraisal value, in the Company's commercial, multi-family and one-to-four family real estate loans as of March 31, 2021. In addition, during the

three months ended March 31, 2021, the Company updated the allowance for loan loss model to remove no longer relevant historical loss data for the commercial and industrial loan segment, reflecting the growth of digital collateralized loans that are now the majority of the loan segment balance. In addition, the Company added a COVID-19 loan modification qualitative factor adjustment to the commercial and one-to-four family real estate loan segments to recognize the modifications granted over the previous twelve months and additional risks of default in these loan segments.

The following tables present the allocation of the allowance for loan losses, as well as the activity in the allowance by loan class, and recorded investment in loans held-for-investment as of and for the periods presented:

Three Months Ended March 31, 2021								
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
(Dollars in thousands)								
Balance, December 31, 2020	\$ 1,245	\$ 878	\$ 1,810	\$ 590	\$ 1,931	\$ 39	\$ 423	\$ 6,916
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	389	(50)	1,441	(97)	(1,571)	(21)	(91)	—
Balance, March 31, 2021	<u>\$ 1,634</u>	<u>\$ 828</u>	<u>\$ 3,251</u>	<u>\$ 493</u>	<u>\$ 360</u>	<u>\$ 18</u>	<u>\$ 332</u>	<u>\$ 6,916</u>

Three Months Ended March 31, 2020								
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
(Dollars in thousands)								
Balance, December 31, 2019	\$ 2,051	\$ 653	\$ 2,791	\$ 96	\$ 312	\$ 38	\$ 250	\$ 6,191
Charge-offs	—	—	—	—	—	—	—	—
Recoveries	—	—	—	—	—	—	—	—
Provision for loan losses	(80)	36	166	162	114	1	(32)	367
Balance, March 31, 2020	<u>\$ 1,971</u>	<u>\$ 689</u>	<u>\$ 2,957</u>	<u>\$ 258</u>	<u>\$ 426</u>	<u>\$ 39</u>	<u>\$ 218</u>	<u>\$ 6,558</u>

March 31, 2021								
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
(Dollars in thousands)								
Amount of allowance attributed to:								
Specifically evaluated impaired loans	\$ 12	\$ —	\$ —	\$ —	\$ —	\$ 7	\$ —	\$ 19
General portfolio allocation	1,622	828	3,251	493	360	11	332	6,897
Total allowance for loan losses	<u>\$ 1,634</u>	<u>\$ 828</u>	<u>\$ 3,251</u>	<u>\$ 493</u>	<u>\$ 360</u>	<u>\$ 18</u>	<u>\$ 332</u>	<u>\$ 6,916</u>
Loans evaluated for impairment:								
Specifically evaluated	\$ 5,141	\$ —	\$ 9,830	\$ —	\$ 237	\$ 876	\$ —	\$ 16,084
Collectively evaluated	165,904	74,003	277,581	5,172	118,361	470	76,014	717,505
Total gross loans held-for-investment	<u>\$ 171,045</u>	<u>\$ 74,003</u>	<u>\$ 287,411</u>	<u>\$ 5,172</u>	<u>\$ 118,598</u>	<u>\$ 1,346</u>	<u>\$ 76,014</u>	<u>\$ 733,589</u>

December 31, 2020								
	One-to-Four Family	Multi-Family	Commercial Real Estate	Construction	Commercial and Industrial	Reverse Mortgage and Other	Mortgage Warehouse	Total
(Dollars in thousands)								
Amount of allowance attributed to:								
Specifically evaluated impaired loans	\$ 11	\$ —	\$ —	\$ —	\$ —	\$ 29	\$ —	\$ 40
General portfolio allocation	1,234	878	1,810	590	1,931	10	423	6,876
Total allowance for loan losses	<u>\$ 1,245</u>	<u>\$ 878</u>	<u>\$ 1,810</u>	<u>\$ 590</u>	<u>\$ 1,931</u>	<u>\$ 39</u>	<u>\$ 423</u>	<u>\$ 6,916</u>
Loans evaluated for impairment:								
Specifically evaluated	\$ 5,780	\$ —	\$ 9,722	\$ —	\$ 274	\$ 869	\$ —	\$ 16,645
Collectively evaluated	182,075	77,126	292,179	6,272	78,635	626	97,903	734,816
Total gross loans held-for-investment	<u>\$ 187,855</u>	<u>\$ 77,126</u>	<u>\$ 301,901</u>	<u>\$ 6,272</u>	<u>\$ 78,909</u>	<u>\$ 1,495</u>	<u>\$ 97,903</u>	<u>\$ 751,461</u>

Impaired Loans

The following tables provide a summary of the Company's investment in impaired loans as of and for the periods presented:

	March 31, 2021		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	\$ 5,742	\$ 5,077	\$ —
Commercial	9,830	9,830	—
Commercial and industrial	237	237	—
Reverse mortgage and other	801	800	—
	<u>16,610</u>	<u>15,944</u>	<u>—</u>
With an allowance recorded:			
Real estate loans:			
One-to-four family	64	64	12
Reverse mortgage and other	76	76	7
	<u>140</u>	<u>140</u>	<u>19</u>
Total impaired loans	<u>\$ 16,750</u>	<u>\$ 16,084</u>	<u>\$ 19</u>
	December 31, 2020		
	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(Dollars in thousands)		
With no related allowance recorded:			
Real estate loans:			
One-to-four family	\$ 6,432	\$ 5,716	\$ —
Commercial	9,723	9,722	—
Commercial and industrial	274	274	—
Reverse mortgage and other	523	523	—
	<u>16,952</u>	<u>16,235</u>	<u>—</u>
With an allowance recorded:			
Real estate loans:			
One-to-four family	64	64	11
Reverse mortgage and other	346	346	29
	<u>410</u>	<u>410</u>	<u>40</u>
Total impaired loans	<u>\$ 17,362</u>	<u>\$ 16,645</u>	<u>\$ 40</u>

	Three Months Ended March 31,			
	2021		2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
(Dollars in thousands)				
With no related allowance recorded:				
Real estate loans:				
One-to-four family	\$ 4,979	\$ 77	\$ 3,731	\$ 26
Commercial	9,795	128	1,941	21
Commercial and industrial	249	5	2,329	42
Reverse mortgage and other	616	—	511	—
	<u>15,639</u>	<u>210</u>	<u>8,512</u>	<u>89</u>
With an allowance recorded:				
Real estate loans:				
One-to-four family	64	1	66	1
Reverse mortgage and other	258	—	338	—
	<u>322</u>	<u>1</u>	<u>404</u>	<u>1</u>
Total impaired loans	<u>\$ 15,961</u>	<u>\$ 211</u>	<u>\$ 8,916</u>	<u>\$ 90</u>

For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs. Cash basis interest income is not materially different than interest income recognized.

Nonaccrual and Past Due Loans

Nonperforming loans include individually evaluated impaired loans, loans for which the accrual of interest has been discontinued and loans 90 days or more past due and still accruing interest.

The following tables present by loan class the aging analysis based on contractual terms, nonaccrual loans, and the Company's recorded investment in loans held-for-investment as of the periods presented:

	March 31, 2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Loans Receivable > 89 Days and Accruing
(Dollars in thousands)							
Real estate loans:							
One-to-four family	\$ 2,773	\$ 2,187	\$ 2,834	\$ 7,794	\$ 163,251	\$ 171,045	\$ 4,457
Multi-family	—	—	—	—	74,003	74,003	—
Commercial	—	—	—	—	287,411	287,411	—
Construction	—	—	—	—	5,172	5,172	—
Commercial and industrial	—	—	—	—	118,598	118,598	—
Reverse mortgage and other	—	—	—	—	1,346	1,346	876
Mortgage warehouse	—	—	—	—	76,014	76,014	—
Total gross loans held-for-investment	<u>\$ 2,773</u>	<u>\$ 2,187</u>	<u>\$ 2,834</u>	<u>\$ 7,794</u>	<u>\$ 725,795</u>	<u>\$ 733,589</u>	<u>\$ 5,333</u>

	December 31, 2020							
	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Current	Total	Nonaccruing	Loans Receivable > 89 Days and Accruing
(Dollars in thousands)								
Real estate loans:								
One-to-four family	\$ 992	\$ 85	\$ 3,820	\$ 4,897	\$ 182,958	\$ 187,855	\$ 4,113	\$ —
Multi-family	206	—	—	206	76,920	77,126	—	—
Commercial	—	—	—	—	301,901	301,901	—	—
Construction	—	—	—	—	6,272	6,272	—	—
Commercial and industrial	—	—	—	—	78,909	78,909	—	—
Reverse mortgage and other	—	—	—	—	1,495	1,495	869	—
Mortgage warehouse	—	—	—	—	97,903	97,903	—	—
Total gross loans held-for-investment	\$ 1,198	\$ 85	\$ 3,820	\$ 5,103	\$ 746,358	\$ 751,461	\$ 4,982	\$ —

Troubled Debt Restructurings

A loan is identified as a troubled debt restructuring (“TDR”) when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All troubled debt restructurings are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower’s performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

As of March 31, 2021 and December 31, 2020, the Company had a recorded investment in TDRs of \$1.5 million and \$1.5 million, respectively. The Company has allocated \$11,000 of specific allowance for those loans at March 31, 2021 and \$11,000 December 31, 2020. The Company has not committed to lend additional amounts to these TDRs. No loans were modified as TDRs during the three months ended March 31, 2021 or 2020.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms. There were no loans modified as TDRs for which there was a payment default within twelve months during the three months ended March 31, 2021 or 2020. There was no provision for loan loss or charge-offs for TDR’s that subsequently defaulted during the three months ended March 31, 2021 or 2020.

COVID-19 Related Modifications

In March 2020, Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not TDRs. In December 2020, CARES Act was extended to allow eligible loan modifications until the earlier of January 1, 2022 or the date that is 60 days after the termination date of the national emergency. In accordance with interagency guidance issued in April 2020, short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. The Company elected to adopt the provisions of the CARES Act for modifications that meet the requirements described above.

In April 2020, the Company implemented a short-term loan modification program for customers impacted financially by the COVID-19 pandemic to provide temporary relief to certain borrowers who meet the program’s qualifications. The program was offered to borrowers to modify their existing loans to temporarily defer principal and/or interest payments for a specified period of time, extend loan maturity dates and/or waive certain loan covenants. Deferred payments may be extended for continued hardship, on a case by case basis, where COVID-19 related issues continue to persist. Due to the fluid nature of COVID-19, this program has been evolving in order to provide maximum relief to bank borrowers. The majority of short-term loan modifications for commercial real estate loan borrowers consist of deferred payments which may include principal, interest

and escrow. Deferred interest is capitalized to the loan balance and deferred principal is added to the maturity or payoff date. For one-to-four family residential real estate loans, the majority of short-term modifications consist of deferring full monthly payment of principal, interest and escrow, with deferred payments due at maturity or payoff of the loan. Loans qualifying for these modifications are not required to be reported as a TDR, delinquent, nonaccrual, impaired or criticized solely as a result of a COVID-19 loan modification for the months of payment deferrals. Borrowers considered current are those that are less than 30 days past due on their modified contractual payments. None of the modified loans met the criteria of a TDR under the CARES Act or the related interagency statement.

As of March 31, 2021, loans representing \$65.3 million in loan balances, or 8.9% of total gross loans held-for-investment, with the majority of the balance consisting of \$40.0 million of commercial real estate loans in the hospitality sector, were still under modification, deferring a portion or all of the contractual payments.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, collateral adequacy, credit documentation, and current economic trends, among other factors. This analysis typically includes larger, nonhomogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Company uses the following definitions for risk ratings:

- Pass:* Loans in all classes that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
- Special mention:* Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.
- Substandard:* Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.
- Doubtful:* Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- Loss:* Credits rated as loss are charged-off. Management has no expectation of the recovery of any payments in respect of credits rated as loss.

The following tables present by portfolio class the Company’s internal risk grading system as well as certain other information concerning the credit quality of the Company’s recorded investment in loans held-for-investment as of the periods presented. No assets were classified as loss or doubtful during the periods presented.

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
March 31, 2021					
Real estate loans:					
One-to-four family	\$ 163,313	\$ 3,275	\$ 4,457	\$ —	\$ 171,045
Multi-family	74,003	—	—	—	74,003
Commercial	265,135	14,402	7,874	—	287,411
Construction	5,172	—	—	—	5,172
Commercial and industrial	118,361	—	237	—	118,598
Reverse mortgage and other	470	—	876	—	1,346
Mortgage warehouse	76,014	—	—	—	76,014
Total gross loans held-for-investment	<u>\$ 702,468</u>	<u>\$ 17,677</u>	<u>\$ 13,444</u>	<u>\$ —</u>	<u>\$ 733,589</u>

	Credit Risk Grades				Total
	Pass	Special Mention	Substandard	Doubtful	
(Dollars in thousands)					
December 31, 2020					
Real estate loans:					
One-to-four family	\$ 180,458	\$ 3,284	\$ 4,113	\$ —	\$ 187,855
Multi-family	77,126	—	—	—	77,126
Commercial	288,309	5,825	7,767	—	301,901
Construction	6,272	—	—	—	6,272
Commercial and industrial	78,635	—	274	—	78,909
Reverse mortgage and other	626	—	869	—	1,495
Mortgage warehouse	97,903	—	—	—	97,903
Total gross loans held-for-investment	\$ 729,329	\$ 9,109	\$ 13,023	\$ —	\$ 751,461

Related Party Loans

The Company had related party loans with an outstanding balance of \$5.5 million and \$5.0 million as of March 31, 2021 and December 31, 2020, respectively. During the three months ended March 31, 2021, the Company advanced \$2.0 million of related party loans and received \$1.5 million in principal payments.

Note 4—FHLB Advances and Other Borrowings

Federal Home Loan Bank (“FHLB”) Advances

The following table sets forth certain information on our FHLB advances during the period presented:

	Three Months Ended March 31, 2021	Year Ended December 31, 2020
(Dollars in thousands)		
Amount outstanding at period-end	—	—
Weighted average interest rate at period-end	—	—
Maximum month-end balance during the period	—	\$ 360,000
Average balance outstanding during the period	—	\$ 68,522
Weighted average interest rate during the period	—	0.50 %

FHLB advances are secured with eligible collateral consisting of certain real estate loans. Advances from the FHLB are subject to the FHLB’s collateral and underwriting requirements, and as of March 31, 2021 and December 31, 2020, were limited in the aggregate to 35% of the Company’s total assets. Loans with carrying values of approximately \$1.4 billion and \$1.5 billion were pledged to the FHLB as of March 31, 2021 and December 31, 2020, respectively. Unused borrowing capacity based on the lesser of the percentage of total assets and pledged collateral was approximately \$866.7 million and \$893.0 million as of March 31, 2021 and December 31, 2020, respectively.

FRB Advances

The Company is also approved to borrow through the Discount Window of the Federal Reserve Bank of San Francisco on a collateralized basis without any fixed dollar limit. Loans with a carrying value of approximately \$6.2 million and \$6.3 million were pledged to the FRB at March 31, 2021 and December 31, 2020, respectively. The Company’s borrowing capacity under the Federal Reserve’s discount window program was approximately \$5.1 million and \$4.8 million as of March 31, 2021 and December 31, 2020, respectively. At March 31, 2021 and December 31, 2020, there were no borrowings outstanding under any of these lines.

Federal Funds Purchased

The Company may borrow up to an aggregate \$68.0 million, overnight on an unsecured basis, from three of its correspondent banks. Access to these funds is subject to liquidity availability, market conditions and any negative material change in the Company’s credit profile. As of March 31, 2021 and December 31, 2020, the Company had no outstanding balance of federal funds purchased.

Note 5—Subordinated Debentures, Net

A trust formed by the Company issued \$12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at six-month LIBOR plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At March 31, 2021, the interest rate for the Company's next scheduled payment was 3.98%, based on six-month LIBOR of 0.23%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued \$3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all of the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At March 31, 2021, the interest rate for the Company's next scheduled payment was 2.03%, based on three-month LIBOR of 0.18%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

The outstanding balance of the subordinated debentures was \$15.8 million, net of \$0.1 million unamortized debt issuance cost as of March 31, 2021 and \$15.8 million, net of \$0.1 million unamortized debt issuance costs as of December 31, 2020.

Note 6—Derivative and Hedging Activities

The Company is exposed to certain risks relating to its ongoing business operations. The Company utilizes interest rate derivatives as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the derivative does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual derivative agreements. In accordance with accounting guidance, changes in the fair value of derivatives designated and that qualify as cash flow hedges are initially recorded in other comprehensive income ("OCI"), reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. For cash flow and fair value hedges, the initial fair value of hedge components excluded from the assessment of effectiveness is recognized in earnings under a systematic and rational method over the life of the hedging instrument and is presented in the same income statement line item as the earnings effect of the hedged item. Any difference between the change in the fair value of the hedge components excluded from the assessment of effectiveness and the amounts recognized in earnings is recorded as a component of other comprehensive income. For a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. The changes in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities. The amount included as basis adjustments would be reclassified to current earnings on a straight-line basis over the original life of the hedged item should the hedges no longer be considered effective.

Interest rate swaps. In 2020, the Company entered into two pay-fixed/receive floating rate interest rate swaps (the "Swap Agreements") for a notional amount of \$14.3 million that were designated as fair value hedges of certain available-for-sale securities. The Swap Agreements were determined to be fully effective during the periods presented and therefore no amount of ineffectiveness has been included in net income. The Swap Agreements are based on three-month LIBOR and expire in 2030 and 2031. The Company expects the Swap Agreements to remain effective during the remaining term of the Swap Agreements. The Company may receive collateral or may be required to post collateral based upon the market valuation. As of March 31, 2021, the Company held \$0.3 million in cash collateral posted by the counterparty.

Interest rate floors. In 2019, the Company entered into 20 interest rate floor agreements (the "Floor Agreements") for a total notional amount of \$400.0 million to hedge cash flow receipts on cash and securities or loans, if needed. The original Floor Agreements expire on various dates in April 2024 and July 2029. The Company utilizes one-month LIBOR and three-month LIBOR interest rate floors as hedges against adverse changes in cash flows on the designated cash, securities or loans attributable to fluctuations in the federal funds rate or three-month LIBOR below 2.50% or 2.25%, as applicable. The Floor Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has

been included in net income. The upfront fee paid to the counterparty in entering into these Floor Agreements was approximately \$20.8 million. During the three months ended March 31, 2020, the Company sold \$200.0 million of its total \$400.0 million notional amount of interest rate floors for \$13.0 million, which resulted in a net gain of \$8.4 million, to be recognized over the weighted average remaining term of 4.1 years. The remaining agreements are one-month LIBOR floors with a strike price of 2.25% and expire in July 2029.

Interest rate caps. In March 2021, the Company entered into 13 interest rate cap agreements with a total notional amount of \$205.0 million (“Federal Funds Rate Cap Agreements”). The Federal Funds Rate Cap Agreements are designated as fair value hedges against changes in the fair value of certain fixed rate tax-exempt municipal bonds. The Company utilizes the interest rate caps as hedges against adverse changes in interest rates on the designated securities attributable to fluctuations in the federal funds rate above 2.00%, as applicable. An increase in the benchmark interest rate hedged reduces the fair value of these assets. The Federal Funds Rate Cap Agreements expire on various dates from 2027 to 2032. The upfront fee paid to the counterparties was approximately \$9.5 million. The Company expects the Federal Funds Rate Cap Agreements to remain effective during the remaining term of the respective agreements.

In 2012, the Company entered into a \$12.5 million and a \$3.0 million notional forward interest rate cap agreement (the “LIBOR Cap Agreements”) to hedge its variable rate subordinated debentures. The LIBOR Cap Agreements expire July 25, 2022 and March 15, 2022, respectively. The Company utilizes interest rate caps as hedges against adverse changes in cash flows on the designated preferred trusts attributable to fluctuations in three-month LIBOR beyond 0.50% for the \$3.0 million subordinated debenture and six-month LIBOR beyond 0.75% for the \$12.5 million subordinated debenture. The Cap Agreements were determined to be fully effective during all periods presented and, as such, no amount of ineffectiveness has been included in net income. The upfront fee paid to the counterparty in entering into these LIBOR Cap Agreements was approximately \$2.5 million.

The table below presents the fair value of the Company’s derivative financial instruments as well as the classification within the consolidated statements of financial condition.

	March 31, 2021		December 31, 2020	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
	(Dollars in thousands)			
Derivatives designated as hedging instruments:				
Cash flow hedge interest rate floor	Derivative assets	\$ 22,451	Derivative assets	\$ 30,766
Cash flow hedge interest rate cap	Derivative assets	—	Derivative assets	—
Fair value hedge interest rate swap	Derivative assets	1,410	Derivative assets	338
Fair value hedge interest rate cap	Derivative assets	10,581	Derivative assets	—

The following table presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of those items as of the periods presented.

Line Item in the Statement of Financial Condition of Hedged Item:	Carrying Amount of the Hedged Asset (Liability)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Assets/(Liabilities)	
	March 31, 2021	December 31, 2020	March 31, 2021	December 31, 2020
	(Dollars in thousands)			
Securities available-for-sale	\$ 204,627	\$ 15,367	\$ (2,153)	\$ (278)

The following table summarizes the effects of derivatives in cash flow and fair value hedging relationships designated as hedging instruments on the Company's OCI and consolidated statements of operations for the periods presented.

	Amount of Gain (Loss) Recognized in OCI		Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income	
	Three Months Ended March 31,			Three Months Ended March 31,	
	2021	2020		2021	2020
(Dollars in thousands)					
Derivatives designated as hedging instruments:					
Cash flow hedge interest rate floor	\$ (1,450)	\$ 6,096	Interest income - Other interest earning assets	\$ 136	\$ 125
Cash flow hedge interest rate floor	(5,800)	17,666	Interest income - Taxable securities	1,052	117
Cash flow hedge interest rate cap	—	(280)	Interest expense - Subordinated debentures	(99)	(55)
Fair value hedge interest rate cap ⁽¹⁾	375	—			

(1) Represents amounts excluded from the assessment of effectiveness for which the difference between changes in fair value and periodic amortization is recorded in other comprehensive income.

The Company estimates that approximately \$4.8 million of net derivative gain for cash flow hedges included in OCI will be reclassified into earnings within the next 12 months. No gain or loss was reclassified from OCI into earnings as a result of forecasted transactions that failed to occur during the periods presented.

The following table presents the effect of fair value hedge accounting on the Company's consolidated statements of operations for the periods presented.

	Location and Amount of Gain or (Loss) Recognized in Income on Fair Value Hedging Relationships			
	Three Months Ended March 31,			
	2021		2020	
	Interest income - Taxable securities	Interest income - Tax-exempt securities	Interest income - Taxable securities	Interest income - Tax-exempt securities
(Dollars in thousands)				
Total interest income presented in the statement of operations in which the effects of fair value hedges are recorded	\$ 3,592	\$ 1,695	\$ 6,048	\$ 48
Effects of fair value hedging relationships				
Interest rate contracts:				
Hedged items	\$ (1,072)	\$ (743)	\$ —	\$ —
Derivatives designated as hedging instruments	1,053	743	—	—
Amount excluded from effectiveness testing recognized in earnings based on amortization approach	—	(25)	—	—

Note 7—Income Taxes

Comparison of the federal statutory income tax rates to the Company's effective income tax rates for the periods presented are as follows:

	Three Months Ended March 31,			
	2021		2020	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Statutory federal tax	\$ 2,415	21.0 %	\$ 1,295	21.0 %
State tax, net of federal benefit	(451)	(3.9)%	494	8.0 %
Tax credits	(41)	(0.4)%	(56)	(0.9)%
Tax-exempt income	(347)	(3.0)%	—	—
Excess tax benefit from stock-based compensation	(3,003)	(26.1)%	—	—
Other items, net	216	1.9 %	41	0.7 %
Actual tax (benefit) expense	<u>\$ (1,211)</u>	<u>(10.5)%</u>	<u>\$ 1,774</u>	<u>28.8 %</u>

Income tax benefit was \$1.2 million for the three months ended March 31, 2021 compared to an expense of \$1.8 million for the three months ended March 31, 2020. The effective tax rates for the three months ended March 31, 2021 and 2020 were (10.5)% and 28.8%, respectively. The decrease in the income tax expense and the Company's effective tax rate was primarily related to excess tax benefit from stock-based compensation and tax-exempt income earned on certain municipal bonds.

The deferred tax liability balance as of March 31, 2021 was \$10.2 million compared to \$15.4 million as of December 31, 2020. The primary change in balance was due to the decrease in unrealized gains on available-for-sale securities portfolio and derivative assets.

Note 8—Commitments and Contingencies
Off-Balance Sheet Items

In the normal course of business, the Company enters into various transactions, which, in accordance with GAAP, are not included in the consolidated statements of financial condition. The Company enters into these transactions to meet the financing needs of its customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized on the consolidated statements of financial condition. The Company's exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. The Company is not aware of any accounting loss to be incurred by funding these commitments, however, an allowance for off-balance sheet credit risk is recorded in other liabilities on the statements of financial condition. The allowance for these commitments amounted to approximately \$0.3 million and \$0.1 million at March 31, 2021 and December 31, 2020, respectively.

The Company's commitments associated with outstanding letters of credit and commitments to extend credit expiring by period as of the date indicated are summarized below. Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect the actual future cash funding requirements.

	March 31, 2021	December 31, 2020
	(Dollars in thousands)	
Unfunded lines of credit	\$ 119,931	\$ 49,487
Letters of credit	133	133
Total credit extension commitments	<u>\$ 120,064</u>	<u>\$ 49,620</u>

Unfunded lines of credit represent unused credit facilities to the Company's current borrowers that represent no change in credit risk that exist in the Company's portfolio. Lines of credit generally have variable interest rates. Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. In the event of nonperformance by the customer in accordance with the terms of the agreement with the third party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the client from the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, bitcoin, cash and/or marketable securities. The Company's policies generally require that letter

of credit arrangements contain security and debt covenants like those contained in loan agreements and our credit risk associated with issuing letters of credit is essentially the same as the risk involved in extending loan facilities to customers.

The Company minimizes its exposure to loss under letters of credit and credit commitments by subjecting them to the same credit approval and monitoring procedures used for on-balance sheet instruments. The effect on the Company's revenue, expenses, cash flows and liquidity of the unused portions of these letters of credit commitments cannot be precisely predicted because there is no guarantee that the lines of credit will be used.

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, for a specific purpose. Commitments generally have variable interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts disclosed above do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Company is based on management's credit evaluation of the customer.

Litigation

The Company is involved in various matters of litigation which have arisen in the ordinary course of its business. In the opinion of management, the disposition of such pending litigation will not have a material adverse effect on the Company's financial statements.

Note 9—Stock-based Compensation

In June 2018, the Company adopted the 2018 Equity Compensation Plan, or 2018 Plan, that permits the Compensation Committee, in its sole discretion, to grant various forms of incentive awards. Under the 2018 Plan, the Compensation Committee has the power to grant stock options, stock appreciation rights, or SARs, restricted stock and restricted stock units. The number of shares that may be issued pursuant to awards under the 2018 Plan is 1,596,753.

In accordance with authoritative guidance for stock-based compensation, compensation expense is recognized only for those shares expected to vest, based on the Company's historical experience and future expectations. The Company has elected a policy of estimating expected forfeitures.

Total stock-based compensation expense was \$0.3 million and \$0.2 million for the three months ended March 31, 2021 and 2020, respectively.

A summary of stock option activity as of March 31, 2021 and changes during the three months ended March 31, 2021 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2021	595,303	\$ 8.01		
Granted	18,585	127.56		
Exercised	(159,122)	4.76		
Forfeited or expired	(2,272)	16.09		
Outstanding at March 31, 2021	452,494	\$ 14.03	4.6 years	\$ 57,984
Exercisable at March 31, 2021	292,311	\$ 6.10	2.4 years	\$ 39,775
Vested or Expected to Vest at March 31, 2021	436,078	\$ 13.49	4.5 years	\$ 56,113

As of March 31, 2021, there was \$1.4 million of total unrecognized compensation cost related to nonvested stock options which is expected to be recognized over a weighted-average period of 2.8 years.

Restricted Stock Units

A summary of the status of the Company's nonvested restricted stock unit awards as of March 31, 2021, and changes during the three months ended March 31, 2021, is presented below:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at January 1, 2021	58,690	\$ 15.61
Granted	25,722	\$ 127.56
Vested	(294)	\$ 14.89
Forfeited	(849)	\$ 26.33
Nonvested at March 31, 2021	<u>83,269</u>	<u>\$ 50.08</u>

At March 31, 2021, there was approximately \$3.2 million of total unrecognized compensation expense related to nonvested restricted stock unit awards, which is expected to be recognized over a weighted-average period of 3.0 years.

Note 10—Regulatory Capital

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. As of January 1, 2019, the capital conservation buffer had fully phased in to 2.50%. Inclusive of the fully phased-in capital conservation buffer, the common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio minimums are 7.00%, 8.50% and 10.50%, respectively. The net unrealized gain or loss on available for sale securities and derivatives are not included in computing regulatory capital. Management believes, as of March 31, 2021, the Company and the Bank met all capital adequacy requirements to which they were subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. For the periods presented, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual capital amounts and ratios for the Company and the Bank as of March 31, 2021 and December 31, 2020, are presented in the following tables:

	Actual		Minimum capital adequacy ⁽¹⁾		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
March 31, 2021						
The Company						
Tier 1 leverage ratio	\$ 698,604	9.68 %	\$ 288,754	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	683,104	53.03 %	57,967	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	698,604	54.23 %	77,289	6.00 %	N/A	N/A
Total risk-based capital ratio	705,820	54.79 %	103,052	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	685,463	9.50 %	288,744	4.00 %	\$ 360,930	5.00 %
Common equity tier 1 capital ratio	685,463	53.24 %	57,934	4.50 %	83,682	6.50 %
Tier 1 risk-based capital ratio	685,463	53.24 %	77,245	6.00 %	102,994	8.00 %
Total risk-based capital ratio	692,679	53.80 %	102,994	8.00 %	128,742	10.00 %
(Dollars in thousands)						
December 31, 2020						
The Company						
Tier 1 leverage ratio	\$ 263,763	8.29 %	\$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	\$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

(1) Minimum capital adequacy for common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio excludes the capital conservation buffer.

The Bank is restricted as to the amount of dividends that it can pay to the Company. Dividends declared in excess of the lesser of the Bank's undivided profits or the Bank's net income for its last three fiscal years less the amount of any distribution made to the Bank's shareholder during the same period must be approved by the California DFPI. Also, the Bank may not pay dividends that would result in capital levels being reduced below the minimum requirements shown above.

Note 11—Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard's fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1—Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2—Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3—Significant unobservable inputs that reflect a Company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Financial Instruments Required To Be Carried At Fair Value

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities. The fair values of securities available-for-sale and trading securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1) or matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2).

Derivatives. The Company’s derivative assets and liabilities are carried at fair value as required by GAAP. The estimated fair values of the derivative assets and liabilities are based on current market prices for similar instruments. Given the meaningful level of secondary market activity for derivative contracts, active pricing is available for similar assets and accordingly, the Company classifies its derivative assets and liabilities as Level 2.

Impaired loans (collateral-dependent). The Company does not record impaired loans at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect (1) partial write-downs, through charge-offs or specific allowances, that are based on the current appraised or market-quoted value of the underlying collateral or (2) the full charge-off of the loan carrying value. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for collateral-dependent impaired loans are obtained from real estate brokers or other third-party consultants. These appraisals may utilize a single valuation approach or a combination of approaches, which generally include various Level 3 inputs. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available and such adjustments are typically significant. Appraisals may be adjusted by management for qualitative factors such as economic factors and estimated liquidation expenses. The range of these possible adjustments may vary. Impaired loans presented in the table below as of the periods presented include impaired loans with specific allowances as well as impaired loans that have been partially charged-off.

Other real estate owned. Fair value estimates for foreclosed real estate are obtained from real estate brokers or other third-party consultants (Level 3). When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value as a result of known changes in the market or the collateral and there is no observable market price, such valuation inputs result in a fair value measurement that is categorized as a Level 3 measurement. To the extent a negotiated sales price or reduced listing price represents a significant discount to an observable market price, such valuation input would result in a fair value measurement that is also considered a Level 3 measurement.

The following tables provide the hierarchy and fair value for each class of assets and liabilities measured at fair value at March 31, 2021 and December 31, 2020.

As of March 31, 2021 and December 31, 2020, assets and liabilities measured at fair value on a recurring basis are as follows:

	Fair Value Measurements Using			Total
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	
	(Dollars in thousands)			
March 31, 2021				
Assets				
Trading securities	\$ 1,990	\$ —	\$ —	\$ 1,990
Securities available-for-sale	—	1,717,418	—	1,717,418
Derivative assets	—	34,442	—	34,442
	<u>\$ 1,990</u>	<u>\$ 1,751,860</u>	<u>\$ —</u>	<u>\$ 1,753,850</u>

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
(Dollars in thousands)				
December 31, 2020				
Assets				
Securities available-for-sale	\$ —	\$ 939,015	\$ —	\$ 939,015
Derivative assets	—	31,104	—	31,104
	<u>\$ —</u>	<u>\$ 970,119</u>	<u>\$ —</u>	<u>\$ 970,119</u>

As of March 31, 2021 and December 31, 2020, assets measured at fair value on a non-recurring basis are summarized as follows:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
(Dollars in thousands)				
March 31, 2021				
Assets				
Impaired loans:				
Reverse mortgage	\$ —	\$ —	\$ 69	\$ 69

December 31, 2020				
Assets				
Impaired loans:				
Reverse mortgage	\$ —	\$ —	\$ 317	\$ 317

Quantitative Information about Level 3 Fair Value Measurements

The following table presents the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a nonrecurring basis as of the date indicated:

	Fair Value	Valuation Technique(s)	Significant Unobservable Inputs	Range	Weighted Average ⁽¹⁾
(Dollars in thousands)					
March 31, 2021					
Collateral-dependent impaired loans	\$ 69	Market comparable properties	Marketability discount	10.0 %	10.0 %
			Selling cost	8.0 %	8.0 %
December 31, 2020					
Collateral-dependent impaired loans	\$ 317	Market comparable properties	Marketability discount	10.0 %	10.0 %
			Selling cost	8.0 %	8.0 %

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

Financial Instruments Not Required To Be Carried At Fair Value

FASB ASC Topic 825, *Financial Instruments*, requires the disclosure of the estimated fair value of financial instruments. The Company's estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is required to develop the estimates of fair value. Accordingly, the estimates are not necessarily indicative of the amounts the Company could have realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following tables present information about the Company's assets and liabilities that are not measured at fair value in the consolidated statements of financial condition as of the dates presented:

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
March 31, 2021					
Financial assets:					
Cash and due from banks	\$ 16,422	\$ 16,422	\$ —	\$ —	\$ 16,422
Interest earning deposits	4,315,100	4,315,100	—	—	4,315,100
Loans held-for-sale	897,227	—	897,227	—	897,227
Loans held-for-investment, net	728,390	—	—	732,754	732,754
Accrued interest receivable	9,432	119	2,797	6,516	9,432
Financial liabilities:					
Deposits	\$ 7,002,371	\$ —	\$ 7,269,900	\$ —	\$ 7,269,900
Subordinated debentures, net	15,834	—	15,333	—	15,333
Accrued interest payable	107	—	107	—	107

	Carrying Amount	Fair Value Measurements Using			Total
		Level 1	Level 2	Level 3	
(Dollars in thousands)					
December 31, 2020					
Financial assets:					
Cash and due from banks	\$ 16,405	\$ 16,405	\$ —	\$ —	\$ 16,405
Interest earning deposits	2,945,682	2,945,682	—	—	2,945,682
Loans held-for-sale	865,961	—	865,961	—	865,961
Loans held-for-investment, net	746,751	—	—	751,165	751,165
Accrued interest receivable	8,698	8	2,630	6,060	8,698
Financial liabilities:					
Deposits	\$ 5,248,026	\$ —	\$ 5,458,900	\$ —	\$ 5,458,900
Subordinated debentures, net	15,831	—	15,231	—	15,231
Accrued interest payable	260	—	260	—	260

Note 12—Earnings Per Share

The computation of basic and diluted earnings per share is shown below.

	Three Months Ended March 31,	
	2021	2020
	(In thousands, except per share data)	
Basic		
Net income	\$ 12,710	\$ 4,393
Weighted average common shares outstanding	22,504	18,668
Basic earnings per common share	\$ 0.56	\$ 0.24
Diluted		
Net income	\$ 12,710	\$ 4,393
Weighted average common shares outstanding for basic earnings per common share	22,504	18,668
Add: Dilutive effects of stock-based awards	506	449
Average shares and dilutive potential common shares	23,010	19,117
Dilutive earnings per common share	\$ 0.55	\$ 0.23

Stock-based awards for 44,000 and 235,000 shares of common stock for the three months ended March 31, 2021 and 2020, respectively, were excluded from the computation of diluted earnings per share, because they were anti-dilutive.

Note 13—Subsequent Events

As of May 11, 2021, the Company sold 515,239 shares of Class A common stock at an average price of \$118.10 under the ATM Program that resulted in gross proceeds of \$60.8 million.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis is intended as a review of significant factors affecting the Company’s financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and the related notes and the Company’s Annual Report on Form 10-K, which contains audited financial statements of the Company as of and for the year ended December 31, 2020, previously filed with the Securities and Exchange Commission (“SEC”). Results for the three months ended March 31, 2021 are not necessarily indicative of results for the year ending December 31, 2021 or any future period.

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, future events and our financial performance. These statements are often, but not always, made through the use of words or phrases such as “may,” “should,” “could,” “predict,” “potential,” “believe,” “will likely result,” “expect,” “continue,” “will,” “anticipate,” “seek,” “estimate,” “intend,” “plan,” “project,” “projection,” “forecast,” “goal,” “target,” “would,” “aim” and “outlook,” or the negative version of those words or other comparable words or phrases of a future or forward-looking nature. These forward-looking statements are not historical facts, and are based on current expectations, estimates and projections about our industry and management’s beliefs and certain assumptions made by management, many of which, by their nature, are inherently uncertain and beyond our control. The inclusion of these forward-looking statements should not be regarded as a representation by us or any other person that such expectations, estimates and projections will be achieved. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions and uncertainties that are difficult to predict. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence. In addition, we cannot assess the impact of each risk and uncertainty on our business or the extent to which any risk or uncertainty, or combination of risks and uncertainties, may cause actual results to differ materially from those contained in any forward-looking statements. Further, given its ongoing and dynamic nature, it is difficult to predict the full impact of the Coronavirus Disease 2019 (or “COVID-19”) outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when the coronavirus can be controlled and abated and when and how the economy may be fully reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations: the demand for our products and services may decline, making it difficult to grow assets and income; if the economy is unable to fully reopen as planned, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income; collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase; our allowance for loan losses may increase if borrowers experience financial difficulties, which will adversely affect our net income; the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us; as the result of the decline in the Federal Reserve Board’s (“Federal Reserve”) target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income; our cybersecurity risks are increased as the result of an increase in the number of employees working remotely; and FDIC premiums may increase if the agency experiences additional resolution costs.

If one or more of the factors affecting our forward-looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward-looking information and statements contained in this Quarterly Report on Form 10-Q and other reports and registration statements filed by us with the SEC. For information on the factors that could cause actual results to differ from the expectations stated in the forward- looking statements, see “Risk Factors” under Part I, Item 1A of our 2020 Form 10-K as filed with the SEC.

Any forward-looking statement speaks only as of the date of this report, and we do not undertake any obligation to publicly update or review any forward-looking statement, whether because of new information, future developments or otherwise, except as required by law.

Overview

Silvergate Capital Corporation is the holding company for our wholly-owned subsidiary, Silvergate Bank, which we believe is the leading provider of innovative financial infrastructure solutions and services to participants in the nascent and expanding digital currency industry. Key to our leadership position and growth strategy is the Silvergate Exchange Network (“SEN”) our proprietary, virtually instantaneous payment network for participants in the digital currency industry which serves as a platform for the development of additional products and services. The SEN has a powerful network effect that makes it more valuable as participants and utilization increase. The SEN has enabled us to significantly grow our noninterest bearing deposits from digital currency industry participants, which has provided the majority of our funding over the last three years. This unique source of funding is a distinctive advantage over most traditional financial institutions and allows us to generate

revenue from a conservative portfolio of investments in cash, short term securities and certain types of loans that we believe generate attractive risk-adjusted returns. In addition, use of the SEN has resulted in an increase in noninterest income that we believe will become a valuable source of additional revenue as we develop and deploy fee-based solutions in connection with our digital currency initiative. We are also evaluating additional products or product enhancements specifically targeted at providing further financial infrastructure solutions to our customers and strengthening SEN network effects.

The Company is a Maryland corporation whose assets consist primarily of its investment in the Bank and its primary activities are conducted through the Bank. The Company is a registered bank holding company that is subject to supervision by the Board of Governors of the Federal Reserve (“Federal Reserve”). The Bank is subject to supervision by the California Department of Financial Protection and Innovation, Division of Financial Institutions (“DFPI”) and, as a Federal Reserve member bank since 2012, the Federal Reserve Bank of San Francisco (“FRB”). The Bank’s deposits are insured up to legal limits by the Federal Deposit Insurance Corporation (“FDIC”).

The Bank provides financial services that include commercial banking, commercial and residential real estate lending, mortgage warehouse lending and commercial business lending. Our client base is diverse and consists of business and individual clients in California and other states and includes digital currency-related customers in the United States and internationally. Following the Bank’s 2009 conversion from an industrial bank to a commercial bank we began introducing an expanded array of relationship-oriented business products and services, which in the past five years has been significantly augmented by our digital currency initiative. While our commercial real estate lending activities are concentrated in California, we have a broader, nationwide focus on deposit and cash management services for digital currency related businesses, as well as mortgage warehouse lending. Beginning in July 2020, we ceased issuing purchase commitments for residential real estate loans through our former correspondent lending unit, but will continue to service existing loans currently on our balance sheet.

Digital Currency Initiative

We leverage the SEN and our management team’s expertise in the digital currency industry to develop, implement and maintain critical financial infrastructure solutions and services for many of the largest U.S. digital currency exchanges and global investors, as well as other digital currency infrastructure providers that utilize the Company as a foundational layer for their products. The SEN is a central element of the operations of our digital currency related customers, which enables us to grow with our existing customers and to attract new customers who can benefit from our innovative solutions and services. We believe that our vision and advanced approach to compliance complement the SEN and empower us to extend our leadership position in the industry by developing additional infrastructure solutions and services that will facilitate growth in our business.

We began exploring the digital currency industry in 2013 based on market dynamics which we believed were highly attractive:

- **Significant and Growing Industry:** Digital currency presented a revolutionary model for executing financial transactions with substantial potential for growth.
- **Infrastructure Needs:** In order to become widely adopted, digital currency would need to rely on many traditional elements of financial services, including those services that support funds transfers, customer account controls and other security measures.
- **Regulatory Complexity as a Barrier to Entry:** Providing infrastructure solutions and services to the digital currency industry would require specialized compliance capabilities and a management team with a deep understanding of both the digital currency and the financial services industries.

These insights have been proven correct and we believe they remain true today. In fact, we believe that the market opportunity for digital currencies, the need for infrastructure solutions and services and the regulatory complexity have all expanded significantly since 2013. Our ability to address these market dynamics over the past seven years has provided us with a first-mover advantage within the digital currency industry that is the cornerstone of our leadership position today.

Digital Currency Customers

Our customer base has grown rapidly, as many customers proactively approach us due to our reputation as the leading provider of innovative financial infrastructure solutions and services to participants in the digital currency industry, which includes our unique technology solutions. As of March 31, 2021, we had over 200 prospective digital currency customer leads in various stages of our customer onboarding process and pipeline, which includes extensive regulatory compliance diligence and integrating of the customer’s technology stack for those new digital currency customers interested in using our proprietary, cloud-based application programming interface (“API”).

The following list sets forth summary information regarding the types of market participants that are our primary customers:

- **Digital Currency Exchanges:** Exchanges through which digital currencies are bought and sold; includes over-the-counter, or OTC, trading desks.

- **Institutional Investors:** Hedge funds, venture capital funds, private equity funds, family offices and traditional asset managers, that are investing in digital currencies as an asset class.
- **Other Customers:** Companies developing new protocols, platforms and applications; mining operations; and providers of other services.

Our customers include some of the largest U.S. exchanges and global investors in the digital currency industry. These market participants generally hold either or both of two distinct types of funds: (i) those funds that market participants use for digital currency investment activities, which we refer to as investor funds, and (ii) those funds that market participants use for business operations, which we refer to as operating funds.

Our customer ecosystem also includes software developers, digital currency miners, custodians and general industry participants that need our solutions and services.

Silvergate Exchange Network

The following table presents the number of transactions and the U.S. dollar volume of transactions that occurred on the SEN for the periods presented:

	Three Months Ended March 31,	
	2021	2020
	(Dollars in millions)	
# of SEN Transactions	166,772	31,405
\$ of Volume of SEN Transfers	\$ 166,506	\$ 17,372

Financial Results

The following table presents the components of results of operations, performance ratios and share data for the periods indicated:

	Three Months Ended March 31,	
	2021	2020
(In thousands, except per share data)		
Statement of Operations Data:		
Interest income	\$ 23,306	\$ 20,062
Interest expense	291	4,584
Net interest income	23,015	15,478
Provision for loan losses	—	367
Net interest income after provision	23,015	15,111
Noninterest income	8,090	4,931
Noninterest expense	19,606	13,875
Income before income taxes	11,499	6,167
Income tax (benefit) expense	(1,211)	1,774
Net income	\$ 12,710	\$ 4,393
Financial Ratios⁽¹⁾:		
Return on average assets (ROAA)	0.71 %	0.79 %
Return on average equity (ROAE)	9.76 %	7.14 %
Net interest margin ⁽²⁾	1.33 %	2.86 %
Noninterest income to average assets	0.45 %	0.89 %
Noninterest expense to average assets	1.10 %	2.50 %
Efficiency ratio ⁽³⁾	63.03 %	67.98 %
Loan yield ⁽⁴⁾	4.31 %	5.15 %
Cost of deposits	0.00 %	0.87 %
Cost of funds	0.02 %	0.94 %
Share Data:		
Basic earnings per share	\$ 0.56	\$ 0.24
Diluted earnings per share	\$ 0.55	\$ 0.23
Basic weighted average shares outstanding	22,504	18,668
Diluted weighted average shares outstanding	23,010	19,117

(1) Data has been annualized except for efficiency ratio.

(2) Net interest margin is a ratio calculated as annualized net interest income, on a fully taxable equivalent basis for interest income on tax-exempt securities using the federal statutory tax rate of 21.0%, divided by average interest earning assets for the same period.

(3) Efficiency ratio is calculated by dividing noninterest expenses by net interest income plus noninterest income.

(4) Includes nonaccrual loans and loans 90 days and more past due.

The following table presents the components of financial condition and ratios at the dates indicated:

	March 31, 2021	December 31, 2020
(Dollars in thousands, except per share data)		
Statement of Financial Condition Data:		
Cash and cash equivalents	\$ 4,331,522	\$ 2,962,087
Securities available-for-sale, at fair value	1,717,418	939,015
Loans held-for-sale	897,227	865,961
Loans held-for-investment, net	728,390	746,751
Other	82,595	72,421
Total assets	<u>\$ 7,757,152</u>	<u>\$ 5,586,235</u>
Deposits	\$ 7,002,371	\$ 5,248,026
Borrowings	15,834	15,831
Other liabilities	25,326	28,079
Total liabilities	<u>7,043,531</u>	<u>5,291,936</u>
Total shareholders' equity	<u>713,621</u>	<u>294,299</u>
Total liabilities and shareholders' equity	<u>\$ 7,757,152</u>	<u>\$ 5,586,235</u>
Nonperforming Assets:		
Nonperforming loans	\$ 5,333	\$ 4,982
Troubled debt restructurings	\$ 1,484	\$ 1,525
Other real estate owned, net	—	—
Nonperforming assets	\$ 5,333	\$ 4,982
Asset Quality Ratios:		
Nonperforming assets to total assets	0.07 %	0.09 %
Nonperforming loans to gross loans ⁽¹⁾	0.73 %	0.66 %
Nonperforming assets to gross loans and other real estate owned ⁽¹⁾	0.73 %	0.66 %
Net charge-offs to average total loans ⁽¹⁾	0.00 %	0.00 %
Allowance for loan losses to gross loans ⁽¹⁾	0.94 %	0.92 %
Allowance for loan losses to nonperforming loans	129.68 %	138.82 %
Company Capital Ratios:		
Tier 1 leverage ratio	9.68 %	8.29 %
Common equity tier 1 capital ratio	53.03 %	21.53 %
Tier 1 risk-based capital ratio	54.23 %	22.88 %
Total risk-based capital ratio	54.79 %	23.49 %
Total shareholders' equity to total assets	9.20 %	5.27 %
Book value per share	\$ 28.75	\$ 15.63
Bank Capital Ratios:		
Tier 1 leverage ratio	9.50 %	8.22 %
Common equity tier 1 capital ratio	53.24 %	22.71 %
Tier 1 risk-based capital ratio	53.24 %	22.71 %
Total risk-based capital ratio	53.80 %	23.32 %
Other:		
Total headcount	222	218

(1) Loans exclude loans held-for-sale at each of the dates presented.

Critical Accounting Policies and Estimates

The accompanying management’s discussion and analysis of results of operations and financial condition is based upon our unaudited interim consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under current circumstances, results of which form the basis for making judgments about the carrying value of certain assets and liabilities that are not readily available from other sources. We evaluate our estimates on an ongoing basis. Actual results may differ from these estimates under different assumptions or conditions. Other than ongoing uncertainty related to COVID-19, there have been no significant changes during the three months ended March 31, 2021 to the items that we disclosed as our critical accounting policies and estimates in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K filed with the SEC on March 8, 2021.

Accounting policies, as described in detail in the notes to our consolidated financial statements, included in the Company’s Annual Report on Form 10-K, are an integral part of our financial statements. A thorough understanding of these accounting policies is essential when reviewing our reported results of operations and our financial position. We believe that those critical accounting policies and estimates require us to make difficult, subjective or complex judgments about matters that are inherently uncertain. Changes in these estimates, which are likely to occur from period to period, or use of different estimates that we could have reasonably used in the current period, would have a material impact on our financial position, results of operations or liquidity.

Results of Operations

Net Income

The following table sets forth the principal components of net income for the periods indicated.

	Three Months Ended March 31,		
	2021	2020	% Increase/ (Decrease)
	(Dollars in thousands)		
Interest income	\$ 23,306	\$ 20,062	16.2 %
Interest expense	291	4,584	(93.7) %
Net interest income	23,015	15,478	48.7 %
Provision for loan losses	—	367	N/M
Net interest income after provision	23,015	15,111	52.3 %
Noninterest income	8,090	4,931	64.1 %
Noninterest expense	19,606	13,875	41.3 %
Income before income taxes	11,499	6,167	86.5 %
Income tax (benefit) expense	(1,211)	1,774	(168.3) %
Net income	\$ 12,710	\$ 4,393	189.3 %

N/M—Not meaningful

Net income for the three months ended March 31, 2021 was \$12.7 million, an increase of \$8.3 million or 189.3% from net income of \$4.4 million for the three months ended March 31, 2020. The increase was primarily due to a \$7.5 million increase in net interest income, a \$3.2 million increase in noninterest income and a \$3.0 million decrease in income tax expense, offset by a \$5.7 million increase in noninterest expense, all as described below.

Net Interest Income and Net Interest Margin Analysis (Taxable Equivalent Basis)

We analyze our ability to maximize income generated from interest earning assets and control the interest expenses of our liabilities, measured as net interest income, through our net interest margin and net interest spread. Net interest income is the difference between the interest and fees earned on interest earning assets, such as loans, interest earning deposits in other banks and securities, and the interest expense incurred on interest bearing liabilities, such as deposits and borrowings, which are used to fund those assets.

Changes in market interest rates and the interest rates we earn on interest earning assets or pay on interest bearing liabilities, as well as in the volume and types of interest earning assets, interest bearing and noninterest bearing liabilities and

shareholders' equity, are usually the largest drivers of periodic changes in net interest income, net interest margin and net interest spread. Fluctuations in market interest rates are driven by many factors, including governmental monetary policies, inflation, deflation, macroeconomic developments, changes in unemployment, the money supply, political and international conditions and conditions in domestic and foreign financial markets. Periodic changes in the volume and types of loans in our loan portfolio are affected by, among other factors, economic and competitive conditions in the Southern California region, developments affecting the real estate, technology, hospitality, tourism and financial services sectors within our target markets and throughout the Southern California region, the volume and availability of residential loan pools and non-qualified residential loans and mortgage banker relationships. Our ability to respond to changes in these factors by using effective asset-liability management techniques is critical to maintaining the stability of our net interest income and net interest margin as our primary sources of earnings.

The following tables show the average outstanding balance of each principal category of our assets, liabilities and shareholders' equity, together with the average yields on our assets and the average costs of our liabilities for the periods indicated. Such yields and cost are calculated by dividing income or expense by the average daily balances of the associated assets or liabilities for the same period.

Tax-exempt income from securities is calculated on a taxable equivalent basis. Net interest income, net interest spread and net interest margin are presented on a taxable equivalent basis to consistently reflect income from taxable securities and tax-exempt securities based on the federal statutory tax rate of 21.0%.

AVERAGE BALANCE SHEET AND NET INTEREST ANALYSIS

	Three Months Ended March 31,					
	2021			2020		
	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate	Average Outstanding Balance	Interest Income/Expense	Average Yield/Rate
(Dollars in thousands)						
Assets						
Interest earning assets:						
Interest earning deposits in other banks	\$ 4,450,110	\$ 1,279	0.12 %	\$ 234,356	\$ 724	1.24 %
Taxable securities	850,558	3,592	1.71 %	902,165	6,048	2.70 %
Tax-exempt securities ⁽¹⁾	270,711	2,146	3.21 %	6,611	61	3.71 %
Loans ⁽²⁾⁽³⁾	1,559,989	16,597	4.31 %	1,024,982	13,121	5.15 %
Other	15,331	143	3.78 %	10,746	121	4.53 %
Total interest earning assets	7,146,699	23,757	1.35 %	2,178,860	20,075	3.71 %
Noninterest earning assets	72,155			49,307		
Total assets	\$ 7,218,854			\$ 2,228,167		
Liabilities and Shareholders' Equity						
Interest bearing liabilities:						
Interest bearing deposits	\$ 117,228	\$ 46	0.16 %	\$ 441,682	\$ 4,051	3.69 %
FHLB advances and other borrowings	—	—	—	63,986	227	1.43 %
Subordinated debentures and other	15,832	245	6.28 %	19,061	306	6.46 %
Total interest bearing liabilities	133,060	291	0.89 %	524,729	4,584	3.51 %
Noninterest bearing liabilities:						
Noninterest bearing deposits	6,526,555			1,436,062		
Other liabilities	30,911			19,900		
Shareholders' equity	528,328			247,476		
Total liabilities and shareholders' equity	\$ 7,218,854			\$ 2,228,167		
Net interest spread ⁽⁴⁾			0.46 %			0.20 %
Net interest income, taxable equivalent basis		\$ 23,466			\$ 15,491	
Net interest margin ⁽⁵⁾			1.33 %			2.86 %
Reconciliation to reported net interest income:						
Adjustments for taxable equivalent basis		(451)			(13)	
Net interest income, as reported		\$ 23,015			\$ 15,478	

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

(2) Loans include nonaccrual loans and loans held-for-sale, net of deferred fees and before allowance for loan losses.

(3) Interest income includes amortization of deferred loan fees, net of deferred loan costs.

(4) Net interest spread is the difference between interest rates earned on interest earning assets and interest rates paid on interest bearing liabilities.

(5) Net interest margin is a ratio calculated as annualized net interest income, on a taxable equivalent basis, divided by average interest earning assets for the same period.

Information regarding the dollar amount of changes in interest income and interest expense for the periods indicated for each major component of interest earning assets and interest bearing liabilities and distinguishes between the changes

attributable to changes in volume and changes attributable to changes in interest rates. For purposes of this table, changes attributable to both rate and volume that cannot be segregated have been proportionately allocated to both volume and rate.

ANALYSIS OF CHANGES IN NET INTEREST INCOME

	For the Three Months Ended March 31, 2021 Compared to 2020		
	Change Due To		Interest Variance
	Volume	Rate	
	(Dollars in thousands)		
Interest Income:			
Interest earning deposits in other banks	\$ 1,779	\$ (1,224)	\$ 555
Taxable securities	(329)	(2,127)	(2,456)
Tax-exempt securities ⁽¹⁾	2,095	(10)	2,085
Loans	5,975	(2,499)	3,476
Other	45	(23)	22
Total interest income	9,565	(5,883)	3,682
Interest Expense:			
Interest bearing deposits	(3,854)	(151)	(4,005)
FHLB advances and other borrowings	(227)	—	(227)
Subordinated debentures	—	(61)	(61)
Total interest expense	(4,081)	(212)	(4,293)
Net interest income, taxable equivalent basis	\$ 13,646	\$ (5,671)	\$ 7,975

(1) Interest income on tax-exempt securities is presented on a taxable equivalent basis using the federal statutory tax rate of 21.0% for all periods presented.

Net interest income on a taxable equivalent basis increased \$8.0 million to \$23.5 million for the three months ended March 31, 2021, compared to \$15.5 million for the three months ended March 31, 2020, due to a decrease of \$4.3 million in interest expense and an increase of \$3.7 million in interest income.

Average total interest earning assets increased \$5.0 billion or 228.0% for the three months ended March 31, 2021, compared to the same period in 2020, primarily due to an increase in interest earning deposits in other banks and loans, with loan growth driving the increase in interest income. The average annualized yield on total interest earning assets decreased from 3.71% for the three months ended March 31, 2020, to 1.35% for the three months ended March 31, 2021, primarily due to interest earning deposits in other banks being a greater percentage of interest earning assets, and lower yields being realized on interest earning deposits, loans and securities. The lower yields were due to declines in federal funds rate and LIBOR which was partially offset by the interest rate floors. In February 2020, the Company sold \$200.0 million of its total \$400.0 million notional amount of interest rate floors, which resulted in a net gain of \$8.4 million, which is being recognized over the weighted average remaining term of 4.1 years. The sale of the floors secured the benefit of lower interest rates at the time of the sale.

Average interest bearing liabilities decreased \$391.7 million or 74.6% for the three months ended March 31, 2021, compared to the same period in 2020, primarily due to calling the remaining balance of brokered certificates of deposit in the second quarter of 2020. The average annualized rate on total interest bearing liabilities decreased to 0.89% for the three months ended March 31, 2021, compared to 3.51% for the same period in 2020, primarily due to the impact of calling a portion of brokered certificates of deposits in the first quarter of 2020, which included \$2.1 million of accelerated premium expense in addition to \$1.6 million of coupon interest expense for the first quarter of 2020.

For the three months ended March 31, 2021, the net interest spread was 0.46% and the net interest margin was 1.33%, compared to 0.20% and 2.86%, respectively, for the comparable period in 2020. The increase in the net interest spread in the three months ended March 31, 2021 was primarily due to calling the outstanding brokered certificates of deposits in the second quarter of 2020, partially offset by lower yields on interest earning deposits, loans and securities due to a declining interest rate environment. The decrease in the net interest margin compared to the three months ended March 31, 2020 was primarily due to lower yields on interest earning deposits, loans and securities due to a declining interest rate environment, and to a lesser extent due to a greater proportion of lower yielding cash and cash equivalents as a percentage of total interest earning assets, which was driven by the increase in noninterest bearing digital currency customer deposits.

Provision for Loan Losses

The provision for loan losses is a charge to income to bring our allowance for loan losses to a level deemed appropriate by management. For a description of the factors considered by our management in determining the allowance for loan losses see “—Financial Condition—Allowance for Loan Losses”.

We recorded no additional provision for loan losses and an expense of \$0.4 million for the three months ended March 31, 2021 and 2020, respectively. The allowance for loan losses to total gross loans held-for-investment was 0.94% at March 31, 2021, compared to 0.96% at March 31, 2020. Management determined that no provision for the three months ended March 31, 2021 was necessary based on our historically strong credit quality and minimal loan charge-offs, and the loan-to-value ratios in the low- to mid-50% range in our commercial, multi-family and one-to-four family residential real estate held-for-investment loan portfolios as of March 31, 2021.

Noninterest Income

The following table presents, for the periods indicated, the major categories of noninterest income:

	Three Months Ended March 31,		
	2021	2020	% Increase/ (Decrease)
	(Dollars in thousands)		
Noninterest income:			
Mortgage warehouse fee income	\$ 954	\$ 382	149.7 %
Service fees related to off-balance sheet deposits	—	70	N/M
Deposit related fees	7,124	1,766	303.4 %
Gain on sale of securities, net	—	1,197	N/M
Gain on sale of loans, net	—	506	N/M
Gain on extinguishment of debt	—	925	N/M
Other income	12	85	(85.9) %
Total noninterest income	<u>\$ 8,090</u>	<u>\$ 4,931</u>	64.1 %

N/M—Not meaningful

Noninterest income increased \$3.2 million or 64.1% for the three months ended March 31, 2021, compared to the three months ended March 31, 2020. This increase was primarily due to an increase of \$5.4 million in deposit related fees, substantially all of which are fees from our digital currency customers, and a \$0.6 million increase in mortgage warehouse fee income, partially offset by a \$1.2 million decrease in gain on sale of securities, a \$0.9 million decrease in gain on extinguishment of debt, and a \$0.5 million decrease in gain on sale of loans due to the exit of our correspondent lending division in March 2020. The \$5.4 million increase in deposit related fees was primarily due to increases in cash management, foreign exchange, and SEN related fees associated with our digital currency initiative.

Noninterest Expense

The following table presents, for the periods indicated, the major categories of noninterest expense:

NONINTEREST EXPENSE

	Three Months Ended March 31,		
	2021	2020	% Increase/ (Decrease)
(Dollars in thousands)			
Noninterest expense:			
Salaries and employee benefits	\$ 10,990	\$ 8,955	22.7 %
Occupancy and equipment	614	907	(32.3) %
Communications and data processing	1,621	1,261	28.5 %
Professional services	1,717	985	74.3 %
Federal deposit insurance	2,296	123	N/M
Correspondent bank charges	497	373	33.2 %
Other loan expense	174	122	42.6 %
Other general and administrative	1,697	1,149	47.7 %
Total noninterest expense	<u>\$ 19,606</u>	<u>\$ 13,875</u>	41.3 %

N/M—Not meaningful

Noninterest expense increased \$5.7 million or 41.3% for the three months ended March 31, 2021, compared to the three months ended March 31, 2020, primarily due to increases in salaries and employee benefits, professional services, federal deposit insurance and other general and administrative expense. The increase of \$2.0 million or 22.7% in salaries and employee benefits was primarily due to an increase in cost per full-time equivalent employee. The Company's average full-time equivalent employees increased from 210 for the three months ended March 31, 2020 to 219 for the three months ended March 31, 2021. Occupancy and equipment decreased \$0.3 million or 32.3%, due to a reduction in costs related to our leased office space and fixed assets no longer in use that were written off during the three months ended December 31, 2020. Communications and data processing increased \$0.4 million or 28.5% primarily due to continued investment in compliance software to support our digital currency related customer base and additional core processing expense due to higher transaction volumes. We continue to invest in cloud based scalable technology to expand our banking platform with solutions to complement our API-enabled SEN. Professional services increased \$0.7 million or 74.3% due primarily to consulting fees for projects related to our strategic growth initiatives. Federal deposit insurance expense increased \$2.2 million due to a rate increase driven by the significant growth in deposits. Other general and administrative expense increased \$0.5 million or 47.7% due to a legal settlement, increases for expanded coverage in insurance and an increase in the provision for unfunded commitments related to the increase in SEN Leverage loans total lines of credit, partially offset by a decrease in travel related expenses due to the impact of the COVID-19 pandemic.

Income Tax Expense (Benefit)

Income tax benefit was \$1.2 million for the three months ended March 31, 2021, compared to an expense of \$1.8 million for the three months ended March 31, 2020. Our effective tax rates for the three months ended March 31, 2021 and 2020 were (10.5)% and 28.8%, respectively. The decrease in income tax expense and our effective tax rate was primarily related to significant tax benefits recognized on the exercise of stock options and the impact of tax-exempt income.

Financial Condition

As of March 31, 2021, our total assets increased to \$7.8 billion compared to \$5.6 billion as of December 31, 2020. Shareholders' equity increased \$419.3 million, or 142.5%, to \$713.6 million at March 31, 2021, compared to \$294.3 million at December 31, 2020. A summary of the individual components driving the changes in total assets, total liabilities and shareholders' equity is set forth below.

Interest Earning Deposits in Other Banks

Interest earning deposits in other banks increased from \$2.9 billion at December 31, 2020 to \$4.3 billion at March 31, 2021. The majority of the Company's interest earning deposits in other banks is cash held at the Federal Reserve Bank earning 0.10% at March 31, 2021 and December 31, 2020. The increase in interest earning deposits is due to growth in total deposits exceeding growth in total loans and securities.

Securities Available-for-sale

We use our securities portfolio to provide a source of liquidity, provide an appropriate return on funds invested, manage interest rate risk, meet collateral requirements and meet regulatory capital requirements.

Management classifies investment securities as either held-to-maturity or available-for-sale based on our intentions and the Company's ability to hold such securities until maturity. In determining such classifications, securities that management has the positive intent and the Company has the ability to hold until maturity are classified as held to maturity and carried at amortized cost. All other securities are designated as available-for-sale and carried at estimated fair value with unrealized gains and losses included in shareholders' equity on an after-tax basis. For the periods presented, substantially all securities were classified as available-for-sale.

Our securities available-for-sale increased \$778.4 million, or 82.9%, from \$939.0 million at December 31, 2020 to \$1.7 billion at March 31, 2021. To supplement interest income earned on our loan portfolio, we invest in high quality mortgage-backed securities, collateralized mortgage obligations, other asset backed securities and municipal bonds. During the three months ended March 31, 2021, the Company purchased \$817.7 million of securities, including \$651.1 million of agency residential mortgage-backed securities, \$92.4 million of agency commercial mortgage-backed securities, and \$74.2 million of tax-exempt municipal bonds.

The following tables summarize the contractual maturities and weighted-average yields of investment securities at March 31, 2021 and the amortized cost and carrying value of those securities as of the indicated dates. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Residential and commercial mortgage-backed securities are classified below based on the final maturity date, however these are amortizing securities with expected average lives primarily less than ten years.

SECURITIES

One Year or Less		More Than One Year Through Five Years		More Than Five Years Through 10 Years		More Than 10 Years		Total		
Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield

(Dollars in thousands)

March 31, 2021															
Securities Available-for-Sale:															
Residential mortgage-backed securities:															
Government agency mortgage-backed securities	\$	—	—	\$	—	—	\$	152,253	1.62 %	\$	152,253	\$	151,218	1.62 %	
Government agency collateralized mortgage obligation		—	—		—	150	1.34 %	685,880	0.71 %	686,030	683,380	0.71 %			
Private-label collateralized mortgage obligation		—	—		—	—	—	18,688	2.65 %	18,688	19,048	2.65 %			
Commercial mortgage-backed securities:															
Government agency mortgage-backed securities		—	—		—	—	—	49,135	0.51 %	49,135	49,113	0.51 %			
Government agency collateralized mortgage obligation		—	—		—	42,435	0.22 %	—	—	42,435	42,400	0.22 %			
Private-label collateralized mortgage obligation		—	—		—	—	—	163,993	3.21 %	163,993	174,497	3.21 %			
Municipal bonds:															
Tax-exempt		—	—		—	13,778	3.15 %	304,354	2.53 %	318,132	336,920	2.56 %			
Taxable		—	—		—	—	—	14,206	2.72 %	14,206	15,643	2.72 %			
Asset backed securities:															
Government sponsored student loan pools		—	—		—	—	—	245,716	0.78 %	245,716	245,199	0.78 %			
Total securities	\$	—	—	\$	—	\$	56,363	\$	1,634,225	1.43 %	\$	1,690,588	\$	1,717,418	1.41 %

	March 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Securities Available-for-Sale:				
Residential mortgage-backed securities:				
Government agency mortgage-backed securities	\$ 152,253	\$ 151,218	\$ 5,701	\$ 5,664
Government agency collateralized mortgage obligation	686,030	683,380	197,978	198,051
Private-label collateralized mortgage obligation	18,688	19,048	20,544	20,687
Commercial mortgage-backed securities:				
Government agency mortgage-backed securities	49,135	49,113	—	—
Government agency collateralized mortgage obligation	42,435	42,400	—	—
Private-label collateralized mortgage obligation	163,993	174,497	164,214	182,536
Municipal bonds:				
Tax-exempt	318,132	336,920	246,159	270,359
Taxable	14,206	15,643	15,307	16,002
Asset backed securities:				
Government sponsored student loan pools	245,716	245,199	248,848	245,716
Total securities	<u>\$ 1,690,588</u>	<u>\$ 1,717,418</u>	<u>\$ 898,751</u>	<u>\$ 939,015</u>

Loan Portfolio

Our primary source of income is derived from interest earned on loans. Our loan portfolio consists primarily of loans secured by real estate and mortgage warehouse loans. Our loan customers primarily consist of small- to medium-sized businesses, professionals, real estate investors, small residential builders and individuals. Our owner-occupied and investment commercial real estate loans, multi-family loans and commercial and industrial loans provide us with higher risk-adjusted returns, relatively shorter maturities and more sensitivity to interest rate fluctuations, and are complemented by our relatively lower risk residential real estate loans to individuals. Our commercial real estate, multi-family real estate, and construction lending activities are primarily directed to our market area of Southern California. Our one-to-four family residential loans and warehouse loans are sourced throughout the United States.

In 2020, we began offering a new lending product called SEN Leverage, which allows Silvergate customers to obtain U.S. dollar loans collateralized by bitcoin held at select digital currency exchanges and other custodians that are also customers of the Bank. Our SEN Leverage product enables our digital currency customers to borrow U.S. dollars directly from the Bank to purchase bitcoin using bitcoin as the collateral for these loans, which we refer to as SEN Leverage direct lending. In the SEN Leverage direct lending structure, a Bank exchange customer, acting as custodian, holds the borrower's bitcoin and the Bank uses the SEN to fund the loan directly to the borrower's account at the exchange. In addition to providing SEN Leverage direct lending, the Bank also provides loans collateralized with bitcoin to certain third-party digital currency industry lenders for loans to their customers, which we refer to as SEN Leverage indirect lending. In the SEN Leverage indirect lending structure, the lender uses bitcoin to collateralize its loan with the Bank and the funding of the loan and liquidation of the collateral may or may not occur via the SEN. The Bank uses a custodian to custody the bitcoin collateral and a separate digital currency service provider to monitor the bitcoin collateral coverage ratio and, if necessary, to liquidate the bitcoin collateral. We believe our SEN Leverage product is unique in the digital currency industry, creating both deeper relationships with our clients and an attractive source of potential future revenue growth. The outstanding balance of SEN Leverage loans was \$117.3 million and \$77.2 million at March 31, 2021 and December 31, 2020, respectively, and is included in the commercial and industrial loan segment.

The following table summarizes our loan portfolio by loan segment as of the dates indicated:

COMPOSITION OF LOAN PORTFOLIO

	March 31, 2021		December 31, 2020	
	Amount	Percent	Amount	Percent
(Dollars in thousands)				
Real estate:				
One-to-four family	\$ 171,045	23.3 %	\$ 187,855	25.0 %
Multi-family	74,003	10.1 %	77,126	10.3 %
Commercial	287,411	39.2 %	301,901	40.2 %
Construction	5,172	0.7 %	6,272	0.8 %
Commercial and industrial	118,598	16.2 %	78,909	10.5 %
Reverse mortgage and other	1,346	0.2 %	1,495	0.2 %
Mortgage warehouse	76,014	10.3 %	97,903	13.0 %
Total gross loans held-for-investment	733,589	100.0 %	751,461	100.0 %
Deferred fees, net	1,717		2,206	
Total loans held-for-investment	735,306		753,667	
Allowance for loan losses	(6,916)		(6,916)	
Total net loans held-for-investment	\$ 728,390		\$ 746,751	
Loans held-for-sale ⁽¹⁾	\$ 897,227		\$ 865,961	

(1) Loans held-for-sale are comprised entirely of mortgage warehouse loans for all periods presented.

The repayment of loans is a source of additional liquidity for the Bank. The following table details maturities and sensitivity to interest rate changes for our loans held-for-investment at March 31, 2021:

LOAN MATURITY AND SENSITIVITY TO CHANGES IN INTEREST RATES

	March 31, 2021			
	Due in One Year or Less	Due in One to Five Years	Due After Five Years	Total
(Dollars in thousands)				
Real estate:				
One-to-four family	\$ 18	\$ 405	\$ 170,622	\$ 171,045
Multi-family	2,503	41,585	29,915	74,003
Commercial	40,001	146,917	100,493	287,411
Construction	1,261	3,911	—	5,172
Commercial and industrial	118,598	—	—	118,598
Reverse mortgage and other	—	—	1,346	1,346
Mortgage warehouse	76,014	—	—	76,014
Total gross loans held-for-investment	\$ 238,395	\$ 192,818	\$ 302,376	\$ 733,589
Amounts with fixed rates	\$ 201,739	\$ 176,551	\$ 47,991	\$ 426,281
Amounts with floating rates	\$ 36,656	\$ 16,267	\$ 254,385	\$ 307,308

Nonperforming Assets

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether such loans are actually past due. In general, we place loans on nonaccrual status when they become 90 days past due. We also place loans on nonaccrual status if they are less than 90 days past due if the collection

of principal or interest is in doubt. When interest accrual is discontinued, all unpaid accrued interest is reversed from income. Interest income is subsequently recognized only to the extent cash payments received exceed principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are, in management's opinion, reasonably assured. Any loan which the Bank deems to be uncollectible, in whole or in part, is charged off to the extent of the anticipated loss. Loans that are past due for 180 days or more are charged off unless the loan is well secured and in the process of collection.

We believe our disciplined lending approach and focused management of nonperforming assets has resulted in sound asset quality and timely resolution of problem assets. We have several procedures in place to assist us in maintaining the overall quality of our loan portfolio. We have established underwriting guidelines to be followed by our loan officers, and we also monitor our delinquency levels for any negative or adverse trends. There can be no assurance, however, that our loan portfolio will not become subject to increasing pressures from deteriorating borrower credit due to general economic conditions.

Nonperforming loans increased to \$5.3 million, or 0.73% of total loans, at March 31, 2021, compared to \$5.0 million, or 0.66% of total loans, at December 31, 2020. The increase in nonperforming loans during the three months ended March 31, 2021 was due primarily to an increase in one-to-four family real estate loans.

Total nonperforming assets were \$5.3 million and \$5.0 million at March 31, 2021 and December 31, 2020, respectively, or 0.07% and 0.09%, respectively, of total assets.

The following table presents information regarding nonperforming assets at the dates indicated:

	March 31, 2021	December 31, 2020
(Dollars in thousands)		
Nonaccrual loans		
Real estate:		
One-to-four family	\$ 4,457	\$ 4,113
Reverse mortgage and other	876	869
Accruing loans 90 or more days past due	—	—
Total gross nonperforming loans	5,333	4,982
Other real estate owned, net	—	—
Total nonperforming assets	\$ 5,333	\$ 4,982
Ratio of nonperforming loans to total loans ⁽¹⁾	0.73 %	0.66 %
Ratio of nonperforming assets to total assets	0.07 %	0.09 %
Troubled debt restructurings		
Restructured loans-nonaccrual	\$ 564	\$ 564
Restructured loans-accruing	920	961
Total troubled debt restructurings	\$ 1,484	\$ 1,525

(1) Total loans exclude loans held-for-sale at each of the dates presented.

COVID-19 Update

In March 2020, the World Health Organization declared the outbreak of the COVID-19 virus as a pandemic. The effects of the outbreak are still evolving, and the ultimate severity and duration of the pandemic and the implications on global economic conditions remains uncertain. The following is a summary of the impact and potential effects of COVID-19 on the Company's loan portfolio.

At March 31, 2021, our gross loans held-for-investment portfolio was \$733.6 million, with its largest segments consisting of commercial real estate and one-to-four-family residential real estate loans. Although there is significant uncertainty in the current economic environment due to the impact of the COVID-19 pandemic, our relatively low to moderate loan-to-value ratios provide a lower probability of loss in the event of defaults in our loan portfolio. We will continue to monitor trends in our loan portfolio segments for any known or probable adverse conditions with an emphasis on our retail and hospitality loans within our commercial real estate loan portfolio.

Additional information at March 31, 2021 related to our loan segments, including the weighted average loan-to-values for our real estate portfolio, is set forth below. Weighted average loan-to-value ratios are based on current loan balances and appraised values obtained either at loan origination or based on a more current updated appraisal.

Loan Segment:	March 31, 2021		
	Loan Balance At Period End	Weighted Average Loan-to-Value	Percentage of Gross Loans Held-for- Investment
	(Dollars in thousands)		
Real estate loans:			
One-to-four family	\$ 171,045	54 %	23.3 %
Multi-family	74,003	51 %	10.1 %
Commercial industry sectors:			
Retail	75,585	54 %	10.3 %
Hospitality	46,640	44 %	6.4 %
Office	47,823	64 %	6.5 %
Industrial	63,813	60 %	8.7 %
Other	53,550	43 %	7.3 %
Total commercial	287,411	53 %	39.2 %
Construction	5,172	56 %	0.7 %
Other	195,958	N/A	26.7 %
Total gross loans held-for-investment	\$ 733,589	N/A	100.0 %

In March 2020, Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) addressed COVID-19 related modifications and specified that such modifications made on loans that were current as of December 31, 2019 are not troubled debt restructurings (“TDRs”). In December 2020, CARES Act was extended to allow eligible loan modifications until the earlier of January 1, 2022 or the date that is 60 days after the termination date of the national emergency. In accordance with interagency guidance issued in April 2020, short-term modifications made to a borrower affected by the COVID-19 pandemic and governmental shutdown orders, such as payment deferrals, fee waivers and extensions of repayment terms, do not need to be identified as TDRs if the loans were current at the time a modification plan was implemented. The Company elected to adopt the provisions of the CARES Act for modifications that meet the requirements described above. None of the modified loans met the criteria of a TDR under the CARES Act or the related interagency statement.

In April 2020, the Company implemented a short-term loan modification program for customers impacted financially by the COVID-19 pandemic to provide temporary relief to certain borrowers who meet the program’s qualifications. Due to the fluid nature of COVID-19, this program has been evolving in order to provide maximum relief to bank borrowers. As of March 31, 2021, the remaining loans in deferral due to COVID-19 are as follows:

COVID-19 related modifications:	Loan Balance At Period End	Percentage of Gross Loans Held-for- Investment
	(Dollars in thousands)	
Real estate loans:		
One-to-four family	\$ 6,928	0.9 %
Commercial industry sectors:		
Retail	10,492	1.4 %
Hospitality	40,019	5.5 %
Office	7,874	1.1 %
Total commercial	58,385	8.0 %
Total modifications outstanding	\$ 65,313	8.9 %

Loans Grading

From a credit risk standpoint, we grade watchlist and problem loans into one of five categories: pass, special mention, substandard, doubtful or loss. The classifications of loans reflect a judgment about the risks of default and loss associated with the loan. We review the ratings on credits regularly. Ratings are adjusted regularly to reflect the degree of risk and loss that our

management believes to be appropriate for each credit. Our methodology is structured so that specific reserve allocations are increased in accordance with deterioration in credit quality (and a corresponding increase in risk and loss) or decreased in accordance with improvement in credit quality (and a corresponding decrease in risk and loss). The Bank uses the following definitions for risk ratings:

- *Pass.* Loans in all classes that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
- *Special Mention.* A special mention loan has potential weaknesses deserving of management’s close attention. If uncorrected, such weaknesses may result in deterioration of the repayment prospects for the asset or in our credit position at some future date.
- *Substandard.* A substandard loan is inadequately protected by the current financial condition and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that we will sustain some loss if deficiencies are not corrected.
- *Doubtful.* A doubtful loan has all weaknesses inherent in one classified as substandard, with the added characteristic that weaknesses make collection or liquidation in full, on the basis of existing facts, conditions, and values, highly questionable and improbable.
- *Loss.* Credits rated as loss are charged-off. We have no expectation of the recovery of any payments in respect of credits rated as loss.

The following table presents the loan balances by segment as well as risk rating. No assets were classified as loss during the periods presented.

LOAN CLASSIFICATION

	Credit Risk Grades				
	Pass	Special Mention	Substandard	Doubtful	Total
	(Dollars in thousands)				
March 31, 2021					
Real estate loans:					
One-to-four family	\$ 163,313	\$ 3,275	\$ 4,457	\$ —	\$ 171,045
Multi-family	74,003	—	—	—	74,003
Commercial	265,135	14,402	7,874	—	287,411
Construction	5,172	—	—	—	5,172
Commercial and industrial	118,361	—	237	—	118,598
Reverse mortgage and other	470	—	876	—	1,346
Mortgage warehouse	76,014	—	—	—	76,014
Total gross loans held-for-investment	<u>\$ 702,468</u>	<u>\$ 17,677</u>	<u>\$ 13,444</u>	<u>\$ —</u>	<u>\$ 733,589</u>
	(Dollars in thousands)				
December 31, 2020					
Real estate loans:					
One-to-four family	\$ 180,458	\$ 3,284	\$ 4,113	\$ —	\$ 187,855
Multi-family	77,126	—	—	—	77,126
Commercial	288,309	5,825	7,767	—	301,901
Construction	6,272	—	—	—	6,272
Commercial and industrial	78,635	—	274	—	78,909
Reverse mortgage and other	626	—	869	—	1,495
Mortgage warehouse	97,903	—	—	—	97,903
Total gross loans held-for-investment	<u>\$ 729,329</u>	<u>\$ 9,109</u>	<u>\$ 13,023</u>	<u>\$ —</u>	<u>\$ 751,461</u>

Loan Reviews and Problem Loan Management

Our credit administration staff conducts meetings at least four times a year to review asset quality and loan delinquencies. The Bank's Loan Portfolio Management Procedure prescribes loan review frequency and scope through a risk-based approach that considers loan amount, type, risk rating and payment status. Individual loan reviews encompass a loan's payment status and history, current and projected paying capacity of the borrower and/or guarantor(s), current condition and estimated value of any collateral, sufficiency of credit and collateral documentation, and compliance with Bank and regulatory lending standards. Loan reviewers assign an overall loan risk rating from one of the Bank's loan rating categories and prepare a written report summarizing the review.

Once a loan is identified as a problem loan or a loan requiring a workout, the Bank makes an evaluation and develops a plan for handling the loan. In developing such a plan, management reviews all relevant information from the loan file and any loan review reports. We have a conversation with the borrower and update current and projected financial information (including borrower global cash flows when possible) and collateral valuation estimates. Following analysis of all available relevant information, management adopts an action plan from the following alternatives: (a) continuation of loan collection efforts on their existing terms, (b) a restructure of the loan's terms, (c) a sale of the loan, (d) a charge off or partial charge off, (e) foreclosure on pledged collateral, or (f) acceptance of a deed in lieu of foreclosure.

Impaired Loans and TDRs. Impaired loans also include certain loans that have been modified as TDRs. As of March 31, 2021, the Company held seven loans totaling \$1.5 million that were TDRs, compared to seven loans totaling to \$1.5 million at December 31, 2020.

A loan is identified as a TDR when a borrower is experiencing financial difficulties and, for economic or legal reasons related to these difficulties, the Company grants a concession to the borrower in the restructuring that it would not otherwise consider. The Company has granted a concession when, as a result of the restructuring, it does not expect to collect all amounts due or within the time periods originally due under the original contract, including one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a temporary forbearance with regard to the payment of principal or interest. All TDRs are reviewed for potential impairment. Generally, a nonaccrual loan that is restructured remains on nonaccrual status for a minimum period of six months to demonstrate that the borrower can perform under the restructured terms. If the borrower's performance under the new terms is not reasonably assured, the loan remains classified as a nonaccrual loan. Loans classified as TDRs are reported as impaired loans.

Allowance for Loan Losses

We maintain an allowance for loan losses that represents management's best estimate of the loan losses and risks inherent in our loan portfolio. The amount of the allowance for loan losses should not be interpreted as an indication that charge-offs in future periods will necessarily occur in those amounts, or at all. In determining the allowance for loan losses, we estimate losses on specific loans, or groups of loans, where the probable loss can be identified and reasonably determined. The balance of the allowance for loan losses is based on internally assigned risk classifications of loans, historical loan loss rates, changes in the nature of our loan portfolio, overall portfolio quality, industry concentrations, delinquency trends, current economic factors and the estimated impact of current economic conditions on certain historical loan loss rates.

In reviewing our loan portfolio, we consider risk elements attributable to particular loan types or categories in assessing the quality of individual loans. Some of the risk elements we consider include:

- For residential mortgage loans, the borrower's ability to repay the loan, including a consideration of the debt-to-income ratio and employment and income stability, the loan-to-value ratio, and the age, condition and marketability of the collateral;
- For commercial and multi-family mortgage loans, the debt service coverage ratio, operating results of the owner in the case of owner-occupied properties, the loan-to-value ratio, the age and condition of the collateral and the volatility of income, property value and future operating results typical of properties of that type;
- For construction loans, the perceived feasibility of the project including the ability to sell improvements constructed for resale, the quality and nature of contracts for presale, if any, experience and ability of the builder, loan-to-cost ratio and loan-to-value ratio;
- For commercial and industrial loans, the debt service coverage ratio (income from the business exceeding operating expenses compared to loan repayment requirements), the operating results of the commercial or professional enterprise, the borrower's business, professional and financial ability and expertise, the specific risks and volatility of income and operating results typical for businesses in that category and the value, nature and marketability of collateral, risks related to new product offerings such as loans secured by bitcoin and the volatility of this particular collateral type; and

- For mortgage warehouse loans held-for-investment, despite our negligible loss history, we provide a loss allowance factor subject to quarterly adjustment. Mortgage warehouse loans held-for-sale are not subject to any loan loss allowance and are recorded at lower of cost or fair market value.

The following table presents a summary of changes in the allowance for loan losses for the periods and dates indicated:

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

	Three Months Ended March 31,	
	2021	2020
	(Dollars in thousands)	
Allowance for loan losses at beginning of period	\$ 6,916	\$ 6,191
Total charge-offs	—	—
Total recoveries	—	—
Net charge-offs	—	—
Provision for loan losses	—	367
Allowance for loan losses at period end	\$ 6,916	\$ 6,558
Total gross loans outstanding (end of period)	\$ 733,589	\$ 683,214
Average loans outstanding	\$ 744,557	\$ 664,040
Allowance for loan losses to period end loans	0.94 %	0.96 %
Net charge-offs to average loans	0.00 %	0.00 %

Our allowance for loan losses at March 31, 2021 and March 31, 2020 was \$6.9 million and \$6.6 million, respectively, or 0.94% and 0.96% of loans held-for-investment for each respective period-end. The decrease in the ratio of the allowance for loan losses to gross loans held-for-investment from March 31, 2020 was due to changes in loan product and segment mix.

We had no charge-offs and no recoveries for the three months ended March 31, 2021 and March 31, 2020.

Although we believe that we have established our allowance for loan losses in accordance with GAAP and that the allowance for loan losses was adequate to provide for known and inherent losses in the portfolio at all times shown above, future provisions for loan losses will be subject to ongoing evaluations of the risks in our loan portfolio.

The following table shows the allocation of the allowance for loan losses among loan categories and certain other information as of the dates indicated. The total allowance is available to absorb losses from any loan category.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	March 31, 2021		December 31, 2020	
	Amount	Percent ⁽¹⁾	Amount	Percent ⁽¹⁾
	(Dollars in thousands)			
Real estate:				
One-to-four family	\$ 1,634	0.22 %	\$ 1,245	0.17 %
Multi-family	828	0.11 %	878	0.12 %
Commercial	3,251	0.44 %	1,810	0.24 %
Construction	493	0.07 %	590	0.08 %
Commercial and industrial	360	0.05 %	1,931	0.24 %
Reverse mortgage and other	18	0.00 %	39	0.01 %
Mortgage warehouse	332	0.05 %	423	0.06 %
Total allowance for loan losses	\$ 6,916	0.94 %	\$ 6,916	0.92 %

(1) Loan amount as a percentage of total gross loans.

Deposits

Deposits are the major source of funding for the Company. We offer a variety of deposit products including interest and noninterest bearing demand accounts, money market and savings accounts and certificates of deposit, all of which we market at competitive pricing. We generate deposits from our customers on a relationship basis and through the efforts of our commercial lending officers. Deposits increased \$1.8 billion, or 33.4% to \$7.0 billion at March 31, 2021, compared to \$5.2 billion December 31, 2020. Noninterest bearing deposits totaled \$6.9 billion, representing approximately 98.4% of total deposits, at March 31, 2021, compared to \$5.1 billion, representing approximately 97.8% of total deposits, at December 31, 2020.

At March 31, 2021, deposits by foreign depositors amounted to \$2.8 billion or 39.7% of total deposits, compared to \$1.4 billion, or 27.6% of total deposits, at December 31, 2020. The increase in total deposits from the prior year end was driven by an increase in deposits from digital currency exchanges, institutional investors in digital assets and other fintech related customers, with elevated client activity evidenced by the record volume of SEN transactions during the quarter. The Bank's 10 largest depositors accounted for \$2.8 billion in deposits, or approximately 40.6% of total deposits at March 31, 2021 compared to \$2.5 billion in deposits, or approximately 47.5% of total deposits at December 31, 2020, substantially all of which are customers operating in the digital currency industry.

Our continued growth has been accompanied by significant fluctuations in the level of our deposits, in particular our deposits from customers in the digital currency industry, as our customers in this industry typically carry higher balances over the weekend to take advantage of the 24/7 availability of the SEN, and carry lower balances during the business week. The Bank's average total digital currency deposits during the three months ended March 31, 2021 amounted to \$6.4 billion, the high and low daily total digital currency deposit levels during such time were \$8.4 billion and \$4.6 billion, respectively.

Demand for new deposit accounts is generated by the Company's banking platform for innovators that includes the SEN, which is enabled through Silvergate's proprietary API, and other cash management solutions. These tools enable Silvergate's clients to grow their business and scale operations. The following table presents a breakdown of our digital currency customer base and the deposits held by such customers at the dates noted below:

	March 31, 2021		December 31, 2020	
	Number of Customers	Total Deposits ⁽¹⁾	Number of Customers	Total Deposits ⁽¹⁾
	(Dollars in millions)			
Digital currency exchanges	85	\$ 2,993	76	\$ 2,479
Institutional investors	695	2,166	607	1,811
Other customers	324	1,634	286	749
Total	1,104	\$ 6,793	969	\$ 5,039

(1) Total deposits may not foot due to rounding.

Our cost of total deposits and our cost of funds was 0.00% and 0.02%, respectively, for the three months ended March 31, 2021, compared to 0.87% and 0.94%, respectively, for the three months ended March 31, 2020. The decrease in the weighted average cost of deposits compared to the prior period was driven by the absence of any interest expense associated with brokered certificates of deposit, which were called in the second quarter of 2020.

The following table presents the average balances and average rates paid on deposits for the periods indicated:

	Three Months Ended March 31, 2021		Year Ended December 31, 2020	
	Average Balance	Average Rate	Average Balance	Average Rate
	(Dollars in thousands)			
Noninterest bearing demand accounts	\$ 6,526,555	—	\$ 1,931,310	—
Interest bearing accounts:				
Interest bearing demand accounts	42,197	0.13 %	44,991	0.14 %
Money market and savings accounts	74,318	0.16 %	71,432	0.46 %
Certificates of deposit:				
Brokered certificates of deposit	—	—	95,611	5.65 %
Other	713	0.57 %	1,311	0.92 %
Total interest bearing deposits	117,228	0.16 %	213,345	2.72 %
Total deposits	\$ 6,643,783	0.00 %	\$ 2,144,655	0.27 %

The following table presents the maturities of our certificates of deposit as of March 31, 2021:

	MATURITIES OF CERTIFICATES OF DEPOSIT				
	Three Months or Less	Over Three Through Six Months	Over Six Through Twelve Months	Over Twelve Months	Total
	(Dollars in thousands)				
\$100,000 or more	\$ —	\$ —	\$ —	\$ 306	\$ 306
Less than \$100,000	67	53	100	111	331
Total	\$ 67	\$ 53	\$ 100	\$ 417	\$ 637

Borrowings

We primarily utilize short-term and long-term borrowings to supplement deposits to fund our lending and investment activities, each of which is discussed below.

FHLB Advances. The FHLB allows us to borrow up to 35% of the Bank's assets on a blanket floating lien status collateralized by certain securities and loans. At March 31, 2021, approximately \$1.4 billion in real estate loans were pledged as collateral for our FHLB borrowings. We utilize these borrowings to meet liquidity needs and to fund certain fixed rate loans in our portfolio. At March 31, 2021, we had no outstanding FHLB advances and had an additional \$866.7 million in available borrowing capacity from the FHLB.

The following table sets forth certain information on our FHLB borrowings during the periods presented:

	FHLB ADVANCES	
	Three Months Ended March 31, 2021	Year Ended December 31, 2020
	(Dollars in thousands)	
Amount outstanding at period-end	—	\$ —
Weighted average interest rate at period-end	—	—
Maximum month-end balance during the period	—	\$ 360,000
Average balance outstanding during the period	—	\$ 68,522
Weighted average interest rate during the period	—	0.50 %

Federal Reserve Bank of San Francisco. The FRB has an available borrower in custody arrangement that allows us to borrow on a collateralized basis. The Company's borrowing capacity under the Federal Reserve's discount window program was \$5.1 million as of March 31, 2021. Certain commercial loans are pledged under this arrangement. We maintain this

borrowing arrangement to meet liquidity needs pursuant to our contingency funding plan. No advances were outstanding under this facility as of March 31, 2021.

The Company has also issued subordinated debentures and has access to borrow federal funds or lines of credit with correspondent banks. At March 31, 2021, these borrowings amounted to \$15.8 million.

Subordinated Debentures. A trust formed by the Company issued \$12.5 million of floating rate trust preferred securities in July 2001 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at six-month LIBOR plus 375 basis points, which adjusts every six months in January and July of each year. Interest is payable semiannually. At March 31, 2021, the interest rate for the Company's next scheduled payment was 3.98%, based on six-month LIBOR of 0.23%. On any January 25 or July 25 the Company may redeem the 2001 subordinated debentures at 100% of principal amount plus accrued interest. The 2001 subordinated debentures mature on July 25, 2031.

A second trust formed by the Company issued \$3.0 million of trust preferred securities in January 2005 as part of a pooled offering of such securities. The Company issued subordinated debentures to the trust in exchange for its proceeds from the offering. The debentures and related accrued interest represent substantially all the assets of the trust. The subordinated debentures bear interest at three-month LIBOR plus 185 basis points, which adjusts every three months. Interest is payable quarterly. At March 31, 2021, the interest rate for the Company's next scheduled payment was 2.03%, based on three-month LIBOR of 0.18%. On the 15th day of any March, June, September, or December, the Company may redeem the 2005 subordinated debentures at 100% of principal amount plus accrued interest. The 2005 subordinated debentures mature on March 15, 2035.

The Company also retained a 3% minority interest in each of these trusts which is included in subordinated debentures. The balance of the equity in the trusts is comprised of mandatorily redeemable preferred securities. The subordinated debentures may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The Company has the right to defer interest payments on the subordinated debentures from time to time for a period not to exceed five years.

Other Borrowings. At March 31, 2021, the Company had no outstanding balance of federal funds purchased and had available lines of credit of \$68.0 million with other correspondent banks.

Liquidity and Capital Resources

Liquidity

Liquidity is defined as the Bank's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Bank's ability to meet both expected and unexpected cash flows and collateral needs efficiently without adversely affecting either daily operations or the financial condition of the Bank. Liquidity risk is the risk that we will be unable to meet our obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Bank's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and the cash flow profiles of our on- and off-balance sheet obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds (i.e., market liquidity) and contingent liquidity events. Changes in economic conditions or exposure to credit, market, operation, legal and reputational risks also could affect the Bank's liquidity risk profile and are considered in the assessment of liquidity and asset/liability management.

We maintain high levels of liquidity for our customers who operate in the digital currency industry, as these deposits are subject to potentially dramatic fluctuations due to certain factors that may be outside of our control. As a result, our investment portfolio is comprised primarily of mortgage-backed securities backed by government-sponsored entities, collateralized mortgage obligations, municipal bonds and asset-backed securities.

Management has established a comprehensive management process for identifying, measuring, monitoring and controlling liquidity risk. Because of its critical importance to the viability of the Bank, liquidity risk management is fully integrated into our risk management processes. Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the board of directors and active involvement by management; appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Bank; active management of intraday liquidity and collateral; an appropriately diverse mix of existing and potential future funding sources; adequate levels of highly liquid marketable securities free of legal, regulatory or operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow

requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

The movement of funds on our balance sheet among different SEN deposit customers does not reduce the Bank's deposits and thus does not result in liquidity issues or require any borrowing by the Company or the Bank. In addition, to the extent that SEN participants fully withdraw funds from the Bank, no material liquidity issues or borrowing needs would arise since the majority of SEN participants deposits are held in liquid assets, such as available-for-sale securities and cash, or used to fund short-term mortgage warehouse loans.

We expect funds to be available from basic banking activity sources, including the core deposit base, the repayment and maturity of loans and investment security cash flows. Other potential funding sources include borrowings from the FHLB, the FRB, other lines of credit and brokered certificates of deposit. At March 31, 2021, we had \$866.7 million of available borrowing capacity from the FHLB, \$5.1 million of available borrowing capacity from the FRB and available lines of credit of \$68.0 million with other correspondent banks. Cash and cash equivalents at March 31, 2021 were \$4.3 billion. Accordingly, our liquidity resources were at sufficient levels to fund loans and meet other cash needs as necessary.

Capital Resources

Shareholders' equity increased \$419.3 million to \$713.6 million at March 31, 2021, compared to \$294.3 million at December 31, 2020. The increase in shareholders' equity was primarily due to two equity offerings, which resulted in the issuance of a total of 5,860,858 shares of Class A common stock for aggregate gross proceeds of \$441.1 million and net proceeds of \$423.5 million after deducting underwriting discounts and offering expenses, as applicable, in addition to net income for the three months ended March 31, 2021, which amounted to \$12.7 million, partially offset by a decrease in accumulated other comprehensive income of \$15.5 million.

On March 9, 2021, the Company entered into an equity distribution agreement pursuant to which the Company may issue and sell, from time to time, up to an aggregate gross sales price of \$300.0 million of the Company's shares of Class A common stock through an "at-the-market" offering program, or ATM Program. As of May 11, 2021, the ATM program has a remaining availability of approximately \$85.6 million.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios of common equity Tier 1, Tier 1, and total capital as a percentage of assets and off-balance sheet exposures, adjusted for risk weights ranging from 0% to 1,250%. The Bank is also required to maintain capital at a minimum level based on quarterly average assets, which is known as the leverage ratio.

As of March 31, 2021, the Bank was in compliance with all applicable regulatory capital requirements to which it was subject, and was classified as "well capitalized" for purposes of the prompt corrective action regulations. As we deploy our capital and continue to grow our operations, our regulatory capital levels may decrease depending on our level of earnings. However, we intend to monitor and control our growth to remain in compliance with all regulatory capital standards applicable to us.

The following table presents the regulatory capital ratios for the Company and the Bank as of the dates indicated:

	Actual		Minimum capital adequacy ⁽¹⁾		To be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
March 31, 2021						
The Company						
Tier 1 leverage ratio	\$ 698,604	9.68 %	\$ 288,754	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	683,104	53.03 %	57,967	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	698,604	54.23 %	77,289	6.00 %	N/A	N/A
Total risk-based capital ratio	705,820	54.79 %	103,052	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	685,463	9.50 %	288,744	4.00 %	\$ 360,930	5.00 %
Common equity tier 1 capital ratio	685,463	53.24 %	57,934	4.50 %	83,682	6.50 %
Tier 1 risk-based capital ratio	685,463	53.24 %	77,245	6.00 %	102,994	8.00 %
Total risk-based capital ratio	692,679	53.80 %	102,994	8.00 %	128,742	10.00 %
(Dollars in thousands)						
December 31, 2020						
The Company						
Tier 1 leverage ratio	\$ 263,763	8.29 %	\$ 127,338	4.00 %	N/A	N/A
Common equity tier 1 capital ratio	248,263	21.53 %	51,882	4.50 %	N/A	N/A
Tier 1 risk-based capital ratio	263,763	22.88 %	69,176	6.00 %	N/A	N/A
Total risk-based capital ratio	270,803	23.49 %	92,234	8.00 %	N/A	N/A
The Bank						
Tier 1 leverage ratio	261,791	8.22 %	127,344	4.00 %	\$ 159,180	5.00 %
Common equity tier 1 capital ratio	261,791	22.71 %	51,869	4.50 %	74,923	6.50 %
Tier 1 risk-based capital ratio	261,791	22.71 %	69,159	6.00 %	92,212	8.00 %
Total risk-based capital ratio	268,831	23.32 %	92,212	8.00 %	115,265	10.00 %

(1) Minimum capital adequacy for common equity tier 1 capital ratio, tier 1 risk-based capital ratio and total risk-based capital ratio excludes the capital conservation buffer.

Off-Balance Sheet Items

In the normal course of business, we enter into various transactions, which, in accordance with GAAP, are not included in our consolidated statements of financial condition. We enter into these transactions to meet the financing needs of our customers. These transactions include commitments to extend credit and issue letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk exceeding the amounts recognized in our consolidated statements of financial condition. Our exposure to credit loss is represented by the contractual amounts of these commitments. The same credit policies and procedures are used in making these commitments as for on-balance sheet instruments. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded in other liabilities on the consolidated statements of financial condition. For details of our commitments to extend credit, and commercial and standby letters of credit, please refer to “Note 8—Commitments and Contingencies—Off-Balance Sheet Items” of the “Notes to Unaudited Consolidated Financial Statements” under Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a financial institution, our primary component of market risk is interest rate volatility. Our Asset Liability Management Policy sets forth guidelines for effective funds management and establishes an approach for measuring and monitoring our net interest rate sensitivity.

Interest rate risk is the probability of an increase or decline in the value of an asset or liability due to fluctuations in interest rates. These fluctuations have an impact on both the level of interest income and interest expense as well as the market value of all interest earning assets and liabilities. The objective is to measure the impact that different interest rate scenarios have on net interest income and ensure that the results are within policy limits while maximizing income. The results can be reflected as an increase or decrease of future net interest income or an increase or decrease of current fair market value.

Exposure to interest rates is managed by structuring the balance sheet in a 'business as usual' or 'base case' scenario. We do not enter into instruments such as leveraged derivatives, financial options or financial future contracts for the purpose of reducing interest rate risk. We hedge interest rate risk by utilizing interest rate floors, interest rate caps and interest rate swaps. The interest rate floors hedge our cash and securities, the interest rate caps hedge our subordinated debentures and the interest rate swaps hedge our taxable municipal bonds. Based on the nature of our operations, we are not subject to foreign exchange or commodity price risk. We do not own any trading assets.

Exposure to interest rate risk is managed by the Bank's Asset Liability Management Committee in accordance with policies approved by the board of directors. The committee formulates strategies based on appropriate levels of interest rate risk. In determining the appropriate level of interest rate risk, the committee considers the impact on earnings and capital under the current interest rate outlook, potential changes in interest rates, regional economies, liquidity, business strategies and other factors. The committee meets regularly to review, among other things, the sensitivity of assets and liabilities to interest rate changes, the book and market values of assets and liabilities, unrealized gains and losses, purchase and sale activities, commitments to originate loans, and the maturities of investments and borrowings. Additionally, the committee reviews liquidity, cash flow flexibility, maturities of deposits, and consumer and commercial deposit activity. Management employs methodologies to manage interest rate risk that include an analysis of relationships between interest earning assets and interest-bearing liabilities as well as utilizing an interest rate simulation model where various rate scenarios can be analyzed.

The following table indicates that, for periods less than one year, rate-sensitive assets exceed rate-sensitive liabilities, resulting in an asset-sensitive position. For a bank with an asset-sensitive position, or positive gap, rising interest rates would generally be expected to have a positive effect on net interest income, and falling interest rates would generally be expected to have the opposite effect. Due to our asset sensitive position, we have implemented a hedging strategy to reduce our interest rate risk exposure in a declining rate environment.

INTEREST SENSITIVITY GAP

	Within One Month	After One Month Through Three Months	After Three Through Twelve Months	Within One Year	Greater Than One Year or Non- -Sensitive	Total
(Dollars in thousands)						
March 31, 2021						
Assets						
Interest earning assets						
Loans ⁽¹⁾	\$ 1,136,583	\$ 45,817	\$ 185,535	\$ 1,367,935	\$ 264,598	\$ 1,632,533
Securities ⁽²⁾	935,858	4,517	25,921	966,296	767,963	1,734,259
Interest earning deposits in other banks	4,309,544	1,275	—	4,310,819	4,281	4,315,100
Total earning assets	<u>\$ 6,381,985</u>	<u>\$ 51,609</u>	<u>\$ 211,456</u>	<u>\$ 6,645,050</u>	<u>\$ 1,036,842</u>	<u>\$ 7,681,892</u>
Liabilities						
Interest bearing liabilities						
Interest bearing deposits	\$ 112,071	\$ —	\$ —	\$ 112,071	\$ 382	\$ 112,453
Certificates of deposit	67	—	153	220	417	637
Total interest bearing deposits	112,138	—	153	112,291	799	113,090
Total interest bearing liabilities	<u>\$ 112,138</u>	<u>\$ —</u>	<u>\$ 153</u>	<u>\$ 112,291</u>	<u>\$ 799</u>	<u>\$ 113,090</u>
Period gap	\$ 6,269,847	\$ 51,609	\$ 211,303	\$ 6,532,759	\$ 1,036,043	\$ 7,568,802
Cumulative gap	\$ 6,269,847	\$ 6,321,456	\$ 6,532,759	\$ 6,532,759	\$ 7,568,802	
Ratio of cumulative gap to total earning assets	81.62 %	82.29 %	85.04 %	85.04 %	98.53 %	

(1) Includes loans held-for-sale.

(2) Includes trading and available-for-sale securities, FHLB and FRB stock.

We use quarterly Interest Rate Risk, or IRR, simulations to assess the impact of changing interest rates on our net interest income and net income under a variety of scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation models are also utilized that rely on detailed assumptions regarding changes in existing lines of business, new business, and changes in management and client behavior.

We also use economic value-based methodologies to measure the degree to which the economic values of the Bank's positions change under different interest rate scenarios. The economic-value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Many assumptions are used to calculate the impact of interest rate fluctuations on our net interest income, such as asset prepayments, non-maturity deposit price sensitivity and decay rates, and key rate drivers. Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from our static IRR results. In addition, static IRR results do not include actions that our management may undertake to manage the risks in response to anticipated changes in interest rates or client behavior. For example, as part of our asset/liability management strategy, management can increase asset duration and decrease liability duration to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

The following table summarizes the results of our IRR analysis in simulating the change in net interest income and fair value of equity over a 12-month horizon as of March 31, 2021:

IMPACT ON NET INTEREST INCOME UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

Earnings at Risk as of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
March 31, 2021	(11.27)%	0.00 %	63.41 %	126.46 %	191.71 %

Utilizing an economic value of equity, or EVE, approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for our liquidation value. While this provides some value as a risk measurement tool, management believes IRR is more appropriate in accordance with the going concern principle.

The following table illustrates the results of our EVE analysis as of March 31, 2021.

ECONOMIC VALUE OF EQUITY ANALYSIS UNDER A STATIC BALANCE SHEET, PARALLEL INTEREST RATE SHOCK

As of:	-100 bps	Flat	+100 bps	+200 bps	+300 bps
March 31, 2021	(20.26)%	0.00 %	17.39 %	39.04 %	61.12 %

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of the end of the period covered by this report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of March 31, 2021.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

We are not currently subject to any material legal proceedings. We are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and other applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

In the current opinion of management, the likelihood is remote that the impact of such proceedings, either individually or in the aggregate, would have a material adverse effect on our results of operations, financial condition or cash flows. However, one or more unfavorable outcomes in any claim or litigation against us could have a material adverse effect for the period in which they are resolved. In addition, regardless of their merits or their ultimate outcomes, such matters are costly, divert management's attention and may materially adversely affect our reputation, even if resolved in our favor.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, as filed with the SEC on March 8, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Number	Description
3.1	Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Registration Statement on Form S-1 filed with the Securities and Exchange Commission on October 28, 2019 (File No. 333-228446)).
10.1	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Alan J. Lane (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.2	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Benjamin C. Reynolds (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020).
10.3	Executive Employment Agreement, effective August 7, 2020, by and among Silvergate Bank, Silvergate Capital Corporation and Kathleen E. Fraher
31.1	Rule 13a-14(a) Certification of the Principal Executive Officer.
31.2	Rule 13a-14(a) Certification of the Principal Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

SILVERGATE CAPITAL CORPORATION

Date: May 11, 2021

By: /s/ Alan J. Lane
Alan J. Lane
President and Chief Executive Officer (Principal Executive Officer)

Date: May 11, 2021

By: /s/ Antonio Martino
Antonio Martino
Chief Financial Officer (Principal Financial and Accounting Officer)

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT (“Agreement”) is made August 7, 2020 (“Effective Date”), by and between Silvergate Bank, a California chartered commercial bank (the “Bank”), and Silvergate Capital Corporation, a Maryland corporation, (the “Parent”), and Kathleen E. Fraher (“Executive”).

NOW, THEREFORE, in consideration of the terms and conditions hereinafter set forth, the parties hereto agree as follows:

1. Engagement; Position and Duties.

(a) Position and Duties. The Bank agrees to employ Executive in the position of Executive Vice President, Chief Operating Officer reporting to the Chief Executive Officer (CEO). Executive shall devote best efforts, skills and abilities, on a full-time basis, exclusively to the Bank’s business, performing the duties as directed and required by the CEO. The Bank retains the right to change the position title and reporting relationship from time to time, but such changes shall not otherwise alter the terms of this agreement, unless mutually agreed to by the Executive and the Bank. Executive covenants and agrees to faithfully adhere to and fulfill such policies as are established from time to time by the Board of Directors or the Bank (“Policies”).

(b) Performance of Services for Related Companies. In addition to the performance of services for Bank, Executive shall, to the extent so required by Bank, also perform services for one or more members of a consolidated group of which Parent is a part (“Related Company”), provided that such services are consistent with the kind of services Executive performs or may be required to perform for Bank under this Agreement. If Executive performs any services for any Related Company, Executive shall not be entitled to receive any compensation or remuneration in addition to or in lieu of the compensation and remuneration provided under this Agreement on account of such services for the Related Company. The Policies will govern Executive’s employment by Bank and any Related Companies for which Executive is asked to provide Services. In addition, Executive covenants and agrees that Executive will faithfully adhere to and fulfill such additional policies as may be established from time to time by the board of directors of any Related Company for which Executive performs services, to the extent that such policies and procedures differ from or are in addition to the Policies adopted by Bank.

(c) No Conflicting Obligations. Executive represents and warrants to Bank that Executive is under no obligations or commitments, whether contractual or otherwise, that are inconsistent with Executive’s obligations under this Agreement or that would prohibit or hinder Executive, contractually or otherwise, from performing Executive’s duties as under this Agreement and the Policies.

(d) No Unauthorized Use of Third-Party Intellectual Property. Executive represents and warrants to Bank that Executive will not use or disclose, in connection with Executive’s employment by Bank or any Related Company, any patents, trade secrets, confidential information, or other proprietary information or intellectual property as to which any other person or entity has any right, title or interest, except to the extent that Bank or a Related Company holds a valid license or other written permission for such use from the owner(s) thereof. Executive represents and warrants to Bank that Executive has returned all property and confidential information belonging to any prior employer.

2. Compensation.

(a) **Base Salary.** During the term of this Agreement, Bank shall pay to the Executive a salary of \$345,010 annually. Executive's salary shall be paid in equal bi-weekly installments, consistent with Bank's regular salary payment practices. Executive's salary may be increased from time-to-time by Bank, in Bank's sole and absolute discretion, without affecting this Agreement. All compensation shall be subject to the customary withholding tax and other employment taxes and deductions as required by law. As an exempt employee, you will not be eligible for overtime.

(b) **Bonus.** Executive will be eligible to participate in Silvergate Bank Discretionary Annual Cash Bonus Plan (the terms of the Plan which Executive agrees to be bound by), with an initial annual bonus target equal to 43% of Executive's annual base salary. For 2020, Executive's annual bonus, if eligible, will be prorated based on the base salary earned.

Executive agrees that the Board of Directors and Bank are not obligated to adopt any bonus plan, to maintain in effect any bonus plan that may now be in effect or that may be adopted during the term of Executive's employment, or to pay Executive a bonus unless a bonus is earned under the terms and conditions of any bonus plan adopted by Bank.

(c) **Long-Term Incentive.** Executive may (subject to Bank's discretion) be granted an annual long-term incentive benefit, comprised of restricted stock and options, subject to the terms and progressive vesting contained in the 2018 Equity Compensation Plan. Bank retains full discretion over the type and terms of the long-term incentive benefit.

(d) **Expense Reimbursements.** Bank or a Related Company shall reimburse Executive for reasonable travel and other business expenses (but not expenses of commuting to a primary workplace) incurred by Executive in the performance of Executive's duties under this Agreement, subject to the Policies and procedures in effect from time to time. Bank's business expense reimbursement protocol can be found in the Expense Administration Policy located on Bank's intranet, SharePoint.

(e) **Benefit Plans.** Bank will provide Executive a comprehensive package of health, dental, vision, life, and disability benefits. Executive's eligibility for those benefits is effective on the first day of the month following Executive's date of hire.

Eligibility in Bank's 401(k) Plan commences on the first day of the quarter following Executive's date of hire. Bank currently contributes a discretionary match on a quarterly basis of 50% of the first 5% of elective deferrals. Bank's contribution level is subject to change at its sole discretion.

Bank has the right, at any time and without any amendment of this Agreement, and without prior notice to or consent from Executive, to adopt, amend, change, or terminate any such benefit plans that may now be in effect or that may be adopted in the future, in each case without any further financial obligation to Executive; provided that such unilateral change does not apply to Executive in a manner different than other Bank executives or employees of a comparable executive level, except for changes required by applicable federal, state, or local law, or implemented in response to any change of federal, state or local law or regulation. Any benefits to which Executive may be entitled under any benefit plan shall be governed by the terms and conditions of the applicable benefit plan, and any related plan documents, as in effect from time to time.

(f) Vacation; Sick Leave. Executive will be entitled to twenty-two (22) days of vacation per year, accrued at a rate of 6.77 hours per pay period. As well as, six (6) sick days per year, accrued at a rate of one hour per 30 hours worked per pay period up to a maximum of 48 hours per year. Bank recognizes all standard federal holidays. Executive is subject to all paid time off policies as noted in the Employee Handbook.

Executive's vacation shall be taken at such time as is consistent with the needs and Policies of Bank and its Related Companies. Executive's right to leave from work due to illness is subject to the Policies and the provisions of this Agreement governing termination due to disability, sickness or illness. The Policies governing the disposition of unused vacation days and sick leave days remaining at the end of Bank's fiscal year shall govern the use of unused vacation days or sick leave days.

3. Competitive Activities.

During the term of Executive's employment, and for twelve (12) months thereafter, Executive shall not, for Executive or any third party, directly or indirectly employ, solicit for employment or recommend for employment any person employed by Bank or any Related Company. During the term of Executive's employment, Executive shall not, directly or indirectly as an employee, contractor, officer, director, member, partner, agent, or equity owner, engage in any activity or business that competes or could reasonably be expected to compete with the business of Bank or any Related Company. Executive acknowledges that there is a substantial likelihood that the activities described in this Section would (a) involve the unauthorized use or disclosure of Bank's or a Related Company's Confidential Information and that use or disclosure would be extremely difficult to detect, and (b) result in substantial competitive harm to the business of Bank or a Related Company. Executive has accepted the limitations of this Section as a reasonably practicable and unrestrictive means of preventing such use or disclosure of Confidential Information and preventing such competitive harm.

4. Intellectual Property and Confidential Information.

Executive acknowledges the execution and delivery to Bank of the Confidentiality and Security Agreement (the "Confidentiality and Security Agreement"), attached hereto as **Exhibit A**.

5. Termination of Employment.

Executive understands and agrees that Executive's employment has no specific term. This Agreement, and the employment relationship, are "at will" and may be terminated by Executive or by Bank (and the employment of Executive by any Related Company) with or without cause at any time by notice given orally or in writing. Except as otherwise agreed in writing or as otherwise provided in this Agreement, upon termination of Executive's employment, Bank and the Related Companies shall have no further obligation to Executive, by way of compensation or otherwise, as expressly provided in this Agreement or in any separate employment agreement that might then exist between Executive and a Related Company.

(a) Payments Due Upon Termination of Employment. Upon termination of Executive's employment with Bank at any time and for any reason, in the event of the termination of Executive's employment by Bank for Cause, or termination of Executive's employment as a result of death, Disability, or resignation, Executive will be entitled to receive only the severance

benefits set forth below, and Executive will not be entitled to any other compensation, award, or damages with respect to Executive's employment or termination of employment.

(i) Termination for Cause, Death, Disability, or Resignation. In the event of the termination of Executive's employment by Bank for Cause, or termination of Executive's employment as a result of death, Disability, or resignation, Executive will be entitled to receive payment for all accrued but unpaid salary actually earned prior to or as of the date of termination of Executive's employment, and vacation or paid time off accrued as of the date of termination of Executive's employment. Executive will not be entitled to any cash severance benefits or additional vesting of any stock options or other equity or cash awards.

(ii) Termination Without Cause. In the event of termination of Executive's employment by Bank without Cause, Executive will be entitled to:

(A) the benefits set forth in paragraph (a)(i) of this Section;

(B) twelve (12) months of base salary which may be paid in a lump sum or, at the election of Bank, in installments consistent with the payment of Executive's salary while employed by Bank, subject to such payroll deductions and withholdings as are required by law;

(C) payment in full of the prorated target Bonus due for the year in which Executive was terminated without Cause and any Bonus due for the previous completed performance period (if not previously paid), subject to such payroll deductions and withholdings as are required by law; and

(D) twelve (12) months of any health insurance benefits that Executive was receiving at the time of termination of Executive's employment under a Bank employee health insurance plan subject to COBRA.

This paragraph (a)(ii), shall not apply to termination of Executive's employment by a Related Company if Executive remains employed by Bank, or termination of Executive's employment by Bank if Executive remains employed by a Related Company as long as there is no material diminution in Executive's duties and responsibilities or base salary and other incentive opportunities.

(iii) Change of Control. If Bank (or any successor in interest to Bank that has assumed Bank's obligation under this Agreement) terminates Executive's employment without Cause or Executive resigns for Good Reason within twelve (12) months following a Change of Control, Executive will be entitled to the benefits set forth in paragraph (a)(ii) of this Section. After the twelve (12) months period contemplated in this paragraph (a)(iii), the benefits of this paragraph (a)(iii) expire and the terms provided for in paragraphs (a)(i) and (a)(ii) of this Section will apply.

This paragraph (a)(iii) shall not apply to termination of Executive's employment by a Related Company if Executive remains employed by Bank or a successor in interest, or termination of Executive's employment by Bank or a successor in interest if Executive remains employed by a Related Company.

(b) Release. Bank's obligation to make such payments under paragraphs (a)(ii) and (a)(iii) of this Section and provide any other such benefits contemplated herein shall be contingent upon:

(i) Executive's execution of a release in a form reasonably acceptable to the Bank (the "Release"), which Release must be signed and any applicable revocation period with respect thereto must have expired by the 30th day following Executive's termination of employment. The Release will not waive any of Executive's rights, or obligations of Bank or its successor in interest and the Related Companies, regarding: (1) any right to indemnification and/or contribution, advancement or payment of related expenses Executive may have pursuant to Bank's Bylaws, Articles of Incorporation, under any written indemnification or other agreement between the parties, and/or under applicable law; (2) any rights that Executive may have to insurance coverage under any directors and officers liability insurance, other insurance policies of the Bank, COBRA or any similar state law; (3) any claims for worker's compensation, state disability or unemployment insurance benefits, or any other claims that cannot be released as a matter of applicable law; (4) rights to any vested benefits under any stock, compensation or other employee benefit plan of the Bank; (5) any rights Executive may have as an existing shareholder of the Bank; and (6) any claims arising after the effective date of the Release. Nothing in the Release or any other agreement between Executive and Bank will prohibit or prevent Executive from providing truthful testimony or otherwise responding accurately and fully to any question, inquiry or request for information or documents when required by legal process, subpoena, notice, court order or law (including, without limitation, in any criminal, civil, or regulatory proceeding or investigation), or as necessary in any action for enforcement or claimed breach of this Agreement or any other legal dispute with the Bank. If the Release has been signed and any applicable revocation period has expired prior to the 30th day following Executive's termination of employment, then the severance payments above may be made on such earlier date; provided, however, that if the 30th day following Executive's termination of employment occurs in the calendar year following the year of Executive's termination date, then the payments shall not be made earlier than January 1 of such subsequent calendar year; and

(ii) Executive's tendering a written resignation as a director, if serving as a director of Bank or any Related Company, as provided in Section 7.

(c) Section 280G of the Code.

(i) Notwithstanding anything in this Agreement to the contrary, if any payment, distribution, or other benefit provided by the Bank to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (collectively, the "Payments"), (x) constitute a "parachute payment" within the meaning of Section 280G of the Code, and (y) but for this Section 5(c) would be subject to the excise tax imposed by Section 4999 of the Code or any similar or successor provision thereto (the "Excise Tax"), then the Payments shall be either:

(A) delivered in full pursuant to the terms of this Agreement, or

(B) delivered to such lesser extent as would result in no portion of the payment being subject to the Excise Tax, as determined in accordance with Section 5(b).

(ii) The determination of whether Section 5(c)(i)(A) or Section 5(c)(i)(B) shall be given effect shall be made by the Bank on the basis of which of such clauses results in the receipt by Executive of the greater Net After-Tax Receipt (as defined herein) of the aggregate Payments. The term “Net After-Tax Receipt” shall mean the present value (as determined in accordance with Section 280G of the Code) of the payments net of all applicable federal, state and local income, employment, and other applicable taxes and the Excise Tax.

(iii) If Section 5(c)(i)(B) is given effect, the reduction shall be accomplished in accordance with Section 409A of the Code and the following: first by reducing, on a pro rata basis, cash Payments that are exempt from Section 409A of the Code; second by reducing, on a pro rata basis, other cash Payments; and third by forfeiting any equity-based awards that vest and become payable, starting with the most recent equity-based awards that vest, to the extent necessary to accomplish such reduction.

(iv) Unless the Bank and Executive otherwise agree in writing, any determination required under this Section 5(c) shall be made by the Bank’s independent accountants or compensation consultants (the “Third Party”), and all such determinations shall be conclusive, final and binding on the parties hereto. The Bank and Executive shall furnish to the Third Party such information and documents as the Third Party may reasonably request in order to make a determination under this Section 5(c). The Bank shall bear all fees and costs of the Third Party with respect to all determinations under or contemplated by this Section 5(c).

(d) Definitions. For purposes of this Section, the following definitions shall apply:

(i) “Cause” shall mean a termination of Executive’s employment based upon a finding by the Bank or its successor, acting in good faith and based on its reasonable belief at the time, that Executive (a) has refused to perform the explicitly stated or reasonably assigned, lawful, and material duties required by Executive’s position (other than by reason of a disability or analogous condition); (b) has committed or engaged in a material act of theft, embezzlement, dishonesty or fraud, a breach of confidentiality, an unauthorized disclosure or use of inside information, customer lists, trade secrets or other confidential information; (c) has breached a material fiduciary duty, or willfully and materially violated any other duty, law, rule, or regulation that relates to the performance of Executive’s duties to the Bank or Policies of the Bank or its successor; (d) has been convicted of, or pled guilty or nolo contendere to, misdemeanor involving moral turpitude or a felony; (e) has willfully and materially breached any of the provisions of any agreement with the Bank or its successor which causes material injury to the Bank; (f) has willfully engaged in unfair competition with, or otherwise acted intentionally in a manner materially injurious to the reputation, business or assets of, the Bank or its successor; (g) has willfully and materially breached the Parent’s Code of Business Conduct and Ethics; or (h) has improperly induced a vendor or customer to break or terminate any material contract with the Bank or its

successor or induced a principal for whom the Bank or its successor acts as agent to terminate such agency relationship.

(ii) “Change of Control” shall mean (i) any consolidation or merger of the Bank with or into any other corporation or other entity or person in which the stockholders of the Bank prior to such consolidation or merger own, directly or indirectly, less than fifty percent (50%) of the continuing or surviving entity’s voting power immediately after such consolidation or merger, excluding any consolidation or merger effected exclusively to change the domicile of the Bank; or (ii) a sale or other disposition of all or substantially all of the stock or assets of the Bank.

(iii) “Disability” shall mean Executive’s inability to perform the essential functions of Executive’s job responsibilities for a period of one hundred eighty (180) days in the aggregate in any twelve (12) month period.

(iv) “Good Reason” shall mean the occurrence of any of the following events or circumstances without Executive’s written consent: (i) a diminution in Executive’s base salary; (ii) a material diminution in Executive’s authority, duties or responsibility; (iii) a change in the principal geographic location at which Executive performs services of over 50 miles; (iv) any requirement that Executive engage in any illegal conduct; (v) a material breach by the Bank of this Agreement or any other material written agreement between Executive and the Bank; or (vi) Executive’s primary role being moved to a Related Company, unless Executive reasonably agrees to the move of the primary role, which agreement shall not be unreasonably withheld.

(v) “Person” means any natural person or any corporation, partnership, limited liability company, trust, unincorporated business association, or other entity.

(vi) “Voting Securities” means shares of capital stock or other equity securities entitling the holder thereof to regularly vote for the election of directors (or for person performing a similar function if the issuer is not a corporation), but does not include the power to vote upon the happening of some condition or event which has not yet occurred.

6. Turnover of Property and Documents on Termination.

Executive agrees that on or before termination of Executive’s employment, Executive will return to Bank, and all Related Companies, all equipment and other property belonging to Bank and the Related Companies, and all originals and copies of confidential information (in any and all media and formats, and including any document or other item containing confidential information) in Executive’s possession or control, and all of the following (in any and all media and formats, and whether or not constituting or containing confidential information) in Executive’s possession or control, Bank’s: (a) financial information, (b) personnel data, (c) customer/client data, (d) observation, data, written material, records, documents, computer programs, software, firmware, inventions, developments, designs, promotional ideas, pricing, potential customers/client, (e) customer/client preferences, marketing information or strategies, practices, processes, techniques, (f) trade secret, products, or any research related to or arising out of the actual or anticipated research, development, products, organization, business or finances of Bank and any Related

Companies; (g) any and all intellectual property developed by Executive during the course of employment; and (h) the manual and memoranda related to the Policies. To the extent there is a conflict between this Section 6 and the Confidentiality and IP Agreement executed by the Executive, the Confidentiality and IP Agreement provisions control.

7. Resignation as a Director on Termination of Employment.

If Executive's employment by Bank is terminated for any reason or for no reason, whether by way of resignation, Disability, or termination by Bank with or without Cause, and if Executive is then a member of the Board of Directors of Bank or any Related Company, Executive shall before or on the day of such termination of employment resign from the Board of Directors of Bank and from the board of directors of each and every Related Company, by delivering to Bank (and each Related Company, as applicable) a letter or other written communication addressed to the Board of Directors of Bank (and each Related Company, as applicable) stating that Executive is resigning from the Board of Directors of Bank (and each Related Company, as applicable) effective immediately. A business day shall be any day other than a Saturday, Sunday, or federal holiday on which federal offices are closed.

8. Arbitration.

Except for injunctive proceedings against unauthorized disclosure of confidential information, any and all claims or controversies between Bank or any Related Company and Executive, including but not limited to (a) those involving the construction or application of any of the terms, provisions, or conditions of this Agreement or the Policies; (b) all contract or tort claims of any kind; and (c) any claim based on any federal, state, or local law, statute, regulation, or ordinance, including claims for unlawful discrimination or harassment, shall be submitted to binding arbitration in accordance with the then current Judicial Arbitration and Mediation Service (JAMS) Employment Arbitration Rules & Procedures (which can be found at: <https://www.jamsadr.com/rules-employment-arbitration/english>) (the "Rules").

Judgment on the award rendered by the arbitrator(s) may be entered by any court having jurisdiction over Bank and Executive. The location of the arbitration shall be San Diego, California. Unless Bank or a Related Company and Executive mutually agree otherwise, the arbitrator shall be a retired judge selected from a panel provided by the American Arbitration Association, or the Judicial Arbitration and Mediation Service (JAMS). Bank, or a Related Company, if the Related Company is a party to the arbitration proceeding, shall pay the arbitrator's fees and costs. Executive shall pay for Executive's own costs and attorneys' fees, if any. Bank and any Related Company that is a party to an arbitration proceeding shall pay for its own costs and attorneys' fees, if any. However, if any party prevails on a statutory claim which affords the prevailing party attorneys' fees, the arbitrator may award reasonable attorneys' fees and costs to the prevailing party. Bank or any Related Company and Executive are entitled to meaningful discovery of essential documents and witnesses as determined by the arbitrator in accordance with the Rules.

All issues and questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by, and construed in accordance with, the Federal Arbitration Act, 9 U.S.C. Sec I, *et seq.*, and the laws of the State of California, without giving effect to any conflict of law.

EXECUTIVE UNDERSTANDS AND AGREES THAT THIS AGREEMENT TO ARBITRATE CONSTITUTES A WAIVER OF EXECUTIVE'S RIGHT TO A TRIAL BY JURY OF ANY MATTERS COVERED BY THIS AGREEMENT TO ARBITRATE.

9. Severability.

In the event that any of the provisions of this Agreement or the Policies shall be held to be invalid or unenforceable in whole or in part, those provisions to the extent enforceable and all other provisions shall nevertheless continue to be valid and enforceable as though the invalid or unenforceable parts had not been included in this Agreement or the Policies. In the event that any provision relating to a time period of restriction shall be declared by a court of competent jurisdiction to exceed the maximum time period such court deems reasonable and enforceable, then the time period of restriction deemed reasonable and enforceable by the court shall become and shall thereafter be the maximum time period.

10. Agreement Read and Understood.

Executive acknowledges that Executive has carefully read the terms of this Agreement, that Executive has had an opportunity to consult with an attorney or other representative of Executive's own choosing regarding this Agreement, that Executive understands the terms of this Agreement and that Executive is entering this Agreement of Executive's own free will.

11. Complete Agreement; Modification.

This Agreement is the complete agreement between Executive and Bank on the subjects contained in this Agreement. This Agreement supersedes and replaces all previous correspondence, promises, representations, and agreements, if any, either written or oral with respect to Executive's employment by Bank or any Related Company and any matter covered by this Agreement. No provision of this Agreement may be modified, amended, or waived except by a written document signed both by Bank and Executive.

12. Governing Law.

This Agreement shall be construed and enforced according to the laws of the State of California.

13. Assignability.

This Agreement, and the rights and obligations of Executive and Bank under this Agreement, may not be assigned by Executive. Bank may assign any of its rights and obligations under this Agreement to any successor or surviving corporation, limited liability company, or other entity resulting from a merger, consolidation, sale of assets, sale of stock, sale of membership interests, or other reorganization, upon condition that the assignee shall assume, either expressly or by operation of law, all of Bank's obligations under this Agreement.

14. Survival.

This Section 14 and the covenants and agreements contained in Sections 4 and 6 of this Agreement shall survive termination of this Agreement and Executive's employment.

15. Notices.

Any notices or other communication required or permitted to be given under this Agreement shall be in writing and shall be mailed by certified mail, return receipt requested, or sent by next

business day air courier service, or personally delivered to the party to whom it is to be given at the address of such party set forth on the signature page of this Agreement (or to such other address as the party shall have furnished in writing in accordance with the provisions of this Section 15).

[SIGNATURES TO THE EXECUTIVE EMPLOYMENT AGREEMENT ARE FOUND ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

EXECUTIVE: KATHLEEN E. FRAHER

/s/ Kathleen E. Fraher

Name: Kathleen E. Fraher

BANK: SILVERGATE BANK

By: /s/ Alan J. Lane

Alan J. Lane

Its: Chief Executive Officer

PARENT: SILVERGATE CAPITAL CORPORATION

By: /s/ Alan J. Lane

Alan J. Lane

Its: Chief Executive Officer

Exhibit A
Confidential and Security Agreement



Confidentiality and Security Agreement

Silvergate Bank (the “Bank”) regards the security and confidentiality of data and information to be of utmost importance. Further, it is the intent of this Agreement to ensure that confidential information, in any format, is not divulged outside of the Bank without explicit approval to do so by the Board of Directors, senior management, or the Chief Information Security Officer of the Bank. The Bank requires all users of data and information to follow the procedures outlined herein.

Policy of Confidentiality of Data

Each individual granted access to data (customer and proprietary corporate data) and hardcopy information holds a position of trust and must preserve the security and confidentiality of the information he/she uses. Users of Bank data and information are required to abide by all applicable federal and State guidelines, regulations and laws, and Bank policies regarding the confidentiality of data, including but not limited to the Gramm-Leach- Bliley Act (GLBA), Regulation P, California SB-1, and the Health Insurance Portability and Accountability Act (HIPAA). All users of Bank data and information must read and understand how the Bank policies regarding the privacy and security of customer and Bank data apply to their respective job functions. All users with access to our core Bank system or other Bank computer systems acknowledge that they have read and agree to abide by the Bank’s Acceptable Use Policy.

Any individual with authorized access to the Bank’s computer information system, records, or files, is given access to use the Bank’s data or files solely for the business of the Bank and must not divulge this information outside of the Bank or to other Bank employees/interns unless a valid business purpose exists.

Specifically, with respect to Bank records or information, individuals must:

- Access data solely in order to perform his/her job responsibilities;
- Not seek personal benefit or permit others to benefit personally from any data that has come to them through their work assignments;
- Not make or permit unauthorized use of any information in the Bank’s information systems or records;
- Not enter, change, delete, or add data to any information system or files outside the scope of their job responsibilities, that is in conflict with a Bank policy, or has malicious, fraudulent, or negligent intent;
- Not include or cause to be included in any record or report a false, inaccurate, or misleading entry known to the user as such;
- Not alter or delete or cause to be altered or deleted from any records, report or information system, a true and correct entry;
- Not release Bank data other than what is required for the completion of job responsibilities;
- Not exhibit or divulge the contents of any record, file, or information system to any person unless it is necessary for the completion of their job responsibilities.

It is the individual's responsibility to report immediately to his/her supervisor and/or to the Bank's Chief Information Security Officer any violation of this Agreement or any other action that violates customer confidentiality or the confidentiality of Bank data.

Security Measures and Procedures

All users of Bank information systems are supplied with an individual user account to access the data necessary for the completion of their job responsibilities. Users of the Bank's information systems are required to follow the procedures below:

- All transactions processed by a user ID and password are the responsibility of the person to whom the user ID was assigned. The user ID and password must remain confidential and must not be shared with anyone.
 - Using someone else's password is a violation of policy, no matter how it was obtained.
 - To reduce the risk of passwords being shared, passwords are not to be posted on or near workstations.
 - It is each individual's responsibility to change their password immediately if there is a belief that someone else has or could have obtained it.
 - Passwords must be changed periodically and/or if there is reason to believe they have been compromised or revealed inadvertently.
- Access to any customer or employee/intern information (in any format) is to be determined based on specific job requirements. Users are prohibited from viewing or accessing additional information (in any format) unless authorized to do so. Any access obtained without authorization is considered unauthorized access. Users may not divulge customer or employee/intern information to any third party without specific approval from senior management or the Chief Information Security Officer.
- To prevent unauthorized access, users must log off of all applications that are sensitive in nature, such as customer/employee/intern personal information, when leaving their workstation. Users agree to log off or secure their workstations during any period of absence.
- Temporary employees and interns should not have access to Bank systems, by default. Written approval from senior management and the Chief Information Officer is required if it is determined that access is required.
- Users agree to properly secure and dispose of any outputs or files created or used in the course of their job functions in a manner that fully protects the confidentiality of the records.
- Customer and employee/intern data must be secured during any absence from a user's workstation.

By my signature below, I agree to and understand the contents of this Confidentiality and Security Agreement. I understand that, if granted access to process transactions via our core Bank System or other Bank information systems, any information I enter or change is effective immediately. Accordingly, I understand I am responsible for any entries made using my user ID. I agree not to share or divulge my user ID or PIN/password to any other individuals.

I understand that my access to Bank data and information systems is for the sole purpose of carrying out my job responsibilities, and confidential information is not to be divulged outside of the Bank, except as stated herein. Breach of confidentiality, including aiding, abetting, or acting in conspiracy with any other person to violate any part of this Agreement, or any laws and regulations including, but not limited to, GLBA, California SB-1, HIPAA, and Regulation P, may result in disciplinary action, up to and including termination.

Kathleen Fraher /s/ Kathleen Fraher August 7, 2020

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

I, Antonio Martino, certify that:

1. I have reviewed this periodic report on Form 10-Q of Silvergate Capital Corporation;
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 statement 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 reports;
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)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of 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 control over financial reporting.

SILVERGATE CAPITAL CORPORATION

Date: May 11, 2021

By: /s/ Antonio Martino
Antonio Martino
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the periodic report of Silvergate Capital Corporation (the "Company") on Form 10-Q for the period ended March 31, 2021, as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in his respective capacities indicated below, hereby certifies as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the undersigned's best knowledge and belief:

- (1) the Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

SILVERGATE CAPITAL CORPORATION

Date: May 11, 2021

By: /s/ Alan J. Lane
Alan J. Lane
President and Chief Executive Officer

Date: May 11, 2021

By: /s/ Antonio Martino
Antonio Martino
Chief Financial Officer