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DELTA REPORT


10-K

USCB FINANCIAL HOLDINGS,
10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 31956

CHANGES	864
DELETIONS	14685
ADDITIONS	16407

 uscb-20231231p1i0

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

☒

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

For the fiscal year ended


December 31, 2022 2023

OR

□

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

For the transition period from _____ to _____

 uscb-20231231p1i0

FORM 10-K

DECEMBER 31, 2022 2023

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements that are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities

Exchange Act of 1934, as amended. The words “may,” “will,” “will,” “anticipate,” “anticipate,” “could,” “should,” “would,” “would,” “believe,” “believe,” “contemplate,”

“expect,” “aim,” “plan,” “estimate,” “continue,” and “intend,” as well as other similar words and expressions of the future, are intended to identify forward-looking statements. These forward-looking statements include statements related to our projected growth, anticipated future financial performance, and management’s long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected expected developments or events, or business and growth strategies, including anticipated internal growth.

These forward-looking statements involve significant risks and uncertainties that could cause our actual results to differ materially from those anticipated in such statements. Potential risks and uncertainties include, but are not limited to:

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- the COVID-19 pandemic and its impact on us, our employees, customers and third-party service providers, and the ultimate extent of the impacts of the pandemic and related government stimulus programs;
- our ability to successfully manage interest rate risk, credit risk, liquidity risk, and other risks inherent to our industry;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our credit loss reserve and deferred tax asset valuation allowance;
- the efficiency and effectiveness of our our internal control environment;
- our ability to comply with the extensive laws and regulations to which we are subject, subject, including the the laws for for each jurisdiction where we operate;
- adverse changes or conditions in the capital and financial markets, including actual or potential stresses in the banking industry;
- deposit attrition and the level of our uninsured deposits;
- legislative or regulatory changes and changes changes in accounting principles, policies, practices or guidelines, including the on-going effects of the implementation of the Current Current Expected Credit Losses (“CECL”) standard on January 1, 2023; ;
- the effects of our lack of a significantly diversified loan portfolio and concentration in the South Florida market, including the risks portfolio of geographic, depositor, and concentration in the South Florida market, including the risks of geographic, depositor, and industry concentrations, including our concentration in loans secured by loans secured by real estate,

in particular, commercial real estate;

- the effects of climate change;
- the concentration of ownership of our Class A common stock;
- fluctuations in the price of our Class A common stock;
- our ability to fund or access the capital markets at attractive rates and terms and manage our growth, both organic growth as well as growth through other means, such as future acquisitions;
- inflation, interest rate, unemployment rate, market, and monetary fluctuations;
- impacts of international hostilities and geopolitical events;
- increased competition and monetary fluctuations;
- increased competition and its effect on the pricing of our products and services as well as our net interest rate spread and net interest margin;
- the loss of our products and services as well as our margins; key employees;
- the effectiveness of our risk management strategies, including operational risks, including, but not limited to, client, employee, or third-party fraud and security cybersecurity breaches; and
- other risks described in this Annual Report on Form 10-K and other filings we make with the Securities and Exchange Commission ("SEC").

All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations. expectations. Therefore, you are you are cautioned not to not to place undue reliance undue reliance on any forward-looking statements. Further, forward-looking statements included in this presentation this Annual Report on Form 10-K are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, unless required to do so under under the federal securities laws. You You should also review the risk factors factors described in this Annual Report on Form 10-K and in the reports the Company filed or will file or will with the SEC and, for periods prior to the completion file with of the SEC and, for periods prior to the completion of the bank holding company reorganization, U.S. Century Bank (the Bank "Bank") filed with the Federal Deposit Insurance the Federal Deposit Insurance Corporation ("FDIC").

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PART I

Item 1. Business

Overview

USCB Financial Holdings, Inc., a Florida corporation (the "Company"), was formed on December 17, 2021, to serve as the holding company for U.S. Century Bank, a Florida state-chartered bank, (the "Bank"), and is a bank holding company (a "BHC") registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve") under the Bank Holding

Holding Company Act of 1956, as amended (the "BHC Act"). The Company is headquartered in Miami, Florida, and, through the Bank, its sole direct subsidiary, operates 10 banking centers in South Florida providing a wide range of personal and business banking products and through the Bank, its sole services subsidiary, operates 10 banking centers in South Florida providing a wide range

of personal and business banking products and services. As of December 31, 2022, December 31, 2023, the Company had total consolidated assets of \$2.1 billion. \$2.3 billion.

The Bank commenced operations on October 28, 2002 and is a Florida state-chartered, non-Federal Reserve System member bank. Over the course of 2021, the Bank simplified its capitalization structure by exchanging and/or repurchasing all of its issued and outstanding preferred shares, including Class C, Class D, and Class E preferred stock. In December 2021, the Bank reached agreements with holders of its Class B common stock, to exchange all outstanding Class B common stock, to exchange all outstanding Class B common stock for Class A common stock in a 1-for-5 stock exchange.

On July 27, 2021, the Bank completed an initial public offering of 4,600,000 shares of its Class A common stock. Shares of the Bank's Class A common stock were sold at a price to the public of \$10.00 per share and began trading on the Nasdaq

Stock Market under ticker symbol "USCB".

On December 30, 2021 (the "Effective Date"), the Company acquired all of the issued and outstanding stock of the Bank in a share exchange (the "Reorganization") effected under the Florida Business Corporation Act and in accordance with the terms of an Agreement and Plan of Share Exchange dated December 27, 2021 between the Bank and the Company

(the "Share Exchange Agreement"). The Reorganization and the Share Exchange Agreement were approved by the Bank's stockholders at a special meeting of the Bank's stockholders held on December 20, 2021. Pursuant to the Share Exchange

Agreement, on the Effective Date each issued and outstanding share of the Bank's Class A common stock was converted into and exchanged for one share of the Company's Class A common stock. As a result, the Bank became the wholly owned subsidiary of the Company, the Company became the holding company for the Bank and the stockholders of the Bank became stockholders of the Company.

Prior to the Effective Date, the Bank's Class A common stock was registered under Section 12(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), and the Bank was subject to the information requirements of the Exchange Act and, in accordance with Section 12(i) thereof, filed quarterly reports, proxy statements and other information with the Federal

Deposit Insurance Corporation ("FDIC"). As a result of the Reorganization, pursuant to Rule 12g-3(a) under the Exchange Act, the Company became the successor registrant to the Bank, the Company's Class A common stock was deemed to be registered under Section 12(b) of the

Exchange Act, and the Company became subject to the Bank, the Company's Class A common stock was deemed to be registered under Section 12(b) information requirements of the Exchange Act and is now required to file and the Company became reports, proxy subject to the information requirements of the Exchange Act statements and is now required to file reports, proxy statements and other information with the U. S. Securities

Exchange Commission The trading ("SEC"). The symbol for trading the Company's Class for the A Common Company's Class A Common Stock is "USCB", which is the same as the Bank's former trading symbol.

Prior to the Reorganization, the Company had no material assets and had not conducted any business or operations except for activities related to its incorporation and the Reorganization.

Our strategy in becoming a publicly traded company and forming a BHC was to continue pursuing organic growth as well as strategic acquisitions if the opportunity arises, which efforts will be further facilitated by access to public capital and the added flexibility provided by a holding company structure.

In this Annual Report on Form 10-K, unless the context indicated otherwise, references to "we," "us," and "our" refer to the Company and the Bank, as the context dictates. However, if the discussion relates to a period before the Effective Date, the terms refer only to the Bank.

Products and Services

Lending Services

Our mission is to provide high value, relationship-based banking products, products, services and solutions to a diverse set of clients in the markets we serve. We focus on serving small-to-medium sized businesses ("SMBs") and catering to the needs of local business owners, entrepreneurs and professionals in South Florida. We have further leveraged our success in

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providing comprehensive banking solutions to SMBs to also secure the personal retail deposit relationships of the owners, operators, and employees of our commercial lending clients, which has been a cornerstone of our deposit growth strategy. In addition to our traditional commercial banking services, we are among a select number of banks of our size within our market area that can offer certain specialty banking products, services and solutions designed for small businesses, homeowner associations, law firms, medical practices and other professional services firms, and global banking services. Our major specialty banking offerings include the following:

- **Small Business Administration (“SBA”) lending:**

Our SBA platform originates loans under Sections 7(a) and 504 of the SBA program. The 7(a) loan program, SBA's most common loan program, includes financial help for small businesses with special requirements while the 504 loan program provides long-term, fixed rate financing of up to \$5.0 million for major fixed assets that promote business growth and job creation. Since its formation in 2018, the platform serves as an opportunity to generate commercial and industrial loans, or C&I loans, and to diversify our revenue stream through originating and selling SBA 7(a) loans. As of December 31, 2022, 2023, the Bank is a Preferred Lending Partner with the SBA which allows us to offer the full range of SBA loan products and to exercise lending authority at the local bank level, allowing us to make timely credit decisions for prospective clients.

- **Yacht lending:**

Our yacht lending vertical provides yacht financing for larger vessels; transactions range from \$750 thousand to \$7.5 million. We target high net-worth clients, in one of the most active yacht markets in the country. In 2021, two portfolios of yacht loans were purchased as part of our strategic initiative to launch this new business vertical and diversify our portfolio.

- **Homeowner Association (“HOA”) services:**

We provide banking services to HOAs and property managers, including deposit collection, lockbox services, payment services, and lending products. Launched in 2016, we offer our HOA customers a unique combination of market knowledge of a local bank, and a highly personalized “white glove” approach to customer service.

- **Jurist Advantage and Private Client Group services:**

Our Jurist Advantage and Private Client Group vertical provides customized banking solutions for law firms as well as their partners, associates, staff, and high net worth clients. We also leverage our relationships with our law firm clients to generate personal deposit accounts.

- **Global Banking services:**

Our Global Banking vertical provides correspondent banking services for banks headquartered in certain Latin America and the Caribbean countries. We also cross-sell our correspondent banking relationships to generate international personal banking clients for our Bank. Our compliance team is experienced in issues related to foreign banking, and we have frequent and regular open communication with our foreign bank clients to ensure proper compliance controls are maintained at such institutions.

Credit Practices

Our underwriting process is informed by a conservative credit culture that encourages prudent lending. We believe our

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Seasonality

We do not believe our business to be seasonal in nature.

Markets

Our primary banking market is South Florida. Due to the recent acceptance and expected ongoing emphasis on remote work, coupled with a low tax environment, warm weather and a strong real estate market has encouraged companies to relocate some or all of their operations to South Florida. We believe this trend is further demonstrated demonstrated by recent relocation initiatives undertaken by large financial institutions such as Blackstone Group Inc., Goldman Sachs Group Inc., and Citadel

Advisors LLC, all of which have established operations in South Florida. We believe Florida offers long-term attractive banking opportunities. Our largest concentration is in the Miami metropolitan statistical area; however, we are also focused on growth in other urban Florida markets in which we have a presence, such as Broward and Palm Beach counties.

According to the 2020 United States Census Bureau, Bureau's estimate, Florida was the third most populous state in the country in

2023 and the three largest population centers were in Miami-Dade, Broward, and Palm Beach counties (all located in South

counties, all located Florida) in South 2022. According Florida.

According to estimates from the United States Census Bureau, from 2010 from 2020 to 2021, 2023, Florida's population increased to 22.6 million residents, an increase of 1.0 million new residents. The percentage change in Florida's population increased to 21.8 million residents, an increase of 3.0 million new residents. The percentage change in Florida's population between April 2020 and July 2021 2023 alone was 1.1% 5.0% according to the United States Census Bureau.

Competition

Our markets are highly competitive, and we compete with a wide range of lenders and other financial institutions within our markets, including local, regional, national, and international commercial banks and credit unions. We also compete with mortgage companies, brokerage firms, trust service providers, consumer finance companies, mutual funds, securities firms, insurance companies, third-party payment processors, financial technology companies, or Fintechs, and other financial intermediaries on various of our products and services. Some of our competitors are not subject to the regulatory restrictions and the level of regulatory supervision applicable to us. Many of our competitors are much larger financial institutions that have greater financial resources than we do and compete aggressively for market share. These competitors attempt to gain market share through their financial product mix, pricing strategies and larger banking center networks.

Interest rates on both loans and deposits and prices of fee-based services are significant competitive factors among financial institutions generally. Other important competitive factors include convenience, quality of customer service, availability and quality of digital offerings, community reputation, and continuity of personnel and services.

Emerging Growth Company

We are an "emerging growth company," or "EGC" or "EGC", as defined in the Jumpstart Our Business Startups Act of 2012 (the

"JOBS Act"). As such, we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act also provides that an EGC can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "Securities Act"), for complying with new or revised accounting standards. In other words, an EGC can delay the adoption of of certain accounting standards until those standards would otherwise apply to private companies. We intend to take advantage advantage of the benefits of this extended transition period, for as long as it is available.

We will remain an EGC until the earliest to occur of (i) the end of the fiscal year following the fifth anniversary of the completion of the Bank's initial public offering in 2021, (ii) the last day of the first fiscal year in which the Company's annual gross revenues exceed \$1.24 billion, (iii) the date that the Company becomes a "large accelerated filer" as defined in Rule 12b-2 under the Exchange Act which would occur if the market value of the Company's common stock that is held by non-affiliates exceeds \$700 million as of the last business day of the Company's most recently completed second fiscal quarter (June 30th for the Company), or (iv) the date on which the Company has issued more than \$1 billion in non-convertible debt during the preceding three-year period.

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Human Capital Resources

We respect the values and diversity throughout our organization and the community. Diversity and inclusion are integral parts of our organization's culture. We seek the active active engagement and and participation of of people with with

diverse backgrounds and ethnicities. We are taking steps to create programs to ensure that we are organized in a way where the unique contributions of each individual in our Company is recognized and supported. Each team member is to be be treated fairly with equal access to opportunities and resources for success. Additionally, we run homebuyer educational and financial literacy workshops in an effort to reach the financing financing needs of the the sectors of our communities in which these workshops are most needed.

Our human capital

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objectives include attracting,
developing and retaining

7 the best available USCB Financial Holdings, Inc. talent from a 2022 10-K diverse pool of candidates for the Company. To do so, we strive to maintain competitive pay and benefits, regularly updating our compensation structure and periodically reviewing our compensation and benefits programs. Additionally, the Company

identifies opportunities and paths for the development of our staff, and we seek to, whenever possible, fill positions by promotion within. The Company recognizes that the skills and knowledge of its employees are critical to the success of the organization, and promotes training and continuing education as an ongoing function for employees.

We recognize the importance of our employee's financial health and well-being, and offer benefits such as a 401(k) retirement savings plan and make both matching and profit-sharing contributions to that plan. Benefit programs available to eligible employees include, in addition to the 401(k) retirement savings plan, health and life insurance, employee paid holidays and other benefits.

We value and promote diversity and inclusion in every aspect of our business and at every level within the Company. We recruit, hire, and promote employees based on their individual ability and experience and in accordance with Affirmative Action and Equal Employment Opportunity laws and regulations. Our policy is that we do not discriminate on the basis of race, color, religion, sex, gender, sexual orientation, ancestry, pregnancy, medical condition, age, marital status, national origin, citizenship status, disability veteran status, gender identity, genetic information, or any other status protected by law. At **December 31, 2022** December 31, 2023, we had **191 full 196 -time full-time** equivalent employees. None of our employees are parties to a collective bargaining agreement. We believe that our employees are our greatest asset and vital to our success. As such, we seek to hire and retain the best candidate for each position, without regard to age, gender, ethnicity, or other protected class status, but with an appreciation for a diversity of perspectives and experiences. We have designed a compensation structure including an array of benefit plans and programs **that that** we believe is attractive to our current and prospective employees.

Regulation and Supervision

Bank holding companies, banks, and their affiliates are extensively regulated under federal and state **law law. and regulation.**

These laws These and regulations regulations have a **material material** effect on the **operations operations** of USCB Financial **Holdings, Holdings, Inc.** and its direct and indirect subsidiaries, including U.S. Century Bank.

Statutes, regulations and regulatory policies limit the activities in which we **may may** engage and **the the** conduct of **our our** permitted activities and establish capital requirements with which we must comply. The regulatory framework is intended primarily for the protection of depositors, borrowers, customers and clients, the **Federal FDIC Deposit insurance Insurance Corporation ("FDIC")**

insurance funds and the banking system as **a a** whole, and not for the protection of our shareholders or creditors. In many cases, the applicable regulatory **authorities have broad authorities have broad** enforcement power over bank holding companies, banks and their **subsidiaries, including the power to impose subsidiaries, including the power to impose** substantial fines and other penalties for violations of laws and regulations.

Further, the regulatory system imposes reporting and information collection obligations. Banking statutes and regulations are subject to change, and additional statutes, regulations, and corresponding guidance may be adopted. We are unable to predict these future changes or the effects, if any, that these changes could have on the business, prospects, revenues, and results of operations of **our the** Bank and Company.

The material statutory and regulatory requirements that are applicable to us are summarized below. The description below is not intended to summarize **all laws all and regulations applicable to us. These summary descriptions are not intended to be a complete explanation of such laws and regulations and their effects on USCB Financial Holdings, Inc. and U.S.**

Century Bank and are qualified in their entirety by reference to the actual laws and **regulations applicable to**

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2018 Regulatory Reform

In May 2018 the Economic Growth, Regulatory Relief and Consumer Protection Act (the “2018 Act”), was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Wall Street Reform and corresponding guidance Consumer Protection Act (“Dodd-Frank Act”) enacted in 2010. While the 2018 Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more information. than \$50 billion.

Many of these changes resulted in meaningful regulatory relief for community banks such as U.S. Century Bank.

The 2018 Act, among other matters, expanded the definition of “qualified mortgages” which may be held by a financial institution and simplified the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than \$10 billion by instructing (as described below) the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8 and 10 percent to replace the leverage and risk-based regulatory capital ratios. The 2018 Act also expanded the category of holding companies that may rely on the “Small Bank Holding Company and Savings and Loan Holding Company Policy Statement” (the “SBHC Policy”) by raising the maximum amount of assets a qualifying holding company may have from \$1.0 billion to \$3.0 billion. This expansion also excluded such holding companies from the minimum capital requirements of the Dodd-Frank Act. In addition, the 2018 Act included regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Bank and Bank Holding Company Regulation

As a Florida Florida-chartered state bank, U.S. Century Bank is subject to ongoing and comprehensive supervision, regulation,

examination, and enforcement by the FDIC and the Florida Office of Financial Regulation (“FOFR”). The FOFR supervises and regulates all areas of our operations including, without limitation, the making of loans, the issuance of securities, the conduct of our corporate affairs, the satisfaction of capital adequacy requirements, the payment of dividends, and the establishment or closing of banking centers. In addition, our deposit accounts are insured by the Deposit Insurance Fund (the “DIF”) administered by the FDIC to the maximum extent permitted by law, and the FDIC has certain supervisory supervisory and enforcement enforcement powers over us.

Any entity that directly or that directly indirectly controls a bank or indirectly controls a bank must be approved by the Federal Reserve under the Board under the Bank Holding

Holding Company Act of 1956 (the “BHC Act”) to become a bank holding company. BHCs Bank holding companies are subject to regulation,

regulation, inspection, examination, supervision and enforcement by the Federal Reserve Board under the BHC Act.

The Federal

Reserve Board's Reserve's jurisdiction also extends to any company that is directly or indirectly controlled by a BHC. bank holding company.

USCB Financial Holdings, Inc., Holdings, Inc., which controls U.S. Century Bank, is a bank holding is a BHC company and, as such, is subject

to ongoing and comprehensive supervision, regulation, examination and enforcement by the Federal Reserve Board. Reserve.

Notice and Approval Requirements Related to Control

Banking laws impose notice, approval, and ongoing regulatory requirements on any shareholder or other party that seeks to acquire direct direct or indirect “control” “control” of an FDIC-insured FDIC-insured depository institution. These laws

laws include the BHC Act and the Change in Bank Control Act. Among other things, these laws require regulatory filings by individuals or entities that or companies that seek to acquire direct or indirect "control" of an FDIC-insured depository institution. The determination of whether an investor "controls" a depository institution is based on all of the facts and circumstances surrounding the investment. As a general matter, a party is deemed to conclusively control a depository institution or other company if the party owns or controls 25% or more of any class of voting stock. Subject to rebuttal, a party may be presumed to control a depository institution or other company if the investor owns or controls 10% or more of any class of voting stock (and the entity's securities are registered under the Exchange Act or, if not, the investor would be the largest shareholder). Except under limited circumstances, BHCs are bank holding companies are prohibited from acquiring, without prior approval, control of any other bank or BHC bank holding company or substantially all the assets thereof or more than 5% of the voting shares of a bank or BHC bank holding company which is not already a subsidiary.

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Source of Strength

All companies, including BHCs, bank holding companies, that directly or indirectly control an insured depository institution, are required to serve as a source of strength for the institution. Furthermore, strength the Federal Reserve policy is that a bank holding company should stand ready to use available resources to provide adequate capital to its subsidiary banks during periods of financial stress or adversity and should maintain the financial flexibility and capital-raising capacity to obtain additional resources for the assisting its subsidiary institution. banks. Under this requirement, USCB Financial Holdings, Inc. in the future could be required to provide financial assistance to U.S. Century Bank should it experience financial distress. Such support may be

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required at times when, absent this statutory and Federal Reserve Policy policy requirement, a BHC bank holding company may not be inclined to inclined provide it. A bank holding company's failure to provide meet its obligations to serve as a source of strength to its subsidiary it. banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations, or both.

Safety and Soundness Regulation

As an insured depository institution, we are subject to prudential regulation and supervision and must undergo regular on-site examinations by our state and federal banking agencies. The cost of examinations of insured depository institutions and any affiliates are assessed by the appropriate agency against each institution or affiliate that is subject to examination as it deems necessary or appropriate. appropriate. We file file quarterly consolidated consolidated reports of of condition and income, or or call reports, with the FDIC and FOFR.

The federal banking agencies have also adopted guidelines establishing safety and soundness standards for all insured depository institutions including U.S. Century Bank. The the Bank. The safety and soundness guidelines relate to, relate to, among other things, our internal things, our internal controls, information systems, internal audit systems, loan underwriting and documentation, anti-money laundering policies and procedures, information transactions systems, with cybersecurity, insiders, internal risk audit management, systems, compensation, loan asset growth, underwriting and documentation, anti-money laundering policies and procedures, transactions with insiders, risk management, compensation, asset growth, and interest rate exposure.

These standards assist the federal banking agencies with early identification and resolution of problems at insured depository problems institutions. If we were at insured depository institutions. If we were to fail to meet or otherwise comply with any with any of these standards, the

FDIC could require us to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit a plan for achieving and maintaining compliance. If a financial institution fails to submit an acceptable acceptable compliance plan, or fails in any material respect to implement a compliance plan that has been accepted by the FDIC, the FDIC, the FDIC is required to issue an order directing the institution to cure the institution to cure the deficiency. Until the deficiency cited in the

order is cured, the FDIC may restrict the FDIC may restrict the financial institution's rate of growth, require require the financial institution to institution to increase its capital, restrict its capital,

restrict the rates the institution pays on deposits or require the institution to take any action the regulator deems appropriate appropriate under the circumstances. Noncompliance with the standards established by the safety and soundness guidelines may also constitute grounds also constitute grounds for other enforcement action, including cease and desist orders and civil money penalty assessments.

penalty assessments. In addition, the FDIC could terminate our deposit insurance if it determines that our financial condition was unsafe or financial condition was unsafe or unsound or that we engaged in unsafe or unsound practices that violated applicable rules, regulations, orders or conditions enacted or imposed on us by our regulators. During the past decade, the bank regulatory agencies have increasingly emphasized the importance of sound risk management processes and and strong internal internal controls when when evaluating the activities of the activities of the financial institutions they supervise.

Properly managing risks has been identified as critical to the conduct of safe and sound banking activities and has become even more important as new technologies, product innovation and the size and speed of financial transactions have changed the nature of banking markets. The agencies have identified a spectrum of of risks facing a a banking institution including, including, but not limited to, credit, market, liquidity, interest rate, cybersecurity, operational, legal and reputational risk. In particular, recent regulatory pronouncements have focused on operational risk, which arises from the potential that that inadequate information systems, operational problems, breaches in internal controls, fraud or unforeseen catastrophes will result in unexpected losses. New products and services, use of outside vendors and cybersecurity are critical sources of operational risk that financial institutions are expected to address in the current environment. We have have active Board Board and senior senior management oversight policies, procedures and risk limits; adequate risk measurement and monitoring and adequate management information systems; and comprehensive internal controls to address these various risks.

Permissible Activities and Investments

Banking laws generally restrict the ability of USCB Financial Holdings, Inc. to engage in activities other than those determined by the Federal Reserve Board to be so closely related to banking as to be a proper incident thereto. The Gramm- Federal

Leach-Bliley Reserve has determined by regulation that certain activities are closely related to banking including operating a mortgage company, finance company, credit card company, factoring company, trust company or savings association; performing certain data processing operations; providing limited securities brokerage services; acting as an investment or financial advisor; acting as an insurance agent for certain types of credit-related insurance; leasing personal property on a full-payout,

non-operating basis; providing tax planning and preparation services; operating a collection agency; and providing certain courier services. In addition, the Gramm-Leach-Bliley Act (the “GLB “GLB Act”) expanded the scope of permissible activities for a BHC bank holding company that qualifies as a financial holding company. company. Under the regulations implementing the GLB Act, a financial holding company may engage in additional activities that are financial in nature or incidental or complementary to a financial activity financial such as securities activity, underwriting, insurance underwriting and merchant banking. USCB Financial Holdings, Inc. is not a financial holding company. In addition, as a general matter, the establishment or acquisition acquisition by USCB Financial Holdings, Inc. of Holdings, Inc., of a non-bank entity, or the initiation of a non-banking activity, requires prior regulatory approval. In approving acquisitions or the addition of activities, the Federal Reserve Board considers, among other things, whether the acquisition or the additional activities can

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reasonably be expected to produce benefits to the public, such as greater convenience, increased competition or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

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Regulatory Capital Requirements

The federal banking regulators have adopted risk-based capital adequacy guidelines for bank holding companies and their subsidiary banks and banks without bank holding companies based on the Basel III standards.

Under these guidelines,

assets and off-balance sheet items are assigned to specific risk categories, each with designated risk weightings. The risk-based capital guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure, to minimize disincentives for holding liquid assets, and to achieve greater consistency in evaluating the capital adequacy of major banks throughout the world.

The resulting capital ratio requirements represent capital as a percentage of total risk-weighted assets and off-balance sheet items. Final rules implementing the capital adequacy guidelines became effective, with various phase-in periods, on January 1, 2015 for community banks such as us. All of the rules were fully phased in as of January 1, 2019. These final rules represent a significant change to the prior general risk-based capital rules and are designed to substantially conform to the Basel III international standards.

In computing total risk-weighted assets, bank and bank holding company assets are given risk-weights of 0%, 20%, 50%, 100% and 150%. In addition, certain off-balance sheet items are given similar credit conversion factors to convert them to asset equivalent amounts to which an appropriate risk-weight will apply. Most loans will be assigned to the 100%

risk category, except for performing first mortgage loans fully secured by 1-to-4 family or certain multi-family residential properties, which carry a 50% risk rating. Most investment securities (including, primarily, general obligation claims on states or other political subdivisions of the United States) will be assigned to the 20% category, except for municipal or state revenue bonds, which have a 50% risk-weight, and direct obligations of the U.S. Treasury or obligations backed by the full faith and credit of the U.S. government, which have a 0% risk-weight. In covering off-balance sheet items, direct credit substitutes, including general guarantees and standby letters of credit backing financial obligations, are given a 100%

conversion factor. Transaction-related contingencies such as bid bonds, standby letters of credit backing nonfinancial obligations, and undrawn commitments (including commercial credit lines with an initial maturity of more than one

year)

have a 50% conversion factor. Short-term commercial letters of credit are converted at 20% and certain short-term unconditionally cancelable commitments have a 0% factor.

Under the final rules, minimum requirements increased for both the quality and quantity of capital held by banking organizations. In this respect, the final rules implement strict eligibility criteria for regulatory capital instruments and improve the methodology for calculating risk-weighted assets to enhance risk sensitivity. Consistent with the international Basel III framework, the rules include a new minimum ratio of Common Equity Tier 1 Capital to Risk-Weighted Assets of 4.5%. The

rules also create a Common Equity Tier 1 Capital conservation buffer of 2.5% of risk-weighted assets. This buffer is added to each of the three risk-based capital ratios to determine whether an institution has established the buffer. The rules raise the minimum ratio of Tier 1 Capital to Risk-Weighted Assets from 4% to 6% and include a minimum leverage ratio of 4% for all banking organizations. If a financial institution's capital conservation buffer falls below 2.5% — e.g., if the institution's

Common Equity Tier 1 Capital to Risk-Weighted Assets is less than 7.0% — then capital distributions and discretionary bonus payments will be limited or prohibited based on the size of the institution's conservation buffer. The types of payments subject to this limitation include dividends, share buybacks, discretionary payments on Tier 1 instruments, and discretionary bonus payments.

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billion or the Federal Reserve determines that USCB Financial Holdings, Inc. is no longer deemed to be a small bank holding company. However, if USCB Financial Holdings, Inc. had been subject to the requirements, it would have been in compliance with such requirements.

In September 2019, the federal banking agencies jointly finalized a rule intended to simplify the regulatory capital requirements described above for qualifying community banking organizations that opt into the Community Bank Leverage Ratio, or CBLR, framework, as required by Section 201 of the Regulatory Relief Act. The final rule became effective on January 1, 2020, and the CBLR framework became available for banks to use beginning with their March 31, 2020 call reports. Under the final rule, if a qualifying community banking organization opts into the CBLR framework and meets all requirements under the framework, it will be considered to have met the well-capitalized ratio requirements under the prompt corrective action regulations described elsewhere below in this Form 10-K and will not be required to report or calculate risk-based capital. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9%, less than \$10 billion in total consolidated assets, off-balance sheet exposures of 25% or less of total

consolidated

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assets,

and

10 trading USCB Financial Holdings, Inc. assets 2022 10-K

consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. However, Section 4012 of the Coronavirus Aid, Relief and Economic

U.S. Century Bank is a qualifying Security Act (the community banking organization, "CARES Act") required U.S. Century Bank has that elected not to opt in to the CBLR be temporarily lowered framework to 8%. The federal regulators issued a rule implementing the lower CBLR effective April 23, 2020. The rule also established a two-quarter grace period for a qualifying institution whose leverage ratio falls below the 8% CBLR requirement so long as the bank maintains a leverage ratio of 7% or greater. Another rule was issued to transition back to the 9% CBLR by increasing the ratio to 8.5% for calendar year 2021 and 9% thereafter. Although the Bank is a qualifying community banking organization, the Bank has elected not to opt in to the CBLR framework at this time and will continue to follow the Basel III capital requirements as described above.

As of December 31, 2022 2023 and 2021, 2022, the Bank U.S. Century Bank qualified as a "well capitalized" institution.

See See Note 15

15 "Regulatory

Matters" of the Consolidated Financial Statements included in Item 8 of this Annual Report Form 10-K for further details.

Prompt Corrective Action

Under the Federal Deposit Insurance Act ("FDIA"), the federal bank regulatory agencies must take take "prompt" prompt corrective action" against undercapitalized U.S. depository institutions. The capital-based regulatory framework contains five categories of compliance with regulatory capital requirements, including "well capitalized," "adequately capitalized,"

"undercapitalized," "significantly undercapitalized," and "critically undercapitalized," and are subjected to differential regulation corresponding to the capital category within which the institution falls.

As of December An insured depository 31, 2021, institution is deemed to be "well capitalized" if it has a depository institution was deemed to be "well capitalized" if the banking institution had a total risk-based capital ratio of 10.0% or

greater, a 10.0% tier 1 risk-based capital ratio of 8.0% or greater, a tier Common Equity Tier 1 risk-based risk-based capital ratio of 8.0% or greater, 6.5% and a CET1 risk-based capital leverage ratio of 6.5% and a leverage ratio of 5.0% or greater, and the institution was is not subject to an order, written agreement, capital directive, or prompt corrective action directive to meet and maintain a specific level for any capital measure. Under certain circumstances, a

well-capitalized, adequately capitalized or undercapitalized institution may be be treated as if the institution were in the next lower capital category if it is determined that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. capital category The degree of if it's regulatory scrutiny determined that the of a financial institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. A Under specified circumstances, a federal banking agency may reclassify a "well-capitalized" institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that is the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized). A banking institution that is undercapitalized is required to submit submit a capital restoration plan. Failure to meet capital guidelines could subject the institution to a capital restoration variety plan. Failure to meet capital guidelines could subject the institution to a variety of enforcement remedies by federal bank regulatory agencies, agencies, including: termination of deposit insurance by the FDIC, restrictions on certain business activities, and activities, and appointment of the FDIC as conservator or receiver.

At December 31, 2023, U.S. Century Bank was deemed to be a "well-capitalized" institution for purposes of the prompt corrective action regulations and as such is not subject to the above mentioned restrictions.

Commercial Real Estate Concentration Guidelines

The federal banking regulators have implemented guidelines to address increased concentrations in commercial real estate loans. These guidelines describe the criteria regulatory agencies will use as indicators to identify institutions potentially exposed to commercial real estate concentration risk. An institution that has (i) experienced rapid growth in commercial real estate lending, (ii) notable exposure to a specific type of commercial real estate, (iii) total reported loans for construction, land development, and other land representing 100% or more of total capital, or (iv) total commercial real estate (including construction) loans representing 300% or more of total capital and the outstanding balance of the institution's commercial real real estate portfolio portfolio has increased by 50% or more in the prior 36 months, may be identified for further supervisory analysis of a potential concentration risk.

As of December 31, 2022, 2023, our ratio of construction loans to total risk-based capital was 27% 21%, and and therefore, we we were under the 100% threshold set forth in clause (iii) in the paragraph above. However, with respect to clause (iv) in the paragraph above, as of December 31, 2022, 2023, our ratio of total commercial real estate loans to total risk-based risk-based capital was

was

390% [Table of Contents](#)

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384% and the outstanding balance of the institution's commercial real estate portfolio increased by 50% or or more in the prior

36 months. As a result, we are deemed to have a concentration in commercial real estate lending under applicable regulatory guidelines.

If a concentration is present, under the federal banking regulator' guidance, management should employ heightened risk management practices that address key elements, including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. To address the commercial real estate lending concentration, USCB Financial Holdings U.S. Century Bank has previously established a a commercial real estate lending framework to monitor specific exposures and limits by types within the commercial real estate portfolio, including, among other things, annual stress testing of the commercial real estate portfolio, and takes appropriate actions, as necessary.

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Payment of Dividends and Share Repurchases

The ability of the board of directors of an insured depository institution to declare a cash dividend or other distribution with respect to capital is subject to federal and state statutory and regulatory restrictions that limit the amount available for such distribution

depending upon earnings, financial condition, and including cash needs of whether the institution as has well negative retained earnings, and cash needs of the institution, as well as general business conditions. general business conditions.

Insured depository institutions are also prohibited from paying management fees to any controlling persons or, with certain limited exceptions, making capital distributions, including dividends, if after such transaction the institution would be less than adequately capitalized. We may then generally declare a dividend adequately from retained net profits capitalized, which accrued prior to We the preceding two may years, but we must, generally before the declare declaration of a dividend from on retained our common stock, under applicable Florida law, carry 20% of our net profits which for accrued prior to the such preceding two years, but we must, before the declaration of a dividend on our common stock, under applicable Florida law, period

carry 20% of our net profits for such preceding period as is covered by the dividend to our surplus fund, until the same shall at least equal the amount of our common stock and preferred stock, if if any, then issued and outstanding. Under Florida law, we are prohibited prohibited from declaring a a dividend at any time at which our net income from the current year combined with the retained net income from the preceding two current year combined with the retained net income from the preceding two years is a loss or which would cause our capital accounts to a loss or which would cause our capital accounts to fall below the minimum amount required by law,

regulation, order, regulation, order, or any written agreement with a state or federal regulatory agency.

In addition, Furthermore, under applicable FDIC

regulations and policy, because U.S. Century Bank has we are a BHC, we are dependent upon negative retained earnings, it must obtain the prior approval of the

FDIC before effecting a cash dividend or other capital distribution.

A Federal Reserve policy statement on the payment of cash dividends states that a bank holding company should pay cash dividends only to the extent that the holding company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the holding company's capital needs, asset quality and overall financial condition. The Federal Reserve's policy statement also provides that it would be inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Furthermore, under the federal prompt corrective action regulations, the Federal Reserve may prohibit a bank holding company from paying any dividends if the holding company's bank subsidiary is classified as "undercapitalized." See " - Prompt Corrective Action" above.

Section 225.4(b)(1) of Regulation Y promulgated by the Federal Reserve requires that Bank a bank holding company that is not "well-capitalized" or "well-managed", as our principal source of funds or that is subject to pay dividends in the future, if any and unresolved supervisory issues, provide prior notice to make the

Federal Reserve for any repurchase or redemption of its equity securities for cash or other payments. It value that is would reduce by 10 percent or more the policy bank holding company's consolidated net worth aggregated over the preceding 12-month period. The Federal Reserve may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order or any condition imposed by, or written agreement with, the Federal Reserve. As of December 31, 2023, USCB Financial Holdings, Inc. was not subject to any formal supervisory restrictions on its ability to pay dividends but will notify the Federal Reserve

Board that BHCs should pay cash in dividends on common stock only out advance of income available over the past any proposed year and only dividend if prospective earnings retention is consistent with to the organization's expected future needs and Company's financial condition. The shareholders policy in light of the Bank's negative retained earnings. In addition, we will provides that BHCs should not maintain a level of cash dividends that undermines provide prior notification to the BHC's ability Federal Reserve prior to serve as a source of strength to its banking subsidiaries. effecting proposed share repurchases.

Incentive Compensation

Guidelines adopted by the federal banking banking agencies pursuant to to the FDIA FDIA prohibit excessive compensation as as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder.

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Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted asset, and periodically evaluated for impairment based on ultimate recovery of par value. As of December 31, 2022 2023 and

Loans Held for Investment and Allowance for Credit Losses

Loans held for investment ("loans") are reported at their outstanding principal balance net of charge-offs, deferred loan fees, cost, unearned income, and the ACL. Interest income is generally recognized when income is earned using the interest method. Loan origination and commitment fees and the costs associated with the origination of loans are deferred and amortized, using the interest method or the straight-line method, over the life of the related loan.

If the principal or interest on a commercial loan becomes due and unpaid for 90 days or more, the loan is placed on non-accrual status as of the date it becomes 90 days past due and and remains in non-accrual non-accrual status until it meets meets the criteria for restoration to accrual status. Residential loans, on the other hand, are placed on non-accrual status when the principal or interest becomes due and unpaid for 120 days or more and remains remains in non-accrual non-accrual status until until it meets the criteria for restoration to accrual status. Restoring a loan to accrual status is possible when the borrower resumes payment of all principal and interest payments for a period of six months and the Company has a documented expectation of repayment of the remaining contractual principal and interest or the loan becomes secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual status is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, under under which cash cash collections are are applied to unpaid principal, which may change as conditions dictate.

The Company has determined that the entire balance of a a loan is contractually delinquent for all classes if the minimum payment is not received by the specified due date on the borrower's statement. Interest and fees continue to accrue on past due loans until the date the loan goes into nonaccrual status.

The Company provides for loan losses through a provision for credit losses charged to operations. When management believes that a loan or a portion of the loan balance is uncollectible, that amount is charged against the ACL. Subsequent recoveries, if any, are credited to the ACL.

The ACL reflects management's judgment of probable expected loan losses inherent in the portfolio at the balance sheet date.

Management uses a disciplined process and methodology to establish the **ACL** **ACL** each quarter. To determine the total ACL, the Company estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The ACL consists of the amount applicable to the following segments:

- Residential real estate
- Commercial real estate
- Commercial and industrial
- Foreign banks
- Other loans (secured and unsecured consumer loans)

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Residential real estate loans are underwritten following the policies of the Company which includes include a review of the borrower's credit, capacity and the collateral securing the loan. The borrower's ability to repay involves an analysis of factors including: current income, income, employment status, monthly payment of the loan, current current debt obligations, obligations, monthly debt to income ratio and credit history. The Company relies on appraisals in determining the value of the property. Risk is mitigated by this analysis and the diversity of the residential portfolio.

Commercial real estate loans are secured by liens on commercial properties, land, construction and multifamily housing.

Underwriting of commercial real estate loans will analyze the key market and business factors to arrive at a decision on the credit credit worthiness of the borrower. The analysis may include the capacity of the borrower, borrower, income generated by property for debt service, debt service, other sources of of repayment, sensitivity analysis to to fluctuations in market conditions including vacancy and rental rental rates in geographic location and loan to value. Land and construction loan analysis will include the time to develop, sell or lease

the property. Appraisals are used to determine the value of the the underlying collateral. Risk is mitigated as the properties properties securing the commercial real estate loans are diverse in type, location, and loan structure.

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Commercial and industrial loans are secured by the business assets of the company and may include equipment, inventory, and receivables. The loans are underwritten based on the income capacity of the business, the ability to service the debt based on operating cash flows, the credit worthiness of the borrower, other sources of repayment and collateral.

The Company mitigates the risk in the commercial portfolio through industry diversification.

Foreign Banks banks loans are are short term-term loans with international correspondent banking institutions primarily domiciled in

Latin America. Most of these loans are for trade capital and have a life of less than one year. The Company's Company's credit review includes a credit analysis, peer comparison and current country risk overview. Annual re-evaluation of the risk rating of the borrower and country where the borrower is located and a review of by the authorized signer signer within the Company. The risk is mitigated as these loans are short term, have limited exposure, and are geographically dispersed.

Other loans are secured and unsecured consumer loans including yacht loans, personal loans, overdrafts and deposit account account collateralized loans. Repayment of these loans are primarily from the personal income of the borrowers. Loans are underwritten based on the credit worthiness of the borrower. The risk on these loans is mitigated by small loan balances.

In Under determining CECL, the balance Company estimates the ACL using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit losses provide the basis for estimation of expected credit losses. Qualitative adjustments are applied to the expected credit losses estimated for the loan portfolio in relation to potential limitations of the ACL, quantitative model. A scorecard is used to aid management in the assessment of qualitative factor adjustments applied to expected credit losses.

The quantitative component of the estimate relies on the statistical relationship between the projected value of an economic indicator and the implied historical loss experience among a curated group of peers. The Company utilized regression analyses of peer data, in which the Company was included, and where observed credit losses and selected economic factors were used to determine suitable loss drivers for modeling the lifetime rates of probability of default (PD).

A loss given default rate (LGD) is assigned to each pool for each period based on these PD outcomes. The model fundamentally utilizes an expected discounted cash flow (DCF) analysis for loan portfolio segments. The DCF analysis is run at the instrument-level and incorporates an array of loan-specific data points and segment-implied assumptions to determine the lifetime expected loss attributable to each instrument. An implicit "hypothetical loss" is derived for each period of the DCF and helps establish the present value of future cash flows for each period. The reserve applied to a specific instrument is the difference between the sum of the present value of future cash flows and the book balance of the loan at the measurement date.

Management elected the Remaining Life (WARM) methodology for five loan portfolio segments. For each of these segments, a long-term average loss rate is calculated and applied on a quarterly basis for the remaining life of the pool.

Adjustments for economic expectations are made through qualitative assessments. For the remaining life estimated,

management implemented a software solution that uses an attrition-based calculation that performs quarterly, cohort-based attrition measurements based on the loan portfolio.

Portfolio segments are the level at which loss assumptions are applied to a pool of loans based on the similarity of risk characteristics inherent in the included instruments, relying on collateral codes and FIEEC Call

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- Combined loan to value ("CLTV") qualitative adjustment for substandard accrual loan segment

Changes in these factors could nature and volume of portfolio

- Changes in the volume and severity of past due loans result and other similar conditions

- Concentration risk

- Changes in material adjustments to the value of underlying collateral

- The effect of other external factors: e.g., competition, ACL. The losses the Company may ultimately incur legal, and regulatory requirements could differ materially from the amounts estimated • Changes in arriving at the ACL. lending management, among others

In addition to the ACL, the Company also estimates probable losses related to financial reserve instruments with off-balance sheet risk, such as letters of credit and unfunded loan commitments, and records these estimates in other liabilities on the Consolidated Balance Sheets reported with separately from the offset allowance recorded for credit losses within in non-interest expense on the Consolidated Statements of Operations. Financial instruments with off-balance sheet risk are subject to review on an aggregate basis. Past loss experience and any other pertinent information is reviewed, resulting in the estimation of the liabilities. The reserve for financial instruments with off-balance sheet risk that would cause their ability to meet contractual obligations to be similarly

A loan is considered impaired when, based on current information upon the same quantitative and qualitative factors applied to the contractual terms of the loan agreement or when the collectively evaluated loan is designated as a Troubled Debt Restructuring ("TDR"). Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable fair value, or the fair value of the collateral, if the loan is collateral dependent. If management determines that the value of the impaired loan is less than the recorded investment in the loan (outstanding principal balance plus accrued interest, net of previous charge-offs, and net of deferred loan fees or cost), impairment is recognized through an allowance estimate or a charge-off to the ACL.

In situations where, due to a borrower's financial difficulties, management grants a concession for other than an insignificant period of time to the borrower that would not otherwise be granted, the loan is classified as a TDR. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed by the President of the United States. The CARES Act has certain provisions which encourage financial institutions to prudently work with borrowers impacted by COVID-19. Under these provisions, modifications deemed to be COVID-19 related would not be considered a TDR if the loan was not more than 30 days past due as of December 31, 2019. The deferral would need to be executed March 1, 2020 and the earlier of 60 days after the date of termination of the COVID-19 national emergency or December 31, 2020. Additional legislation was passed in December of 2020 that extended the TDR relief to January 1, 2022. Banking regulators issued similar guidance clarifying that a COVID-19 related modification should not be considered a TDR if the borrower was current on payments at the time the underlying loan modification program was implemented and considered short-term. See Note 3 "Loans" for additional disclosures of loans that were modified and not considered TDR. In addition to the allowance for the pooled portfolios, management has developed a separate allowance for loans that are identified as impaired through a TDR. These loans are excluded from the general component of the ACL, and a separate reserve is provided under the accounting guidance for loan impairment. Residential loans whose terms have been modified in a TDR are also individually analyzed for estimated impairment. The Company's charge-off policy is to review all impaired loans on a quarterly basis in order to monitor the Company's ability to collect them in full at maturity date and/or in accordance with terms of any restructurings. For loans which are collateral dependent, or deemed to be uncollectible, any shortfall in the fair value of the collateral relative to the recorded investment in the loan is charged off.

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