

REFINITIV

DELTA REPORT

10-Q

FSBC - FIVE STAR BANCORP

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 998

█ **CHANGES** 328

█ **DELETIONS** 284

█ **ADDITIONS** 386



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

FORM 10-Q

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

For the quarterly period ended **March 31, 2024** **June 30, 2024**

OR

o 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 **001-40379**

FIVE STAR BANCORP

(Exact name of Registrant as specified in its charter)

California

75-3100966

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

3100 Zinfandel Drive, Suite 100 Rancho Cordova, CA 95670

(Address of principal executive office) (Zip Code)

Registrant's telephone number, including area code: **(916) 626-5000**

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common stock, no par value per share	FSBC	The Nasdaq Stock Market LLC

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

Yes No

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

Yes No

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

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

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

Yes No

As of **May 3, 2024** **August 2, 2024**, there were **21,320,083** **21,319,583** shares of the registrant's common stock, no par value, outstanding.

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FIVE STAR BANCORP AND SUBSIDIARY

Quarterly Report on Form 10-Q

March 31, June 30, 2024

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PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Uaudited)

(in thousands, except share amounts)	March 31, 2024	(in thousands, except share amounts)	December 31, 2023	June 30, 2024	(in thousands, except share amounts)	December 31, 2023
ASSETS						
Cash and due from financial institutions						
Cash and due from financial institutions						
Cash and due from financial institutions						
Interest-bearing deposits in banks						
Cash and cash equivalents						
Time deposits in banks						
Securities available-for-sale, at fair value, net of allowance for credit losses of \$0 at March 31, 2024 and December 31, 2023 (amortized cost of \$122,667 and \$124,788 at March 31, 2024 and December 31, 2023, respectively)						
Securities held-to-maturity, at amortized cost, net of allowance for credit losses of \$20 at March 31, 2024 and December 31, 2023 (fair value of \$2,828 and \$2,913 at March 31, 2024 and December 31, 2023, respectively)						



Total shareholders' equity

Total liabilities and shareholders' equity

See accompanying notes to the unaudited consolidated financial statements.

**FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)**

		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended June 30,	Six Months Ended June 30,		
	(in thousands, except per share amounts)	(in thousands, except per share amounts)			2024	2023	2024	2023
Interest and fee income:								
Interest and fee income:								
Interest and fee income:								
Loans, including fees								
Loans, including fees								
Loans, including fees								
Taxable securities								
Taxable securities								
Taxable securities								
Nontaxable securities								
Nontaxable securities								
Nontaxable securities								
Interest-bearing deposits in banks								
Interest-bearing deposits in banks								
Interest-bearing deposits in banks								
Interest-bearing deposits in banks								
Total interest and fee income								
Total interest and fee income								
Total interest and fee income								
Interest expense:								
Interest expense:								
Interest expense:								
Deposits								
Deposits								
Deposits								
Subordinated notes								
Subordinated notes								
Subordinated notes								
Other borrowings								
Other borrowings								
Other borrowings								
Total interest expense								
Total interest expense								
Total interest expense								
Net interest income								
Net interest income								

Net interest income
Provision for credit losses
Provision for credit losses
Provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Net interest income after provision for credit losses
Non-interest income:
Non-interest income:
Non-interest income:
Service charges on deposit accounts
Service charges on deposit accounts
Service charges on deposit accounts
Gain on sale of loans
Gain on sale of loans
Gain on sale of loans
Loan-related fees
Loan-related fees
Loan-related fees
FHLB stock dividends
FHLB stock dividends
FHLB stock dividends
Earnings on BOLI
Earnings on BOLI
Earnings on BOLI
Other
Other
Other
Total non-interest income
Total non-interest income
Total non-interest income
Non-interest expense:
Non-interest expense:
Non-interest expense:
Salaries and employee benefits
Salaries and employee benefits
Salaries and employee benefits
Occupancy and equipment
Occupancy and equipment
Occupancy and equipment
Data processing and software
Data processing and software
Data processing and software
FDIC insurance
FDIC insurance
FDIC insurance
Professional services
Professional services
Professional services
Advertising and promotional
Advertising and promotional
Advertising and promotional

Loan-related expenses
Loan-related expenses
Loan-related expenses
Other operating expenses
Other operating expenses
Other operating expenses
Total non-interest expense
Total non-interest expense
Total non-interest expense
Income before provision for income taxes
Income before provision for income taxes
Income before provision for income taxes
Provision for income taxes
Provision for income taxes
Provision for income taxes
Net income
Net income
Net income
Basic earnings per common share
Basic earnings per common share
Basic earnings per common share
Diluted earnings per common share
Diluted earnings per common share
Diluted earnings per common share

See accompanying notes to unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Uaudited)

(in thousands)	Three Months Ended	
	March 31,	2023
Net income	\$ 10,631	\$ 13,161
Unrealized (loss) gain on securities:		
Net unrealized holding (loss) gain on securities available-for-sale during the period	(955)	2,140
Less: Income tax (benefit) expense related to items of other comprehensive (loss) income	(282)	632
Other comprehensive (loss) income	(673)	1,508
Total comprehensive income	\$ 9,958	\$ 14,669

(in thousands)	Three Months Ended		Six Months Ended	
	June 30,	2023	June 30,	2023
Net income	\$ 10,782	\$ 12,729	\$ 21,413	\$ 25,890
Unrealized gain (loss) on securities:				
Net unrealized holding gain (loss) on securities available-for-sale during the period	295	(1,462)	(660)	679
Less: Income tax expense (benefit) related to items of other comprehensive income (loss)	87	(432)	(195)	201
Other comprehensive income (loss)	208	(1,030)	(465)	478

Total comprehensive income	\$ 10,990	\$ 11,699	\$ 20,948	\$ 26,368
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See accompanying notes to the unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2024 June 30, 2024 and 2023

(Unaudited)

	Common Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
<i>(in thousands, except per share amounts)</i>									
Balance at December 31, 2022									
Balance at December 31, 2022									
Balance at December 31, 2022									
Cumulative effect of adoption of ASC 326 on retained earnings									
Balance at March 31, 2023									
Balance at March 31, 2023									
Balance at March 31, 2023									
Net income									
Net income									
Net income									
Other comprehensive loss									
Stock compensation expense									
Stock compensation expense									
Stock compensation expense									
Stock forfeitures									
Cash dividends paid (\$0.20 per share)									
Balance at June 30, 2023									
Balance at March 31, 2024									
Balance at March 31, 2024									
Balance at March 31, 2024									
Net income									
Other comprehensive income									
Stock issued under stock award plans, net									
Common stock issued									
Stock compensation expense									
Cash dividends paid (\$0.15 per share)									
Cash dividends paid (\$0.15 per share)									
Cash dividends paid (\$0.15 per share)									
Balance at March 31, 2023									
Balance at December 31, 2023									
Balance at December 31, 2023									
Net income									
Other comprehensive loss									

Stock issued under stock award plans, net
Stock compensation expense
Stock compensation expense
Stock forfeitures
Cash dividends paid (\$0.20 per share)
Cash dividends paid (\$0.20 per share)
Cash dividends paid (\$0.20 per share)
Balance at March 31, 2024
Balance at June 30, 2024

See accompanying notes to the unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2024 and 2023
(Uaudited)

(in thousands, except per share amounts)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	\$	\$	\$
Balance at December 31, 2022	17,241,926	\$ 219,543	\$ 46,736	\$ (13,454)	\$ 252,825
Cumulative effect of adoption of ASC 326 on retained earnings	—	—	(4,491)	—	(4,491)
Net income	—	—	25,890	—	25,890
Other comprehensive income	—	—	—	478	478
Stock issued under stock award plans	16,978	—	—	—	—
Stock compensation expense	—	478	—	—	478
Stock forfeitures	(1,547)	—	—	—	—
Cash dividends paid (\$0.35 per share)	—	—	(6,040)	—	(6,040)
Balance at June 30, 2023	17,257,357	\$ 220,021	\$ 62,095	\$ (12,976)	\$ 269,140
Balance at December 31, 2023	17,256,989	\$ 220,505	\$ 77,036	\$ (11,767)	\$ 285,774
Net income	—	—	21,413	—	21,413
Other comprehensive loss	—	—	—	(465)	(465)
Common stock issued	3,967,500	80,870	—	—	80,870
Stock issued under stock award plans	96,380	—	—	—	—
Stock compensation expense	—	593	—	—	593
Stock forfeitures	(1,286)	—	—	—	—
Cash dividends paid (\$0.40 per share)	—	—	(7,715)	—	(7,715)
Balance at June 30, 2024	21,319,583	\$ 301,968	\$ 90,734	\$ (12,232)	\$ 380,470

See accompanying notes to unaudited consolidated financial statements.

FIVE STAR BANCORP AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Uaudited)

(in thousands)	(in thousands)	Three Months Ended March 31,		Six Months Ended June 30,	
		2024	2023	(in thousands)	2024
Cash flows from operating activities:					
Net income					
Net income					
Net income					

Adjustments to reconcile net income to net cash provided by operating activities:



Payments on other borrowings
Cash dividends paid
Net cash (used in) provided by financing activities
Net cash provided by financing activities
Net cash (used in) provided by financing activities
Net cash provided by financing activities
Net cash (used in) provided by financing activities
Net cash provided by financing activities
Net change in cash and cash equivalents
Cash and cash equivalents at beginning of period
Cash and cash equivalents at end of period
Supplemental disclosure of cash flow information:
Supplemental disclosure of cash flow information:
Supplemental disclosure of cash flow information:
Interest paid
Interest paid
Interest paid
Income taxes paid
Supplemental disclosure of noncash items:
Transfer from loans held for sale to loans held for investment
Transfer from loans held for sale to loans held for investment
Transfer from loans held for sale to loans held for investment
Unrealized (loss) gain on securities
Operating lease liabilities exchanged for ROUA
ROUA acquired

See accompanying notes to the unaudited consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

(a) Organization

Five Star Bank (the "Bank") was chartered on October 26, 1999 and began operations on December 20, 1999. Five Star Bancorp ("Bancorp" or the "Company") was incorporated on September 16, 2002 and subsequently obtained approval from the Federal Reserve to be a bank holding company in connection with its acquisition of the Bank. The Company became the sole shareholder of the Bank on June 2, 2003 in a statutory merger, pursuant to which each outstanding share of the Bank's common stock was exchanged for one share of common stock of the Company.

The Company, through the Bank, provides financial services to customers who are predominately small and middle-market businesses, professionals, and individuals residing in the Northern California region. The Company's primary loan products are commercial real estate loans, land development loans, construction loans, and operating lines of credit, and its primary deposit products are checking accounts, savings accounts, money market accounts, and term certificate accounts. The Bank currently has seven branch offices in Roseville, Natomas, Rancho Cordova, Redding, Elk Grove, Chico, and Yuba City.

(b) Basis of Financial Statement Presentation and Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as contained within the Financial Accounting Standards Board's ("FASB") ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. These interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as of and for the year ended December 31, 2023, and the notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Annual Report on Form 10-K"), which was filed with the SEC on February 23, 2024.

The unaudited consolidated financial statements include Bancorp and its wholly owned subsidiary, the Bank. All significant intercompany transactions and balances are eliminated in consolidation.

The results of operations for the three **and six** months ended **March 31, 2024** **June 30, 2024** are not necessarily indicative of the results of operations that may be expected for any other interim period or for the year ending December 31, 2024.

The Company's accounting and reporting policies conform to GAAP and to general practices within the banking industry.

(c) Segments

While the Company's chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis. Discrete financial information is not available other than on a Company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

(d) Emerging Growth Company

The Company qualifies as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, and, as such, may take advantage of specified reduced reporting requirements and deferred accounting standards adoption dates, and is relieved of other significant requirements that are otherwise generally applicable to other public companies. The Company will remain an emerging growth company for five years after its IPO date of May 5, 2021, unless one of the following occurs: (i) total annual gross revenues are \$1.235 billion or more; (ii) the Company issues more than \$1.0 billion in non-convertible debt; or (iii) the Company becomes a large accelerated filer with a public float of more than \$0.7 billion.

(e) Significant Accounting Policies

The Company's significant accounting policies are included in Note 1, Basis of Presentation in the notes to our audited consolidated financial statements included in the 2023 Annual Report on Form 10-K.

(f) Recently Issued Accounting Standards

The following information reflects recent accounting standards that have been adopted or are pending adoption by the Company. The Company qualifies as an emerging growth company and, as such, has elected to use the extended transition period for complying with new or revised accounting standards and is not subject to the new or revised accounting standards applicable to public companies during the extended transition period. The accounting standards discussed below indicate effective dates for the Company as an emerging growth company using the extended transition period.

Accounting Standards Adopted in 2024

In March 2023, the FASB issued ASU 2023-02, *Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method* ("ASU 2023-02"). Under current GAAP, an entity can only elect to apply the proportional amortization method to investments in low income housing tax credit ("LIHTC") structures. The amendments in ASU 2023-02 allow entities to elect to account for equity investments made primarily for the purpose of receiving income tax credits using the proportional amortization method, regardless of the tax credit program through which the investment earns income tax credits, if certain conditions are met. ASU 2023-02 provides amendments to paragraph ASC 323-740-25-1, which sets forth the conditions needed to apply the proportional amortization method. The amendments make certain limited changes to those conditions to clarify their application to a broader group of tax credit investment programs. However, the conditions in substance remain consistent with current GAAP. The amendments in ASU 2023-02 also eliminate certain LIHTC-specific guidance to align the accounting more closely with the accounting for other equity investments in tax credit structures and require that the delayed equity contribution guidance in paragraph ASC 323-740-25-3 apply only to tax equity investments accounted for using the proportional amortization method. The Company adopted ASU 2023-02 on January 1, 2024, which did not have a significant impact on the Company's consolidated financial statements.

Accounting Standards Issued But Not Yet Adopted

In October 2023, the FASB issued ASU No. 2023-06, *Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative* ("ASU 2023-06"), amending disclosure or presentation requirements related to various subtopics in the FASB's ASC. ASU 2023-06 was issued in response to the SEC's initiative to update and simplify disclosure requirements. The SEC identified 27 disclosure requirements that were incremental to those in the ASC and referred them to the FASB for potential incorporation into GAAP. To avoid duplication, the SEC intended to eliminate those disclosure requirements from existing SEC regulations as the FASB incorporated them into the relevant ASC subtopics. ASU 2023-06 adds 14 of the 27 identified disclosure or presentation requirements to the ASC. ASU 2023-06 is to be applied prospectively, and early adoption is prohibited. For reporting entities subject to the SEC's existing disclosure requirements, the effective dates of ASU 2023-06 will be the date on which the SEC's removal of that related disclosure requirement from Regulation S-X or Regulation S-K becomes effective. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the ASC and will not become effective for any entities. ASU 2023-06 is not expected to have a significant impact on the Company's consolidated financial statements.

In November 2023, the FASB issued ASU No. 2023-07, *Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures* ("ASU 2023-07"), amending disclosure requirements related to segment reporting primarily through enhanced disclosure about significant segment expenses and by requiring disclosure of segment information on an annual and interim basis. ASU 2023-07 is effective January 1, 2024 and for interim periods beginning after December 15, 2024. The key amendments: (i) require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker (the "CODM") and included within each reported measure of segment profit or loss; (ii) require that a public entity disclose, on an annual and interim basis, an amount for other segment items by reportable segment and a description of its composition; (iii) require that a public entity provide all annual disclosures about a reportable segment's profit or loss currently required by GAAP in interim periods as well; (iv) clarify that if the CODM uses more than one measure of a segment's profit or loss in assessing segment performance and deciding how to allocate resources, an entity may report one or more of those additional measures of segment profit; (v) require that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the

reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources; and (vi) require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in the ASU and all existing segment disclosures. The requirements of this standard for such entities will

apply beginning with the Company's annual report for the year ending December 31, 2024. The Company has one reportable segment and ASU 2023-07 is not expected to have a significant impact on the Company's consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740) - Improvements to Income Tax Disclosures* ("ASU 2023-09"), which enhances the transparency and decision usefulness of income tax disclosures. ASU 2023-09 will require disaggregated information about a reporting entity's effective tax rate reconciliation as well as information on income taxes paid. Entities will also be required to disclose income/(loss) from continuing operations before income tax expense/(benefit) disaggregated between domestic and foreign, as well as income tax expense/(benefit) from continuing operations disaggregated by federal, state, and foreign. ASU 2023-09 is effective January 1, 2025 and is not expected to have a significant impact on the Company's consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02, *Codification Improvements - Amendments to Remove References to the Concepts Statements* ("ASU 2024-02"). ASU 2024-02 contains amendments to the ASC that remove references to various Concepts Statements. In most instances, the references are extraneous and not required to understand or apply the guidance. In other instances, the references were used in prior Statements to provide guidance in certain topical areas. FASB Concepts Statements are nonauthoritative. Removing all references to Concepts Statements in the guidance is intended to simplify the ASC and draw a distinction between authoritative and nonauthoritative literature. ASU 2024-02 is effective January 1, 2025 and is not expected to have a significant impact on the Company's consolidated financial statements.

(g) Allowance for Credit Losses ("ACL")

The ACL is a valuation account that offsets the amortized cost basis of loans receivable and certain other financial assets, including unfunded loan commitments and held-to-maturity debt securities. Under ASC 326, amortized cost basis is the basis on which the ACL is determined. Amortized cost basis on loans receivable is principal outstanding, net of any purchase premiums and discounts, and net of any deferred loan fees and costs.

Credit losses are charged off when management believes that the collectability of at least some portion of outstanding principal is unlikely. These charge-offs are recorded as a reversal to, thereby reducing, the allowance for credit losses. Subsequent recoveries of previously charged-off amounts, if any, are recorded as a provision to, thereby increasing, the allowance for credit losses. The allowance for credit losses is maintained at a level to absorb expected credit losses over the contractual life, including consideration of prepayments. Determining the adequacy of the allowance is complex and requires judgments that are inherently subjective, as it requires estimates that are susceptible to revision as additional information becomes available. While the Company has determined an allowance for credit losses it considers appropriate, there can be no assurance that the allowance will be sufficient to absorb future losses.

The Company's process for determining expected lifetime credit losses entails a loan-level, model-based approach and considers a broad range of information, including historical loss experience, current conditions, and reasonable and supportable forecasts. Credit loss is estimated for all loans. Accordingly, the Company has stratified the full loan population into segments sharing similar characteristics to perform the evaluation of the credit loss collectively. The Company can also further stratify loans of similar types, risk attributes, and methods for credit risk monitoring.

The Company has determined loan pools based primarily on regulatory reporting codes, as the loans within each pool share similar risk characteristics and there is sufficient historical peer loss data from the FFIEC to provide statistically meaningful support in the models developed. The Company further stratified the C&I portfolio into traditional C&I loans and SBA loans, as the loans in these pools have different repayment structures and credit risk characteristics. The Company also stratified C&I loans and consumer loans that do not require reserves, as the Company has third-party agreements in place to cover credit losses. The Company has identified the following pools subject to an estimate of credit loss: (1) 1-4 Family Construction; (2) Other Construction; (3) Farmland; (4) Revolving Secured by 1-4 Family; (5) Residential Secured by First Liens; (6) Residential Secured by Junior Liens; (7) Multifamily; (8) CRE Owner Occupied; (9) CRE Non-Owner Occupied; (10) Agriculture; (11) C&I; (12) C&I SBA; (13) Consumer; and (14) Municipal.

With the exception of the C&I SBA pool, the Company has determined, given its limited loss experience, that peer data and other external data to support loss history provides the best basis for its assessment of expected credit losses. The Company believes that the use of peer loss data from 2008 to 2019 presents loss histories that appropriately reflect a full economic cycle, reflects asset-specific risk characteristics at each pool level identified, and includes a historical look-back period that is objective and reflective of future expected credit losses. Loss data from 2020 and beyond was excluded from the data set to exclude pandemic-related data from the model.

During the three months ended June 30, 2024, the Company segregated the Manufactured Home Community ("MHC") loans from the Multifamily pool as the Company identified a data source to provide sufficient historical peer loss data specific to MHC loans. This segregation now adjusts for differences in the risk characteristics and performance of MHCs compared to standard Multifamily properties. The Company used calculations of individual probability of default and loss given default on a loan-by-loan basis to derive an estimated loss rate. This adjustment reduced the required reserves related to MHC pool by approximately \$5.8 million.

The Company's routine monitoring of charge-off activity identified an increased level of charge-offs in the C&I SBA pool during the first six months of 2024, reflecting a change in the credit quality of the pool. In response, the Company increased the expected loss rates of the C&I SBA pool during the three months ended June 30, 2024 to be more in line with net charge-off rates during the first six months of 2024. This adjustment reflects the Company's estimate for future loss rates and increased the required reserves related to the C&I SBA pool by approximately \$4.6 million.

The method for determining the estimate of lifetime credit losses includes, among other things, the following main components: (i) the use of probability of default and loss given default assumptions under a discounted cash flow model; (ii) a multi-scenario macroeconomic forecast; (iii) an initial and reasonable and supportable forecast period of one year for all loan segments; and (iv) a reversion period of one year using a linear transition method to historical loss rates.

Given the inherent limitations of a quantitative-only model, qualitative adjustments are included to factor in data points not captured from a quantitative analysis alone.

Qualitative criteria that can be considered includes, among other things, the following:

- Concentrations – the existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- Volume – changes in the nature and volume of the portfolio and in the terms of the loans;
- Economic – changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

- Policy – changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses;
- Quality – changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans; and
- External – the effect of other external factors, such as competition and legal and regulatory requirements on the level of estimated credit losses in the Company's loan portfolio.

Management reviews current information on a quarterly basis to assess the forecasted future economic impact for purposes of evaluating the adequacy of the ACL. The forecasted direction and magnitude of change with respect to future economic conditions is then assessed against the estimate in the model. Any changes resulting from the quarterly assessment are recorded in "Provision for credit losses" in the unaudited consolidated statements of income. The Audit Committee of the board of directors reviews the adequacy of the allowance at least quarterly.

Accrued interest receivable is excluded from amortized cost of all financial instrument types and included in "Interest receivable and other assets" in the consolidated balance sheets. Accrued interest receivable is not subject to an estimate for credit loss, as the Company has a policy to charge off accrued interest deemed uncollectible in a timely manner. When a loan is placed on non-accrual status, which occurs within 90 days of a borrower becoming delinquent, interest previously accrued but not collected is reversed against current period income.

If an individual loan's characteristics have deteriorated below a range of the overall pool, the loan would be individually assessed. Individually assessed loans are measured for credit loss based on one of the following methods: (i) present value of future expected cash flows, discounted at the loan's effective interest rate; (ii) amount by which carrying value of the loan exceeds the loan's observable market price; or (iii) the fair value of the collateral, less estimated selling costs, if the loan is collateral dependent. The Company applies the practical expedient and defines collateral dependent loans as those where the borrower is experiencing financial difficulty and on which payment is expected to be provided substantially through the operation or sale of the collateral.

Note 2: Fair Value of Assets and Liabilities

Fair Value Hierarchy and Fair Value Measurement

Accounting standards require the Company 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 Company has the ability to access as of the measurement date.

Level 2: Significant other 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 the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

The following table Table 2.1 summarizes the Company's assets and liabilities that were required to be recorded at fair value on a recurring basis.

Table 2.1: Fair Value on a Recurring Basis

	(in thousands)	(in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Measurement Categories: Changes in Fair Value Recorded In (in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Signi Oti Obse Inp (Lev
March 31, 2024										
June 30, 2024										
Assets:										
Assets:										
Assets:										
Securities available-for-sale:										

U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds													
U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds													
U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds													
U.S. government agency securities, mortgage-backed securities, obligations of states and political subdivisions, collateralized mortgage obligations, and corporate bonds													
Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap
10	—	—	10	10	—	—	10	—	—	—	NI	NI	NI
Liabilities:													
Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap	Derivatives – interest rate swap
10	—	—	10	10	—	—	10	—	—	—	NI	NI	NI

Available-for-sale securities are recorded at fair value on a recurring basis. When available, quoted market prices (Level 1 inputs) are used to determine the fair value of available-for-sale securities. If quoted market prices are not available,

management obtains pricing information from a reputable third-party service provider, who may utilize valuation techniques that use current market-based or independently sourced parameters, such as bid/ask prices, dealer-quoted prices, interest rates, benchmark yield curves, prepayment speeds, probability of default, loss severity, and credit spreads (Level 2 inputs). Level 2 securities include U.S. agencies' or government-sponsored agencies' debt securities, mortgage-backed securities, government agency-issued bonds, privately issued collateralized mortgage obligations, and corporate bonds. Level 3 securities are based on unobservable inputs that are supported by little or no market activity. In addition, values use discounted cash flow models and may include significant management judgment and estimation. As of **March 31, 2024** **June 30, 2024** and December 31, 2023, there were no Level 1 available-for-sale securities and no transfers between Level 1 and Level 2 classifications for assets or liabilities measured at fair value on a recurring basis.

On a recurring basis, derivative financial instruments are recorded at fair value, which is based on the income approach using observable Level 2 market inputs, reflecting market expectations of future interest rates as of the measurement date. Standard valuation techniques are used to calculate the present value of the future expected cash flows assuming an orderly transaction. Valuation adjustments may be made to reflect both the Company's credit risk and the counterparties' credit risk in determining the fair value of the derivatives. A similar credit risk adjustment, correlated to the credit standing of the counterparty, is made when collateral posted by the counterparty does not fully cover their liability to the Company.

Certain financial assets may be measured at fair value on a non-recurring basis. These assets are subject to fair value adjustments that result from the application of the lower of cost or fair value accounting or write-downs of individual assets, such as collateral dependent loans and other real estate owned. As of **March 31, 2024** **June 30, 2024** and December 31, 2023, the carrying amount of assets measured at fair value on a non-recurring basis was immaterial to the Company.

Disclosures about Fair Value of Financial Instruments

The table below Table 2.2 is a summary of fair value estimates for financial instruments as of **March 31, 2024** **June 30, 2024** and December 31, 2023. The carrying amounts in the following table Table 2.2 are recorded in the consolidated balance sheets under the indicated captions. Further, management has not disclosed the fair value of financial instruments specifically excluded from disclosure requirements, such as BOLI.

Table 2.2: Fair Value Estimates for Financial Instruments									
		March 31, 2024			December 31, 2023				
		June 30, 2024			December 31, 2023				
(in thousands)	(in thousands)	Carrying Amounts	Fair Value	Fair Value Hierarchy	Carrying Amounts	Fair Value	Fair Value Hierarchy	Fair Value	Fair Value Hierarchy
Financial assets:									
Cash and cash equivalents									
Cash and cash equivalents		\$ 185,325	\$ 185,325	Level 1	Level 1	\$ 321,576	\$ 321,576	Level 1	
Time deposits in banks	Time deposits in banks	5,878	5,878	5,878 Level 1	Level 1	5,858	5,858	5,858	Level 1
Securities available-for-sale	Securities available-for-sale	105,006	105,006	105,006 Level 2	Level 2	108,083	108,083	108,083	Level 2
Securities held-to-maturity	Securities held-to-maturity	3,000	2,828	2,828 Level 3	Level 3	3,077	2,913	2,913	Level 3
Loans held for sale	Loans held for sale	10,243	11,357	11,357 Level 2	Level 2	11,464	12,626	12,626	Level 2
Loans held for investment, net of allowance for credit losses	Loans held for investment, net of allowance for credit losses	3,069,477	2,920,533	2,920,533 Level 3	Level 3	3,047,288	2,891,925	2,891,925	Level 3
FHLB stock and other investments	FHLB stock and other investments	22,801	N/A	N/A	21,801	N/A	N/A	N/A	FHLB st and ot invest
Interest rate swap	Interest rate swap	6	6	6 Level 2	Level 2	10	10	10	Level 2
Financial liabilities:									
Interest rate swap		\$ 6	\$ 6	6 Level 2	Level 2	\$ 10	\$ 10	10	Level 2
Time deposits	Time deposits	288,168	287,246	287,246 Level 2	Level 2	466,572	465,205	465,205	Level 2
Subordinated notes	Subordinated notes	73,786	72,740	72,740 Level 3	Level 3	73,749	72,693	72,693	Level 3
Other borrowings	Other borrowings	120,000	120,000	120,000 Level 2	Level 2	170,000	170,000	170,000	Level 2

The Company used the following methods and assumptions were used by the Company to estimate the fair value of its financial instruments at **March 31, 2024** **June 30, 2024** and December 31, 2023:

Cash and cash equivalents and time deposits in banks: The carrying amount is estimated to be fair value due to the liquid nature of the assets and their short-term maturities.

Investment securities: See discussion above for the methods and assumptions used by the Company to estimate the fair value of investment securities. Fair value of held-to-maturity securities is estimated by calculating the net present value of future cash flows based on observable market data, such as interest rates and yield curves (observable at commonly quoted intervals) as provided by an independent third party.

Loans held for sale: The fair value is based on what secondary markets are currently offering for portfolios with similar characteristics.

Loans held for investment, net of allowance for credit losses: For variable rate loans that reprice frequently with no significant change in credit risk, fair values are based on carrying values. Fair values for other loans are estimated using discounted cash flow analyses, which use interest rates being offered at each reporting date for loans with similar terms to borrowers of comparable creditworthiness without considering widening credit spreads due to market illiquidity, which approximates the exit price notion. The allowance for credit losses is considered to be a reasonable estimate of loan discount for credit quality concerns.

FHLB stock and other investments: Carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and do not have a readily determinable market value.

Derivatives - interest rate swap: See above for a discussion of the methods and assumptions used by the Company to estimate the fair value of derivatives.

Commitments to extend credit: These are primarily for adjustable rate loans, and there are no differences between the committed amounts and their fair values. Commitments to fund fixed rate loans are at rates which approximate fair value at each reporting date.

Time deposits: The fair value is estimated using a discounted cash flow analysis that uses interest rates offered at each reporting date by the Company for certificates with similar remaining maturities, resulting in a Level 2 classification.

Subordinated notes: The fair value is estimated by discounting the future cash flow using the current three-month CME Term SOFR. The Company's subordinated notes are not registered securities and were issued through private placements, resulting in a Level 3 classification. The notes are recorded at carrying value.

Other borrowings: The carrying amount is estimated to be fair value.

Note 3: Investment Securities

The Company's investment securities portfolio includes obligations of states and political subdivisions, securities issued by U.S. federal government agencies, such as the SBA, and securities issued by U.S. GSEs, such as the FNMA, the FHLMC, and the FHLB. The Company also invests in residential and commercial mortgage-backed securities, collateralized mortgage obligations issued or guaranteed by GSEs, and corporate bonds, as reflected in the following tables. Tables 3.1 and 3.2.

A summary of the amortized cost and fair value related to securities held-to-maturity as of March 31, 2024 June 30, 2024 and December 31, 2023 is presented below. in Table 3.1.

Table 3.1: Securities Held-to-Maturity

(in thousands)	(in thousands)	Amortized Cost	Gross Unrealized	Fair Value (in thousands)	Amortized Cost	Gross Unrealized	Fair Value
March 31, 2024							
March 31, 2024							
March 31, 2024							
June 30, 2024							
June 30, 2024							
June 30, 2024							
Obligations of states and political subdivisions							
Obligations of states and political subdivisions							
Obligations of states and political subdivisions							
Total held-to-maturity							
December 31, 2023							
Obligations of states and political subdivisions							
Obligations of states and political subdivisions							
Obligations of states and political subdivisions							
Total held-to-maturity							

For securities issued by states and political subdivisions, for purposes of evaluating whether to recognize credit loss expense, management considers: (i) issuer and/or guarantor credit ratings; (ii) historical probability of default and loss given default rates for given bond ratings and remaining maturity; (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities; (iv) internal credit review of the financial information; and (v) whether or not such securities have credit enhancements such as guarantees, contain a defeasance clause, or are pre-refunded by the issuers.

A summary of the amortized cost and fair value related to securities available-for-sale as of March 31, 2024 June 30, 2024 and December 31, 2023 is presented below. in Table 3.2. Securities available-for-sale did not have an allowance for credit losses as of June 30, 2024 or December 31, 2023.

Table 3.2: Securities Available-for-Sale

(in thousands)	(in thousands)	Amortized Cost	Gross Unrealized	Fair Value (in thousands)	Amortized Cost	Gross Unrealized	Fair Value
March 31, 2024							
March 31, 2024							
March 31, 2024							

March 31, 2024
June 30, 2024
June 30, 2024
June 30, 2024

U.S. government agency securities

U.S. government agency securities

U.S. government agency securities

Mortgage-backed securities

Obligations of states and political subdivisions

Collateralized mortgage obligations

Corporate bonds

Total available-for-sale

December 31, 2023

U.S. government agency securities

U.S. government agency securities

U.S. government agency securities

Mortgage-backed securities

Obligations of states and political subdivisions

Collateralized mortgage obligations

Corporate bonds

Total available-for-sale

The amortized cost and fair value of investment securities by contractual maturity at **March 31, 2024** June 30, 2024 and December 31, 2023 are shown below, in Table 3.3. Expected maturities may differ from contractual maturities if the issuers of the securities have the right to call or prepay obligations with or without call or prepayment penalties.

Table 3.3: Contractual Maturities - Investment Securities

	March 31, 2024				December 31, 2023				June 30, 2024				December 31,				
	Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale		Held-to-Maturity		Available-for-Sale		
	(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	(in thousands)	Amortized Cost	Fair Value	(in thousands)	Amortized Cost	Fair Value	(in thousands)	Amortized Cost	Fair Value	(in thousands)	Amortized Cost	Fair Value
Within one year																	
After one but within five years																	
After five years through ten years																	
After ten years																	
Investment securities not due at a single maturity date:																	
Investment securities not due at a single maturity date:																	
Investment securities not due at a single maturity date:																	
U.S. government agency securities																	
U.S. government agency securities																	
U.S. government agency securities																	

Mortgage-backed securities
Collateralized mortgage obligations
Corporate bonds
Total

There were no purchases or sales of investment securities during the three and six months ended **March 31, 2024** **June 30, 2024** and **March 31, 2023** **June 30, 2023**.

Pledged investment securities are shown in the following table: Table 3.4.

Table 3.4: Pledged Investment Securities

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
Pledged to:						
The State of California, securing deposits of public funds and borrowings						
The State of California, securing deposits of public funds and borrowings						
The State of California, securing deposits of public funds and borrowings						
The Federal Reserve Discount Window, increasing borrowing capacity						
Total pledged investment securities						

The following table Table 3.5 details the gross unrealized losses and fair values aggregated by investment category and length of time that individual available-for-sale securities have been in a continuous unrealized loss position at **March 31, 2024** **June 30, 2024** and **December 31, 2023**.

	Less than 12 months	12 months or more	Total securities in a loss position
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Table 3.5: Securities Available-for-Sale in Continuous Unrealized Loss Positions

(in thousands)	(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	(in thousands)	Less than 12 months	12 months or more	Total securities in a loss position
March 31, 2024											
(in thousands)		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	(in thousands)			
U.S. government agency securities											
U.S. government agency securities											
U.S. government agency securities											
Mortgage-backed securities											
Obligations of states and political subdivisions											
Collateralized mortgage obligations											
Corporate bonds											
Total temporarily impaired securities											
December 31, 2023											
December 31, 2023											
December 31, 2023											
U.S. government agency securities											
U.S. government agency securities											
U.S. government agency securities											
Mortgage-backed securities											
Obligations of states and political subdivisions											
Collateralized mortgage obligations											
Corporate bonds											

Total temporarily impaired securities

There were 150 147 and 149 available-for-sale securities in unrealized loss positions at March 31, 2024 June 30, 2024 and December 31, 2023, respectively. As of March 31, 2024 June 30, 2024, the investment portfolio included 144 143 investment securities that had been in a continuous loss position for twelve months or more and six four investment securities that had been in a loss position for less than twelve months.

There was one held-to-maturity security in a continuous unrealized loss position at March 31, 2024 June 30, 2024 and December 31, 2023, which had been in a continuous loss position for more than twelve months.

Obligations issued or guaranteed by government agencies such as the GNMA and the SBA or GSEs under conservatorship such as the FNMA and the FHLMC, are guaranteed or sponsored by agencies of the U.S. government and have strong credit profiles. The Company therefore expects to receive all contractual interest payments on time and believes the risk of credit losses on these securities is remote.

The Company's investment in obligations of states and political subdivisions are deemed credit worthy after management's comprehensive analysis of the issuers' latest financial information, credit ratings by major credit agencies, and/or credit enhancements.

Non-Marketable Securities Included in Other Assets

FHLB capital stock: As a member of the FHLB, the Company is required to maintain a minimum investment in FHLB capital stock determined by the board of directors of the FHLB. The minimum investment requirements can increase in the event the Company increases its total asset size or borrowings with the FHLB. Shares cannot be purchased or sold except between the FHLB and its members at the \$100 per share par value. The Company held \$15.0 million of FHLB stock at March 31, 2024 June 30, 2024 and December 31, 2023. The carrying amounts of these investments are reasonable estimates of fair value because the securities are restricted to member banks and do not have a readily determinable market value. Based on management's analysis of the FHLB's financial condition and certain qualitative factors, management determined that the FHLB stock was not impaired at March 31, 2024 June 30, 2024 and December 31, 2023.

Note 4: Loans and Allowance for Credit Losses

The Company's loan portfolio is its largest class of earning assets and typically provides higher yields than other types of earning assets. Associated with the higher yields is an inherent amount of credit risk which the Company attempts to mitigate through strong underwriting practices. The following table Table 4.1 presents the balance of each major product type within the Company's portfolio as of the dates indicated.

Table 4.1: Loans Outstanding

(in thousands)	(in thousands)	March 31, 2024	(in thousands)	December 31, 2023	(in thousands)	June 30, 2024	(in thousands)	December 31, 2023
Real estate:								
Commercial								
Commercial								
Commercial								
Commercial land and development								
Commercial construction								
Residential construction								
Residential								
Farmland								
Commercial:								
Secured								
Secured								
Secured								
Unsecured								
Consumer and other								
Subtotal								
Net deferred loan fees								
Loans held for investment								
Allowance for credit losses - loans								
Allowance for credit losses								
Loans held for investment, net of allowance for credit losses								

Underwriting

Commercial loans: Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound

ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay its obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Real estate loans: Real estate loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected than other loans by conditions in the real estate market or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Company's exposure to adverse economic events that affect any single market or industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria.

Construction loans: With respect to construction loans that the Company may originate from time to time, the Company generally requires the borrower to have had an existing relationship with the Company and have a proven record of success. Construction loans may be underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are

generally based upon estimates of costs and value associated with the completed project. These estimates may be

inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the ultimate success of the project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored using on-site inspections and are generally considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Residential real estate loans: Residential real estate loans are underwritten based upon the borrower's income, credit history, and collateral. To monitor and manage residential loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements.

Farmland loans: Farmland loans are generally made to producers and processors of crops and livestock. Repayment is primarily from the sale of an agricultural product or service. Farmland loans are secured by real property and are susceptible to changes in market demand for specific commodities. This may be exacerbated by, among other things, industry changes, changes in the individual financial capacity of the business owner, general economic conditions, and changes in business cycles, as well as adverse weather conditions.

Consumer loans: The Company purchased consumer loans underwritten utilizing credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage, collection remedies, the number of such loans a borrower can have at one time, and documentation requirements.

Credit Quality Indicators

The Company has established a loan risk rating system to measure and monitor the quality of the loan portfolio. All loans are assigned a risk rating from the inception of the loan until the loan is paid off. The primary loan grades are as follows:

Loans rated pass: These are loans to borrowers with satisfactory financial support, repayment capacity, and credit strength. Borrowers in this category demonstrate fundamentally sound financial positions, repayment capacity, credit history, and management expertise. Loans in this category must have an identifiable and stable source of repayment and meet the Company's policy regarding debt service coverage ratios. These borrowers are capable of sustaining normal economic, market, or operational setbacks without significant financial impacts and their financial ratios and trends are acceptable. Negative external industry factors are generally not present. The loan may be secured, unsecured, or supported by non-real estate collateral for which the value is more difficult to determine and/or marketability is more uncertain.

Loans rated watch: These are loans which have deficient loan quality and potentially significant issues, but losses do not appear to be imminent, and the issues may be temporary in nature. The significant issues are typically: (i) a history of losses or events that threaten the borrower's viability; (ii) a property with significant depreciation and/or marketability concerns; or (iii) poor or deteriorating credit, occasional late payments, and/or limited reserves but the loan is generally kept current. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date.

Loans rated substandard: These are loans which are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged (if any). Loans so classified exhibit a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. Loans are characterized by the distinct possibility that the Company may sustain some loss if the deficiencies are not corrected.

Loans rated doubtful: These are loans for which the collection or liquidation of the entire debt is highly questionable or improbable. Typically, the possibility of loss is extremely high. The losses on these loans are deferred until all pending factors have been addressed.

The Table 4.2 presents the amortized cost basis of the Company's loans by origination year, where origination is defined as the later of origination or renewal date, and credit quality indicator as of the period indicated was as follows: periods indicated.

(in thousands)	Amortized Cost Basis by Origination Year as of March 31, 2024							Revolving Converted to		
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Term	Total	
Real estate:										
Commercial										
Pass	\$ 71,988	\$ 329,126	\$ 971,602	\$ 670,590	\$ 236,866	\$ 360,603	\$ 4,850	\$ —	\$ 2,645,625	
Watch	—	—	11,517	15,855	4,699	5,178	—	—	37,249	
Substandard	—	—	—	—	—	1,849	—	—	1,849	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	71,988	329,126	983,119	686,445	241,565	367,630	4,850	—	2,684,723	
Commercial land and development										
Pass	1,663	9,899	2,217	—	183	714	—	—	14,676	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	1,663	9,899	2,217	—	183	714	—	—	14,676	
Commercial construction										
Pass	110	7,124	37,899	—	11,230	5,897	—	—	62,260	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	110	7,124	37,899	—	11,230	5,897	—	—	62,260	
Residential construction										
Pass	14,229	—	—	3,913	—	—	—	—	18,142	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	14,229	—	—	3,913	—	—	—	—	18,142	
Residential										
Pass	3,203	4,828	3,896	6,195	2,259	6,925	1,409	—	28,715	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	3,203	4,828	3,896	6,195	2,259	6,925	1,409	—	28,715	
Farmland										
Pass	690	2,302	8,030	12,669	7,826	19,884	3	—	51,404	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	690	2,302	8,030	12,669	7,826	19,884	3	—	51,404	
Commercial:										
Secured										
Pass	1,394	27,663	26,760	12,033	11,387	18,864	31,061	—	129,162	
Watch	—	180	9,397	2,651	38	1,173	1,172	—	14,611	
Substandard	—	—	—	—	—	66	—	—	66	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	1,394	27,843	36,157	14,684	11,425	20,103	32,233	—	143,839	

Table 4.2: Loans by Risk Category and Vintage

Amortized Cost Basis by Origination Year as of June 30, 2024									
(in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Converted to Term	Total
Real estate:									
Commercial								Revolving	
Pass	\$ 250,845	\$ 323,243	\$ 934,312	\$ 651,701	\$ 231,487	\$ 330,193	\$ 4,879	\$ —	\$ 2,726,660
Watch	644	—	17,734	19,363	4,670	340	—	—	42,751
Substandard	—	—	—	—	—	1,818	—	—	1,818
Total	251,489	323,243	952,046	671,064	236,157	332,351	4,879	—	2,771,229
Commercial land and development								Converted to	
Pass	1,636	1,000	1,259	—	182	695	—	—	4,772
Total	1,636	1,000	1,259	—	182	695	—	—	4,772
Commercial construction								Term	
Pass	2,982	28,518	23,512	—	11,231	5,897	—	—	72,140
Total	2,982	28,518	23,512	—	11,231	5,897	—	—	72,140
Residential construction								Total	
Pass	5,099	—	—	3,914	—	—	—	—	9,013
Total	5,099	—	—	3,914	—	—	—	—	9,013
Residential								Total	
Pass	5,686	4,814	2,911	6,148	2,240	6,559	1,308	—	29,666
Total	5,686	4,814	2,911	6,148	2,240	6,559	1,308	—	29,666
Farmland								Total	
Pass	900	2,074	7,114	11,761	7,129	18,552	—	—	47,530
Watch	—	—	799	—	—	—	—	502	1,301
Total	900	2,074	7,913	11,761	7,129	18,552	—	502	48,831
Commercial:								Total	
Secured								Total	
Pass	10,976	24,789	24,675	11,212	10,608	17,313	41,113	—	140,686
Watch	—	193	9,661	2,591	97	1,338	—	—	13,880
Substandard	—	—	—	—	—	60	—	—	60
Total	10,976	24,982	34,336	13,803	10,705	18,711	41,113	—	154,626
Unsecured								Total	
Pass	2,394	4,782	3,292	4,260	5,322	1,883	1,280	—	23,213
Total	2,394	4,782	3,292	4,260	5,322	1,883	1,280	—	23,213
Consumer and other								Total	
Pass	98,048	38,134	9,468	6,874	2	250	—	—	152,776
Watch	—	—	15	—	—	—	—	—	15
Substandard	—	—	10	—	—	—	—	—	10
Total	98,048	38,134	9,493	6,874	2	250	—	—	152,801
Total								Total	
Pass	378,566	427,354	1,006,543	695,870	268,201	381,342	48,580	—	3,206,456
Watch	644	193	28,209	21,954	4,767	1,678	—	502	57,947
Substandard	—	—	10	—	—	1,878	—	—	1,888
Total	\$ 379,210	\$ 427,547	\$ 1,034,762	\$ 717,824	\$ 272,968	\$ 384,898	\$ 48,580	\$ 502	\$ 3,266,291

Amortized Cost Basis by Origination Year as of March 31, 2024									
(in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Converted to Term	Total
Commercial:									

Unsecured									
Pass	958	4,890	3,321	4,471	5,717	2,142	4,692	—	26,191
Watch	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total	958	4,890	3,321	4,471	5,717	2,142	4,692	—	26,191
Consumer and other									
Pass	16,057	39,913	10,317	7,587	1	279	—	—	74,154
Watch	—	—	15	—	—	—	—	—	15
Substandard	—	—	11	—	—	—	—	—	11
Doubtful	—	—	—	—	—	—	—	—	—
Total	16,057	39,913	10,343	7,587	1	279	—	—	74,180
Total									
Pass	110,292	425,745	1,064,042	717,458	275,469	415,308	42,015	—	3,050,329
Watch	—	180	20,929	18,506	4,737	6,351	1,172	—	51,875
Substandard	—	—	11	—	—	1,915	—	—	1,926
Doubtful	—	—	—	—	—	—	—	—	—
Total	\$ 110,292	\$ 425,925	\$ 1,084,982	\$ 735,964	\$ 280,206	\$ 423,574	\$ 43,187	\$ —	\$ 3,104,130

Table 4.2: Loans by Risk Category and Vintage (continued)

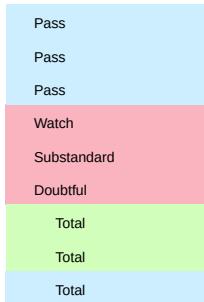
(in thousands)	Amortized Cost Basis by Origination Year as of December 31, 2023							Revolving Converted to		Total
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Term		
Real estate:										
Commercial										
Pass	\$ 329,876	\$ 992,181	\$ 714,965	\$ 238,655	\$ 128,424	\$ 247,030	\$ 4,685	\$ —	\$ 2,655,816	
Watch	—	8,534	6,274	4,727	574	4,896	—	—	25,005	
Substandard	—	—	—	—	—	1,890	—	—	1,890	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	329,876	1,000,715	721,239	243,382	128,998	253,816	4,685	—	2,682,711	
Commercial land and development										
Pass	11,388	3,229	—	184	—	733	—	—	15,534	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	11,388	3,229	—	184	—	733	—	—	15,534	
Commercial construction										
Pass	9,074	32,154	4,189	11,230	—	5,897	—	—	62,544	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	9,074	32,154	4,189	11,230	—	5,897	—	—	62,544	
Residential construction										
Pass	2,412	9,128	3,912	—	—	—	—	—	15,452	
Watch	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	—	
Total	2,412	9,128	3,912	—	—	—	—	—	15,452	

Amortized Cost Basis by Origination Year as of
December 31, 2023

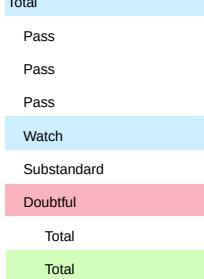
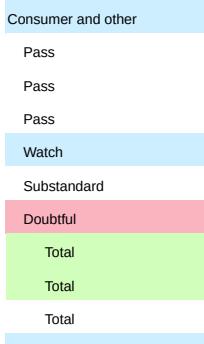
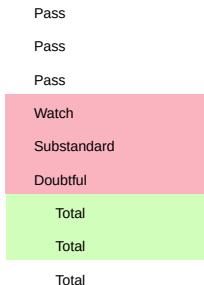
(in thousands)

(in thousands)

(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Term	Converted to Total	2023	2022	2021	2020	2019	Prior	Revolving Loans	Revolving Converted to Term	Revolving Term
Real estate:																		
Residential																		
Residential																		
Residential																		
Commercial																		
Commercial																		
Commercial																		
Pass																		
Pass																		
Pass																		
Watch																		
Substandard																		
Doubtful																		
Total																		
Total																		
Total																		
Commercial land and development																		
Pass																		
Pass																		
Pass																		
Total																		
Total																		
Total																		
Commercial construction																		
Pass																		
Pass																		
Pass																		
Total																		
Total																		
Total																		
Residential construction																		
Pass																		
Pass																		
Pass																		
Total																		
Total																		
Total																		
Residential																		
Residential																		
Residential																		
Pass																		
Pass																		
Pass																		
Total																		
Total																		
Total																		
Farmland																		



Commercial:



Total

Management regularly reviews the Company's loans for accuracy of risk grades whenever new information is received. Borrowers are generally required to submit financial information at regular intervals. Typically, commercial borrowers with lines of credit are required to submit financial information with reporting intervals generally ranging from monthly to annually depending on credit size, risk, and complexity. In addition, investor commercial real estate borrowers with loans exceeding a certain dollar threshold are usually required to submit rent rolls or property income statements annually. Management monitors construction loans monthly and reviews consumer loans based on delinquency. Management also reviews loans graded "watch" or worse, regardless of loan type, no less than quarterly.

The Table 4.3 shows the age analysis of past due loans by class as of March 31, 2024 consisted of the following: dates shown.

Table 4.3: Age Analysis of Past Due Loans by Class

(in thousands)

	30-59 Days			Total Past Due	Current	Total Loans Receivable	60-89 Days			Total Past Due	Current	Total Loans Receivable
	30-59 Days	60-89 Days	Greater Than 90 Days				60-89 Days	Greater Than 90 Days				
June 30, 2024												
Real estate:												
Real estate:												
Real estate:												
Commercial												
Commercial												
Commercial												
Commercial land and development												
Commercial construction												
Residential construction												
Residential												
Farmland												
Commercial:												
Secured												
Secured												
Secured												
Unsecured												
Consumer and other												
Consumer and other												
Consumer and other												
Total												
December 31, 2023												
Real estate:												
Real estate:												
Real estate:												
Commercial												
Commercial												
Commercial												
Commercial land and development												
Commercial construction												
Residential construction												
Residential												
Farmland												

Commercial:
Secured
Secured
Secured
Unsecured
Consumer and other
Consumer and other
Consumer and other
Total

There were no loans greater than 90 days past due and still accruing interest income as of **March 31, 2024**.

The age analysis of past due loans by class as of December 31, 2023 consisted of the following:

(in thousands)	Past Due				Total Past Due	Current	Total Loans Receivable
	30-59 Days	60-89 Days	Days	Greater Than 90			
Real estate:							
Commercial	\$ —	\$ —	\$ —	\$ —	\$ 2,682,711	\$ 2,682,711	\$ 2,682,711
Commercial land and development	—	—	—	—	—	15,534	15,534
Commercial construction	—	—	—	—	—	62,544	62,544
Residential construction	—	—	—	—	—	15,452	15,452
Residential	—	—	—	—	—	25,922	25,922
Farmland	—	—	—	—	—	51,646	51,646
Commercial:							
Secured	—	—	—	—	—	165,600	165,600
Unsecured	—	—	—	—	—	23,857	23,857
Consumer and other	76	—	—	—	76	38,377	38,453
Total	\$ 76	\$ —	\$ —	\$ 76	\$ 3,081,643	\$ 3,081,643	\$ 3,081,719

There were no loans greater than 90 days past due and still accruing interest income as of **June 30, 2024** or **December 31, 2023**.

No collateral dependent loans were in process of foreclosure at **March 31, 2024** **June 30, 2024** or December 31, 2023.

Non-accrual loans, segregated by class, **were as follows** as of **March 31, 2024** **June 30, 2024** and **December 31, 2023** **are shown in Table 4.4.**

Table 4.4: Nonaccrual Loans

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
Real estate:						
Commercial						
Commercial						
Commercial						
Commercial:						
Commercial:						
Commercial:						
Secured						
Secured						
Secured						
Total non-accrual loans						
Total non-accrual loans						
Total non-accrual loans						

No interest income was recognized on non-accrual loans in the three and six months ended **March 31, 2024** **June 30, 2024** or **March 31, 2023** **June 30, 2023**. Non-accrual real estate loans did not have an allowance for credit losses as of **March 31, 2024** **June 30, 2024**. Interest income can be recognized on non-accrual loans in cases where resolution occurs through a sale or full payment is received on the non-accrual loan.

The amount of foregone interest income related to non-accrual loans was **\$39.2** **\$38.2** thousand and **\$77.4** thousand for the three and six months ended **March 31, 2024** **June 30, 2024**, respectively, as compared to **\$9.1** **\$26.1** thousand and **\$35.3** thousand for the three and six months ended **March 31, 2023**, **June 30, 2023**, respectively.

Allowance for Credit Losses - Loans

The following table Table 4.5 discloses activity in the allowance for credit losses - loans for the three months ended March 31, 2024, periods indicated.

Table 4.5: Allowance for Credit Losses

(in thousands)	(in thousands)	Beginning Balance	Effect of Adoption of ASC 326	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance
(in thousands)	(in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance	
Three months ended June 30, 2024							
Real estate:							
Real estate:							
Real estate:							
Commercial							
Commercial							
Commercial							
Commercial land and development							
Commercial construction							
Residential construction							
Residential							
Farmland							
Commercial:							
Secured							
Secured							
Secured							
Unsecured							
Consumer and other							
Consumer and other							
Consumer and other							
Total							
Total							
Total							

The following table discloses activity in the allowance for credit losses - loans for the three months ended March 31, 2023.

Table 4.5: Allowance for Credit Losses (continued)

(in thousands)	Beginning Balance	Effect of Adoption of ASC 326	Charge-offs	Recoveries	Provision (Benefit)	Ending Balance
Three months ended June 30, 2023						
Real estate:						
Commercial	\$ 27,119	\$ —	\$ —	\$ —	\$ 434	\$ 27,553
Commercial land and development	226	—	—	—	(42)	184
Commercial construction	1,438	—	—	—	(226)	1,212
Residential construction	175	—	—	—	42	217
Residential	181	—	—	—	(29)	152
Farmland	219	—	—	—	17	236
Commercial:						
Secured	4,258	—	(1,124)	47	570	3,751
Unsecured	152	—	—	—	57	209
Consumer and other	404	—	(137)	106	97	470

Total	\$ 34,172	\$ —	\$ (1,261)	\$ 153	\$ 920	\$ 33,984
Six months ended June 30, 2024						
Real estate:						
Commercial	\$ 29,015	\$ —	\$ —	\$ —	\$ (4,307)	\$ 24,708
Commercial land and development	178	—	—	—	(106)	72
Commercial construction	718	—	—	—	379	1,097
Residential construction	89	—	—	—	11	100
Residential	151	—	—	—	44	195
Farmland	399	—	—	—	3	402
Commercial:						
Secured	3,314	—	(2,237)	239	6,070	7,386
Unsecured	189	—	(70)	—	95	214
Consumer and other	378	—	(143)	186	811	1,232
Total	\$ 34,431	\$ —	\$ (2,450)	\$ 425	\$ 3,000	\$ 35,406
Six months ended June 30, 2023						
Real estate:						
Commercial	\$ 19,216	\$ 7,606	\$ —	\$ —	\$ 731	\$ 27,553
Commercial land and development	54	74	—	—	56	184
Commercial construction	645	882	—	—	(315)	1,212
Residential construction	49	81	—	—	87	217
Residential	175	3	—	—	(26)	152
Farmland	644	(396)	—	—	(12)	236
Commercial:						
Secured	7,098	(3,060)	(1,611)	139	1,185	3,751
Unsecured	116	37	—	—	56	209
Consumer and other	347	80	(522)	507	58	470
Unallocated	45	(45)	—	—	—	—
Total	\$ 28,389	\$ 5,262	\$ (2,133)	\$ 646	\$ 1,820	\$ 33,984

(in thousands)	Beginning Balance	Effect of Adoption of ASC 326					Ending Balance
		Charge-offs	Recoveries	Provision (Benefit)			
Real estate:							
Commercial	\$ 19,216	\$ 7,606	\$ —	\$ 24	\$ 26,846		
Commercial land and development	54	74	—	—	96	224	
Commercial construction	645	882	—	—	(104)	1,423	
Residential construction	49	81	—	—	43	173	
Residential	175	3	—	—	1	179	
Farmland	644	(396)	—	—	(31)	217	
Commercial:							
Secured	7,098	(3,060)	(488)	92	573	4,215	
Unsecured	116	37	—	—	(3)	150	
Consumer and other	347	80	(384)	401	(44)	400	
Unallocated	45	(45)	—	—	345	345	
Total	\$ 28,389	\$ 5,262	\$ (872)	\$ 493	\$ 900	\$ 34,172	

Unfunded Loan Commitment Reserves

Unfunded loan commitment reserves are included in "Interest payable and other liabilities" in the unaudited consolidated balance sheets. Provisions for unfunded loan commitments are included in "Provision for credit losses" in the unaudited consolidated statements of income.

		Three months ended		Three months ended		Six months ended
(in thousands)	(in thousands)	June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023	
(in thousands)						
Balance at beginning of period						
Balance at beginning of period						
Balance at beginning of period						
Effect of adoption of ASC 326						
Effect of adoption of ASC 326						
Effect of adoption of ASC 326						
Provision						
Provision						
Provision						
Balance at end of period						
Balance at end of period						
Balance at end of period						
Balance at end of period						

Pledged Loans

The Company's FHLB line of credit is secured under terms of a collateral agreement by a pledge of certain qualifying loans with unpaid principal balances of \$1.6 billion and \$1.7 billion at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. In addition, the Company pledges eligible tenants in common loans, which totaled \$1.2 billion at **March 31, 2024** **June 30, 2024** and December 31, 2023, to secure its borrowing capacity with the Federal Reserve Discount Window. See Note 6, Long Term Debt and Other Borrowings, for further discussion of these borrowings.

Note 5: Interest-Bearing Deposits

Interest-bearing **Table 5.1** shows the composition of interest-bearing deposits consisted of the following as of **March 31, 2024** **June 30, 2024** and December 31, 2023:

Table 5.1: Interest-Bearing Deposits

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
Interest-bearing transaction accounts						
Savings accounts						
Money market accounts						
Time accounts, \$250 or more						
Other time accounts						
Total interest-bearing deposits						
Total interest-bearing deposits						
Total interest-bearing deposits						

Time deposits totaled \$288.2 million \$333.4 million and \$466.6 million as of **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. As of March 31, 2024, scheduled **Maturity** maturities of time deposits as of June 30, 2024 for the next five years were as follows: are shown in Table 5.2.

Table 5.2: Scheduled Maturities of Time Deposits

(in thousands)
2024
2024
2024
2025
2026
2027
2028
Total time deposits

Total deposits include deposits offered through the IntraFi Network that are comprised of Certificate of Deposit Account Registry Service® ("CDARS") balances included in time deposits and Insured Cash Sweep® ("ICS") balances included in money market and interest checking deposits. Through this network, the Company offers customers access to FDIC-insured deposit products in aggregate amounts exceeding current insurance limits. When funds are deposited through CDARS and ICS on behalf of a customer, the Company has the option of receiving matching deposits through the network's reciprocal deposit program or placing deposits "one-way," for which the Company receives no matching deposits. The Company considers the reciprocal deposits to be in-market deposits, as distinguished from traditional out-of-market brokered deposits. There were no one-way deposits at **March 31, 2024** **June 30, 2024** and December 31, 2023. The composition of network deposits as of **March 31, 2024** **June 30, 2024** and December 31, 2023 was as follows: is shown in Table 5.3.

Table 5.3: Network Deposits

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
CDARS						
ICS						
Total network deposits						

Interest Table 5.4 presents interest expense recognized on interest-bearing deposits for the periods ended **March 31, 2024** **June 30, 2024** and 2023 consisted of the following: 2023.

Three months ended	Three months ended

Table 5.4: Interest Expense Recognized on Interest-Bearing Deposits

(in thousands)	(in thousands)	Three months ended	Three months ended	Six months ended
		June 30, 2024	June 30, 2023	June 30, 2024
(in thousands)				
(in thousands)				
(in thousands)				
Interest-bearing transaction accounts				
Interest-bearing transaction accounts				
Interest-bearing transaction accounts				
Savings accounts				
Savings accounts				
Savings accounts				
Money market accounts				
Money market accounts				
Money market accounts				
Time accounts, \$250 or more				
Time accounts, \$250 or more				
Time accounts, \$250 or more				
Other time accounts				
Other time accounts				
Other time accounts				
Total interest expense on interest-bearing deposits				
Total interest expense on interest-bearing deposits				
Total interest expense on interest-bearing deposits				

Note 6: Long Term Debt and Other Borrowings

Subordinated notes: On August 17, 2022, the Company completed a private placement of \$75.0 million of fixed-to-floating rate subordinated notes to certain qualified investors, of which \$19.3 million was purchased by existing or former members of the board of directors and their affiliates. The notes will be used for capital management and general corporate purposes, including, without limitation, the redemption of existing subordinated notes. The subordinated notes have a maturity date of September 1, 2032 and bear interest, payable semi-annually, at the rate of 6.00% per annum until September 1, 2027. On that date, the interest rate will be adjusted to float at a rate equal to the three-month Term SOFR plus 329.0 basis points (8.58% (8.60% as of **March 31, 2024** **June 30, 2024**) until maturity. The notes include a right of prepayment, on or after August 17, 2027 or, in certain limited circumstances, before that date. The indebtedness evidenced by the subordinated notes, including principal and interest, is unsecured and subordinate and junior in right to payment to general and secured creditors and depositors of the Company.

The subordinated notes have been structured to qualify as Tier 2 capital for the Company for regulatory capital purposes. Eligible amounts will be phased out by 20% per year beginning five years before the maturity date of the notes. Debt issuance costs incurred in conjunction with the notes were \$1.5 million, of which \$0.2 million (\$0.3 million) has been amortized as of **March 31, 2024** **June 30, 2024**. The Company reflects debt issuance costs as a direct deduction from the face of the note. The debt issuance costs are amortized into interest expense through the maturity period. At **March 31, 2024** **June 30, 2024** and December 31, 2023, the carrying value of the Company's subordinated notes outstanding was \$73.8 million and \$73.7 million, respectively.

Other borrowings: The Company entered into an agreement with the FHLB which granted the FHLB a blanket lien on certain loans receivable as collateral for a borrowing line. The Company's total financing availability is based on the dollar

volume of qualifying loan collateral. The Company's total financing availability with the FHLB is decreased by outstanding borrowings and letters of credit ("LCs") issued on behalf of the Company, as follows: shown in Table 6.1.

Table 6.1: Financing Availability with the FHLB

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
Total financing ability from the FHLB						
Less: outstanding borrowings						
Less: LCs pledged to secure State of California deposits						
Less: LCs pledged to secure local agency deposits						
Total LCs issued						
Available borrowing capacity with the FHLB						

At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had a borrowing line available the ability to borrow from the Federal Reserve Discount Window. At June 30, 2024 and December 31, 2023, the borrowing capacity under this arrangement was \$829.2 million and \$770.6 million, respectively. There were no amounts outstanding at June 30, 2024 and December 31, 2023. The borrowing line is secured by certain liens on the Company's loans and certain available-for-sale securities. The Company's financing availability with the Federal Reserve Discount Window is as follows:

(in thousands)	March 31, 2024	December 31, 2023
Total financing ability from the Federal Reserve Discount Window	\$ 807,143	\$ 770,572
Less: outstanding borrowings	100,000	—
Available borrowing capacity with the Federal Reserve Discount Window	\$ 707,143	\$ 770,572

At March 31, 2024 June 30, 2024 and December 31, 2023, the Company had five unsecured federal funds lines of credit with its correspondent banks totaling \$175.0 million. There were no amounts outstanding at March 31, 2024 June 30, 2024 and December 31, 2023.

Note 7: Shareholders' Equity

(a) EPS

Basic EPS is net income divided by the weighted average number of common shares outstanding during the period less average unvested restricted stock awards ("RSAs"). Diluted EPS includes the dilutive effect of additional potential common shares related to unvested RSAs using the treasury stock method. The Company has two forms of outstanding common stock: common stock and unvested RSAs. Holders of unvested RSAs receive non-forfeitable dividends at the same rate as common shareholders and they both share equally in undistributed earnings, and therefore the RSAs are considered participating securities. However, under the two-class method, the difference in EPS is not significant for these participating securities.

	Three months ended	Three months ended

Table 7.1: EPS

(in thousands, except share count and earnings per common share)	(in thousands, except share count and earnings per common share)	Three months ended	Three months ended	Six months ended
		June 30, 2024	June 30, 2023	June 30, 2024
(in thousands, except share count and earnings per common share)				
(in thousands, except share count and earnings per common share)				
(in thousands, except share count and earnings per common share)				
Net income				
Net income				
Net income				
Basic weighted average common shares outstanding				
Basic weighted average common shares outstanding				
Basic weighted average common shares outstanding				
Add: Dilutive effects of assumed vesting of restricted stock				
Add: Dilutive effects of assumed vesting of restricted stock				

Add: Dilutive effects of assumed vesting of restricted stock
Total dilutive weighted average common shares outstanding
Total dilutive weighted average common shares outstanding
Total dilutive weighted average common shares outstanding
Earnings per common share:
Earnings per common share:
Earnings per common share:
Basic EPS
Basic EPS
Basic EPS
Diluted EPS
Diluted EPS
Diluted EPS

The Company did not have any anti-dilutive shares at **March 31, 2024** **June 30, 2024** or **March 31, 2023** **June 30, 2023**.

(b) Dividends

On **January 18, 2024** **April 18, 2024**, the board of directors declared a \$0.20 per common share dividend, totaling **\$3.5 million** **\$4.3 million**.

(c) Stock-Based Incentive Arrangement

The Company's stock-based compensation consists of RSAs granted under its historical stock-based incentive arrangement (the "Historical Incentive Plan") and RSAs issued under the Five Star Bancorp 2021 Equity Incentive Plan (the "Equity Incentive Plan"). The Historical Incentive Plan consisted of RSAs for certain executive officers of the Company. The arrangement provided that these executive officers would receive shares of restricted common stock of the Company that vested over three years, with the number of shares granted based upon achieving certain performance objectives. These objectives included, but were not limited to, net income adjusted for the provision for credit losses, deposit growth, efficiency ratio, net interest margin, and asset quality. Compensation expense for RSAs granted under the Historical

Incentive Plan is recognized over the service period, which is equal to the vesting period of the shares based on the fair value of the shares at issue date.

In connection with its IPO in May 2021, the Company granted RSAs under the Equity Incentive Plan to certain employees, officers, executives, and non-employee directors. Shares granted to non-employee directors vested immediately upon grant, while shares granted to certain employees, officers, and executives vest ratably over three, five, or seven years (as defined in the respective agreements). Since the completion of the IPO, the Company has granted RSAs under the Equity Incentive Plan to certain executives, which vest ratably over three or five years (as defined in the respective agreements), and to directors, which vest annually over three years and over one year, respectively, year. All RSAs were granted at the fair value of common stock at the time of the award. The RSAs are considered fixed awards, as the number of shares and fair value are known at the date of grant and the fair value at the grant date is amortized over the service period.

Non-cash stock compensation expense recognized for the three months ended **March 31, 2024** **June 30, 2024** and 2023 was \$0.3 million and \$0.2 million, respectively. Non-cash stock compensation expense recognized for the six months ended **June 30, 2024** and 2023 was \$0.6 million and \$0.5 million, respectively.

At **March 31, 2024** **June 30, 2024** and 2023, there were **162,348** **137,457** and **108,363** **82,324** unvested restricted shares, respectively. As of **March 31, 2024** **June 30, 2024**, there was approximately **\$2.9 million** **\$2.6 million** of unrecognized compensation expense related to the **162,348** **137,457** unvested restricted shares. The holders of unvested RSAs are entitled to dividends at the same per-share ratio as holders of common stock. Tax benefits for dividends paid on unvested RSAs are recorded as tax benefits in the consolidated statements of income with a corresponding decrease to current taxes payable. Such tax benefits are expected to be recognized over the weighted average term remaining on the unvested restricted shares of **3.37** **3.39** years as of **March 31, 2024** **June 30, 2024**. The impact of tax benefits for dividends paid on unvested restricted stock on the Company's unaudited consolidated statements of income for the three and six months ended **March 31, 2024** **June 30, 2024** and 2023 was immaterial.

The following table Table 7.2 summarizes activity related to restricted shares for the periods indicated:

For the three months ended March 31,
2024
2024
2024
Shares
Shares
Shares

Beginning of the period balance
Beginning of the period balance

Table 7.2: Restricted Share Activity

	For the three months ended June 30,			For the six months ended June 30,				
	2024		2023		2024			
	Shares	Weighted Average Date Fair Value	Shares	Weighted Average Date Fair Value	Shares	Weighted Average Date Fair Value	Shares	Weighted Average Date Fair Value
Beginning of the period balance								
Shares granted								
Shares granted								
Shares granted								
Shares vested								
Shares vested								
Shares vested								
Shares forfeited								
Shares forfeited								
Shares forfeited								
End of the period balance								
End of the period balance								
End of the period balance								

Note 8: Commitments and Contingencies

Financial Instruments with Off-Balance Sheet Risk

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Substantially all of these commitments are at variable interest rates, based on an index, and have fixed expiration dates.

Off-balance sheet risk to loan loss exists up to the face amount of these instruments, although material losses are not anticipated. The Company uses the same credit policies in making commitments to originate loans and lines of credit as it does for on-balance sheet instruments, including obtaining collateral at exercise of the commitment. The contractual amounts of unfunded loan commitments and standby letters of credit not reflected in the unaudited consolidated balance sheets *were as follows: at the dates indicated are presented in Table 8.1.*

Table 8.1: Unfunded Loan Commitments and Standby Letters of Credit

(in thousands)	(in thousands)	March 31, 2024	December 31, 2023	(in thousands)	June 30, 2024	December 31, 2023
Commercial lines of credit						
Undisbursed construction loans						
Undisbursed commercial real estate loans						
Agricultural lines of credit						
Undisbursed residential real estate loans						
Undisbursed agricultural real estate loans						
Other						
Total commitments and standby letters of credit						

The Company records an allowance for credit losses on unfunded loan commitments at the consolidated balance sheet date based on estimates of the probability that these commitments will be drawn upon according to historical utilization experience of the different types of commitments and historical loss rates determined for pooled funded loans. The allowance for credit losses on unfunded commitments totaled \$1.1 million as of **March 31, 2024** **June 30, 2024** and \$1.2 million as of December 31, 2023, which is recorded in "Interest payable and other liabilities" in the unaudited consolidated balance sheets.

Concentrations of credit risk: The Company grants real estate mortgage, real estate construction, commercial, and consumer loans to customers primarily in Northern California. Although the Company has a diversified loan portfolio, a substantial portion is secured by commercial and residential real estate.

In management's judgment, a concentration of loans exists in real estate related loans, which represented approximately **91.86%** **89.76%** of the Company's loan portfolio at **March 31, 2024** **June 30, 2024** and 9.230% of the Company's loan portfolio at December 31, 2023. Although management believes such concentrations have no more than the normal risk of collectability, a substantial decline in the economy in general, or a decline in real estate values in the Company's primary market areas in particular, could have an adverse impact on the collectability of these loans. Personal and business incomes represent the primary source of repayment for the majority of these loans.

Deposit concentrations: At **March 31, 2024** **June 30, 2024**, the Company had **92.99** deposit relationships that exceeded \$5.0 million each, totaling **\$1.7 billion** **\$1.9 billion**, or approximately **57.63%** **59.53%** of total deposits. The Company's largest single deposit relationship at **March 31, 2024** **June 30, 2024** totaled **\$200.9 million** **\$227.7 million**, or approximately **6.80%** **7.23%** of total deposits. Management maintains the Company's liquidity position and lines of credit with correspondent banks to mitigate the risk of large withdrawals by this group of large depositors.

Contingencies: The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

Correspondent banking agreements: The Company maintains funds on deposit with other FDIC-insured financial institutions under correspondent banking agreements. Uninsured deposits through these agreements totaled approximately **\$24.7 million** **\$23.7 million** and \$22.3 million at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively.

Litigation Matters

The Company is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to such actions will not materially affect the consolidated financial position or results of operations of the Company.

Note 9: Subsequent Events

On **April 18, 2024** **July 18, 2024**, the **Board** **board** of **Directors** **directors** of the Company **authorized** **declared** a cash dividend of \$0.20 per common share, payable on **May 13, 2024** **August 12, 2024** to shareholders of record as of **May 6, 2024** **August 5, 2024**.

On March 28, 2024, the Company entered into an underwriting agreement with Keefe, Bruyette & Woods, Inc., as representative of the several underwriters named in Schedule I thereto (the "Underwriters"), to issue and sell up to 3,967,500 shares of common stock, including up to 517,500 shares that could be purchased by the Underwriters pursuant to a 30-day option granted to the Underwriters by the Company, at a public offering price of \$21.75 per share (the "2024 Public Offering"). On April 2, 2024, the Company closed the 2024 Public Offering and issued 3,450,000 shares of its common stock, and on April 10, 2024, the Company issued an additional 517,500 shares of its common stock to the Underwriters, pursuant to the Underwriters' full exercise of their option to purchase additional shares. When combined with the shares sold in the closing that occurred on April 2, 2024, the Company sold an aggregate of 3,967,500 shares of its common stock at a public offering price of \$21.75 per share. The net proceeds to the Company, after deducting underwriting discounts, commissions, and estimated offering expenses of approximately \$0.7 million, were approximately \$80.8 million.

The Company has a shelf registration statement on file with the SEC registering \$250.0 million for any combination of equity or debt securities, depository shares, warrants, purchase contracts, purchase units, subscription rights, and units in one or more offerings. The 2024 Public Offering used \$86.3 million of the Company's shelf registration statement on file with the SEC.

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

The following discussion presents management's perspective on our results of operations and financial condition on a consolidated basis. However, because we conduct all of our material business operations through our bank subsidiary, Five Star Bank (the "Bank"), the discussion and analysis relates to activities primarily conducted by the Bank.

Management's discussion of the financial condition and results of operations, which is unaudited, should be read in conjunction with the related unaudited consolidated financial statements and accompanying notes in this Quarterly Report on Form 10-Q and the audited consolidated financial statements and accompanying notes included in the 2023 Annual Report on Form 10-K, which was filed with the SEC on February 23, 2024. Average balances, including balances used in calculating certain financial ratios, are generally comprised of average daily balances.

Unless otherwise indicated, references in this report to "we," "our," "us," "the Company," or "Bancorp" refer to Five Star Bancorp and our consolidated subsidiary. All references to "the Bank" refer to Five Star Bank, our wholly owned subsidiary.

Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections, and statements of our beliefs concerning future events, business plans, objectives, expected operating results, and the assumptions upon which those statements are based. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "aim," "intend," "plan," or words or phrases of similar meaning. To the extent that this discussion describes prior performance, the descriptions relate only to the periods listed, which may not be indicative of our future financial outcomes. We caution that the forward-looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Such forward-looking statements are based on various assumptions (some of which may be beyond our control) and are subject to risks and uncertainties, which change over time, and other factors which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include, but are not limited to:

- risks related to the concentration of our business in California, and specifically within Northern California, including risks associated with any downturn in the real estate sector;
- changes in market interest rates that affect the pricing of our loans and deposits, our net interest income, and our borrowers' ability to repay loans;

- changes in the U.S. economy, including an economic slowdown, inflation, deflation, housing prices, employment levels, rate of growth, and general business conditions;
- uncertain market conditions and economic trends nationally, regionally, and particularly in Northern California and California;
- the soundness of other financial institutions and the impacts related to or resulting from bank failures and other economic and industry volatility, including increased regulatory requirements and costs and potential impacts to macroeconomic conditions;
- the impact of recent and future legislative and regulatory changes, including changes in banking, securities, and tax laws and regulations and their application by our regulators, and economic stimulus programs;
- the effects of increased competition from a wide variety of local, regional, national, and other providers of financial and investment services;
- the risks associated with our loan portfolios, and specifically with our commercial real estate loans;
- our ability to maintain adequate liquidity and to maintain capital necessary to fund our growth strategy and operations and to satisfy minimum regulatory capital levels;
- risks related to our strategic focus on lending to small to medium-sized businesses;
- the sufficiency of the assumptions and estimates we make in establishing reserves for potential credit losses and the value of loan collateral and securities;
- our level of nonperforming assets and the costs associated with resolving problem loans, if any, and complying with government-imposed foreclosure moratoriums;
- our ability to comply with various governmental and regulatory requirements applicable to financial institutions, including supervisory actions by federal and state banking agencies;
- governmental monetary and fiscal policies, including the policies of the Federal Reserve;
- risks associated with unauthorized access, cybersecurity breaches, cyber-crime, and other threats and disruptions to data security;
- our ability to implement, maintain, and improve effective risk management framework, disclosure controls and procedures, and internal controls over financial reporting;
- our ability to adopt and successfully integrate new initiatives or technologies into our business in a strategic manner;
- our ability to attract and retain executive officers and key employees and their customer and community relationships;
- the impact of any future U.S. federal government shutdown and uncertainty regarding the U.S. federal government's debt limit and credit rating;
- the occurrence or impact of climate change or natural or man-made disasters or calamities, such as wildfires, droughts, mudslides, floods, and earthquakes, and particularly in Northern California and California;
- changes in and impact of local, regional, and global business, economic, and political conditions and geopolitical events, such as pandemics, civil unrest, wars, and acts of terrorism; and
- other factors that are discussed in the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The foregoing factors could cause results or performance to materially differ from those expressed in our forward-looking statements, should not be considered exhaustive, and should be read together with other cautionary statements that are included in this report and those discussed in the section entitled "Risk Factors" of our 2023 Annual Report on Form 10-K, **our Quarterly Report on Form 10-Q for the three months ended March 31, 2024**, and other filings we may make with the SEC, copies of which are available from us at no charge. New risks and uncertainties may emerge from time to time, and it is not possible for us to predict their occurrence or how they will affect us. 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. Therefore, we caution you not to place undue reliance on our forward-looking information and statements. We disclaim any duty to revise or update the forward-looking statements, whether written or oral, to reflect actual results or changes in the factors affecting the forward-looking statements, except as specifically required by law.

Company Overview

Headquartered in the greater Sacramento metropolitan area of California, Five Star Bancorp is a bank holding company that operates through its wholly owned subsidiary, Five Star Bank, a California state-chartered non-member bank. We provide a broad range of banking products and services to small and medium-sized businesses, professionals, and individuals primarily in Northern California through seven branch offices. Our mission is to strive to become the top business bank in all markets we serve through exceptional service, deep connectivity, and customer empathy. We are dedicated to serving real estate, agricultural, faith-based, and small to medium-sized enterprises. We aim to consistently deliver value that meets or exceeds the expectations of our shareholders, customers, employees, business partners, and community. We refer to our mission as "purpose-driven and integrity-centered banking." At **March 31, 2024** **June 30, 2024**, we had total assets of **\$3.5** **\$3.6** billion, total loans held for investment, net of allowance for credit losses, of **\$3.1** **\$3.2** billion, and total deposits of **\$3.0** **\$3.1** billion.

Critical Accounting Estimates

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Quarterly Reports on Form 10-Q and, therefore, do not include all footnotes as would be necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows in conformity with GAAP as contained within the FASB's ASC and the rules and regulations of the SEC, including the instructions to Regulation S-X. However, these interim unaudited consolidated financial statements reflect all adjustments (consisting solely of normal recurring adjustments and accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and comprehensive income, changes in shareholders' equity, and cash flows for the interim periods presented. These unaudited consolidated financial statements have been prepared on a basis consistent with, and should be read in conjunction with, the audited consolidated financial statements as filed in our 2023 Annual Report on Form 10-K and the notes thereto.

Our most significant accounting policies and our critical accounting estimates are described in greater detail in Note 1, Basis of Presentation, in our audited consolidated financial statements and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates included in our 2023 Annual Report on Form 10-K. We have identified accounting policies and estimates that, due to the difficult, subjective, or complex judgments and assumptions inherent in those policies and estimates and the potential sensitivity of our unaudited consolidated financial statements to those judgments and assumptions, are critical to an understanding of our consolidated financial condition and results of operations. We believe that the judgments, estimates, and assumptions used in the preparation of our financial statements are reasonable and appropriate, based on the information available at the time they were made. However, actual results may differ from those estimates, and these differences may be material.

There With the exception of the changes to the ACL described below, there have been no significant changes concerning our critical accounting estimates as described in our 2023 Annual Report on Form 10-K.

Pursuant to the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"), as an emerging growth company, we can elect to opt out of the extended transition period for adopting any new or revised accounting standards. We have elected not to opt out of the extended transition period, which means that when a standard is issued or revised and it has different application dates for public and private companies, we may adopt the standard on the application date for private companies.

We have elected to take advantage of the scaled disclosures and other relief under the JOBS Act, and we may take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act, so long as we qualify as an emerging growth company.

Allowance for Credit Losses ("ACL")

The ACL represents the estimated probable credit losses in our loan and investment portfolios and is estimated as of June 30, 2024 using CECL. The ACL is established through a provision for credit losses charged to operations. Loans and investments are charged against the ACL when management believes that the collectability of the principal is unlikely. Subsequent recoveries of previously charged-off amounts, if any, are credited to the ACL.

The ACL is evaluated on a regular basis by management in consideration of optimistic, moderate, and pessimistic current conditions, and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions specifically impacting each loan type by purpose and by geography, and concentrations within the loan portfolio. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

A significant amount of the ACL is measured on a collective (pool) basis by loan and investment security type when similar risk characteristics exist. Pools are determined based primarily on regulatory reporting codes as the loans and investment securities within each pool share similar risk characteristics and there is sufficient historical peer loss data from the FFIEC to provide statistically meaningful support in the models developed. Reserves for credit losses identified on a pooled basis are then adjusted for qualitative and other environmental factors to reflect current conditions.

During the three months ended June 30, 2024, we refined our methodology of measuring the ACL on two pools of loans: Multifamily and C&I SBA. Within the Multifamily pool, the MHC loans were segregated from traditional Multifamily as we identified a data source to provide sufficient historical peer loss data specific to MHC loans. This segregation now adjusts for differences in the risk characteristics and performance of MHC loans compared to traditional Multifamily properties. We used calculations of individual probability of default and loss given default on a loan-by-loan basis to derive an estimated loss rate. Applying this adjusted loss rate led to a decrease in the ACL for the Multifamily pool as of June 30, 2024 of approximately \$5.8 million. During routine monitoring of charge-off activity within the C&I SBA pool, we identified an increased level of charge-offs during the first six months of 2024, reflecting a change in the credit quality of the pool. In response to this, we increased the expected loss rates to be more in line with net charge-off rates during the first six months of 2024, as this time period reflects what is expected based on our current economic outlook for loans in the C&I SBA pool. This adjustment reflects our estimate for future loss rates and increased the required reserves related to the C&I SBA pool by approximately \$4.6 million.

Executive Summary

Net income for the three and six months ended **March 31, 2024** **June 30, 2024** totaled **\$10.6** **\$10.8** million and **\$21.4** million, respectively, as compared to net income of **\$13.2** **\$12.7** million and **\$25.9** million for the three and six months ended **March 31, 2023** **June 30, 2023**, respectively.

The following are highlights of our operating and financial performance, and financial condition for the dates and periods presented:

- **Deposits.** Total deposits **decreased increased** by **\$71.1** **\$122.7** million from \$3.03 billion at December 31, 2023 to **\$2.96** **\$3.15** billion at **March 31, 2024**, primarily due to **June 30, 2024**. Non-wholesale deposits increased by \$230.4 million in the first six months of 2024 to **significant decreases in wholesale** **\$2.90** billion. Wholesale deposits, which the Company defines as brokered deposits and public time deposits. In deposits, decreased by \$107.6 million in the first **three** **six** months of 2024 brokered deposits and public time deposits decreased by \$58.1 million and \$125.0 million, respectively, to \$252.5 million. Non-interest-bearing deposits decreased by **\$13.7** **\$5.4** million in the first **three** **six** months of 2024 to **\$817.4** **\$825.7** million, and represented **27.65%** **26.22%** of total deposits at **March 31, 2024** **June 30, 2024**, as compared to 27.46% of total deposits at December 31, 2023. Non-wholesale deposits increased by \$112.0 million in the first three months of 2024. Our loan to deposit ratio was **105.37%** **103.87%** at **March 31, 2024** **June 30, 2024**, as compared to 102.19% at December 31, 2023.
- **Assets.** Total assets were **\$3.5** **\$3.63** billion at **March 31, 2024** **June 30, 2024**, representing a **\$116.8** **\$41.1** million, or **3.25%** **1.14%**, **decrease increase** compared to **\$3.6** **\$3.59** billion at December 31, 2023.
- **Loans.** Total loans held for investment were **\$3.10** **\$3.27** billion at **March 31, 2024** **June 30, 2024**, as compared to \$3.08 billion at December 31, 2023, an increase of **\$22.4** **\$184.6** million, or **0.73%** **5.99%**. The increase was primarily attributable to increases of **\$35.8** **\$114.4** million in consumer and other loans **\$2.8** million and **\$88.6** million in residential loans, and **\$2.7** million in residential construction commercial real estate loans, partially offset by a **\$21.8** million **decrease** **decreases** in commercial secured loans, and commercial land and development loans of \$11.0 million and \$10.8 million, respectively.
- **Credit Quality.** Credit quality remains strong, with non-accrual loans representing \$1.9 million, or 0.06% of total loans held for investment, at **March 31, 2024** **June 30, 2024**, as compared to \$2.0 million, or 0.06% of total loans held for investment, at December 31, 2023. The ratio of the allowance for credit losses to total loans held for investment was **1.12%** **1.08%** at **March 31, 2024** **June 30, 2024** and **1.12%** December 31, 2023.
- **Net Interest Margin.** Net interest margin was **3.14%** **3.39%** and **3.27%**, respectively, for the three and six months ended **March 31, 2024** **June 30, 2024**, and **3.75%** **3.45%** and **3.59%**, respectively, for the three and six months ended **March 31, 2023** **June 30, 2023**. The decrease in net interest margin period-over-period was primarily due to an increase in deposit costs exceeding increases in yields on earning assets, as the effective Federal Funds rate increased from **4.83%** **5.08%** at **March 31, 2023** **June 30, 2023** to 5.33% at **March 31, 2024** **June 30, 2024**.

- **Efficiency Ratio.** Efficiency ratio was 44.50% 44.07% for the three months ended March 31, 2024 June 30, 2024, up from 36.43% 39.41% for the corresponding period of 2023 due to the Company's expansion into the San Francisco Bay Area beginning late in the second quarter of 2023.
- **Capital Ratios.** All capital ratios were above well-capitalized regulatory thresholds as of March 31, 2024 June 30, 2024 and reflect additional common stock of approximately \$80.9 million issued through the public offering that closed in April 2024. The total risk-based capital ratio for the Company was 12.34% 14.38% at March 31, 2024 June 30, 2024, as compared to 12.30% at December 31, 2023. The Tier 1 leverage ratio was 8.63% 11.05% at March 31, 2024 June 30, 2024, as compared to 8.73% at December 31, 2023. For additional information about the regulatory capital requirements applicable to the Company and the Bank, see the section entitled "—Financial Condition Summary—Capital Adequacy" below.
- **Dividends.** The board of directors declared a cash dividend of \$0.20 per share on January 18, 2024 April 18, 2024.

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

Table 1: Highlights of Financial Results

(dollars in thousands)	(dollars in thousands)	March 31, 2024	December 31, 2023	(dollars in thousands)	June 30, 2024	December 31, 2023
Selected financial condition data:						
Total assets						
Total assets						
Total assets						
Total loans held for investment						
Total deposits						
Total subordinated notes, net						
Total shareholders' equity						
Asset quality ratios:						
Allowance for credit losses to total loans held for investment						
Allowance for credit losses to total loans held for investment						
Allowance for credit losses to total loans held for investment	1.12 %	1.12 %			1.08 %	1.12 %
Allowance for credit losses to nonperforming loans						
Allowance for credit losses to nonperforming loans						
Allowance for credit losses to nonperforming loans	1,806.73 %	1,752.70 %			1,882.30 %	1,752.70 %
Nonperforming loans to total loans held for investment	Nonperforming loans to total loans held for investment	0.06 %	0.06 %	Nonperforming loans to total loans held for investment	0.06 %	0.06 %
Capital ratios:						
Total capital (to risk-weighted assets)						
Total capital (to risk-weighted assets)						
Total capital (to risk-weighted assets)	12.34 %	12.30 %			14.38 %	12.30 %
Tier 1 capital (to risk-weighted assets)	Tier 1 capital (to risk-weighted assets)	9.13 %	9.07 %	Tier 1 capital (to risk-weighted assets)	11.27 %	9.07 %
Common equity Tier 1 capital (to risk-weighted assets)	Common equity Tier 1 capital (to risk-weighted assets)	9.13 %	9.07 %	Common equity Tier 1 capital (to risk-weighted assets)	11.27 %	9.07 %
Tier 1 leverage	Tier 1 leverage	8.63 %	8.73 %	Tier 1 leverage	11.05 %	8.73 %
Total shareholders' equity to total assets	Total shareholders' equity to total assets	8.42 %	7.95 %	Total shareholders' equity to total assets	10.47 %	7.95 %
Tangible shareholders' equity to tangible assets ¹	Tangible shareholders' equity to tangible assets ¹	8.42 %	7.95 %	Tangible shareholders' equity to tangible assets ¹	10.47 %	7.95 %
For the three months ended						
For the three months ended						

Table 2: Highlights of Financial Results (continued)

(dollars in thousands, except per share data)	(dollars in thousands, except per share data)	For the three months ended		For the three months ended		For the six months ended
		June 30, 2024	June 30, 2023	June 30, 2024	June 30, 2023	June 30, 2023

(dollars in thousands, except per share data)
(dollars in thousands, except per share data)
Selected operating data:
Selected operating data:
Selected operating data:
Net interest income
Net interest income
Net interest income
Provision for credit losses
Provision for credit losses
Provision for credit losses
Non-interest income
Non-interest income
Non-interest income
Non-interest expense
Non-interest expense
Non-interest expense
Net income
Net income
Net income
Per common share data:
Per common share data:
Per common share data:
Earnings per common share:
Earnings per common share:
Earnings per common share:
Basic
Basic
Basic
Diluted
Diluted
Diluted
Book value per share
Book value per share
Book value per share
Tangible book value per share ₂
Tangible book value per share ₂
Tangible book value per share ₂
Performance and other financial ratios:
Performance and other financial ratios:
Performance and other financial ratios:
ROAA
ROAA
ROAA
ROAE
ROAE
ROAE

1.23	%	1.55	%	1.22	%	1.60	%
11.72	%	19.29	%	13.08	%	20.09	%

Net interest margin									
Net interest margin									
Cost of funds	Net interest margin	3.39	%	3.45	%	3.27	%	3.59	%
Cost of funds	Cost of funds	2.56	%	2.04	%	2.59	%	1.79	%
Cost of funds									
Cost of funds									
Efficiency ratio									
Efficiency ratio									
Efficiency ratio	Efficiency ratio	44.07	%	39.41	%	44.27	%	37.92	%
Cash dividend payout ratio on common stock ³	Cash dividend payout ratio on common stock ³	39.22	%	27.03	%	35.71	%	23.18	%
Cash dividend payout ratio on common stock ³									
Cash dividend payout ratio on common stock ³									

¹ Tangible shareholders' equity to tangible assets is considered a non-GAAP financial measure. See the section entitled "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measure.

comparable GAAP financial measure. Tangible shareholders' equity to tangible assets is defined as total equity less goodwill and other intangible assets, divided by total assets less goodwill and other intangible assets. The most directly comparable GAAP financial measure is total shareholders' equity to total assets. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible shareholders' equity to tangible assets is the same as total shareholders' equity to total assets at the end of each of the periods indicated.

² Tangible book value per share is considered a non-GAAP financial measure. See the section entitled "Non-GAAP Financial Measures" for a reconciliation of our non-GAAP financial measures to the most directly comparable GAAP financial measure. Tangible book value per share is defined as total shareholders' equity less goodwill and other intangible assets, divided by the outstanding number of common shares at the end of the period. The most directly comparable GAAP financial measure is book value per share. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible book value per share is the same as book value per share at the end of each of the periods indicated.

³ Cash dividend payout ratio on common stock is calculated as dividends on common shares divided by basic earnings per common share.

RESULTS OF OPERATIONS

The following discussion of our results of operations compares the three and six months ended **March 31, 2024** **June 30, 2024** to the three and six months ended **March 31, 2023** **June 30, 2023**. The results of operations for the three and six months ended **March 31, 2024** **June 30, 2024** are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2024.

Net Interest Income

Net interest income is the most significant contributor to our net income. Net interest income represents interest income from interest-earning assets, such as loans and investments, less interest expense on interest-bearing liabilities, such as deposits, subordinated notes, and other borrowings, which are used to fund those assets. In evaluating our net interest income, we measure and monitor yields on our interest-earning assets and interest-bearing liabilities as well as trends in our net interest margin. Net interest margin is a ratio calculated as net interest income divided by total interest-earning assets for the same period. We manage our earning assets and funding sources in order to maximize this margin while limiting credit risk and interest rate sensitivity to our established risk appetite levels. Changes in market interest rates and competition in our market typically have the largest impact on periodic changes in our net interest margin.

Three months ended June 30, 2024 compared to three months ended June 30, 2023

Net interest income **decreased** \$2.4 million **increased** \$1.5 million to **\$26.7** **\$29.1** million for the three months ended **March 31, 2024** **June 30, 2024** compared to **March 31, 2023** **and June 30, 2023** while our net interest margin of **3.14%** **3.39%** for the three months ended **March 31, 2024** **June 30, 2024** decreased from **3.75%** **3.45%** for the three months ended **March 31, 2023** **June 30, 2023**. The **decrease** **increase** in net interest income **and contraction** of our net interest margin was primarily due to **higher rates paid on interest-bearing liabilities, which exceeded loan growth at higher yields, earned on interest-earning assets, partially offset by deposit growth at higher rates**. These changes related to the change in the effective Federal Funds rate from **4.83%** **5.08%** at **March 31, 2023** **June 30, 2023** to 5.33% at **March 31, 2024** **June 30, 2024**. Additional detail relating to net interest margin in each period is provided below.

Average balance sheet, interest, and yield/rate analysis. The following table Table 3 presents average balance sheet information, interest income, interest expense, and the corresponding average yield earned or rate paid for each period reported. The average balances are daily averages and include both performing and nonperforming loans.

For the three months ended March 31, 2024	For the three months ended March 31, 2023
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Table 3: Average Balances, Interest, and Yield/Rate

		For the three months ended June 30, 2024					For the three months ended June 30, 2023					
(dollars in thousands)	(dollars in thousands)	Average Balance	Interest Income/Expense	Average Yield/Rate		Average Balance	Interest Income/Expense	Average Yield/Rate		Average Balance	Interest Income/Expense	Average Yield/Rate
Assets												
Interest-earning deposits in banks ¹												
Interest-earning deposits in banks ¹		\$ 233,002	\$ 3,102	5.35 %		\$ 200,541	\$ 2,167	4.38 %				
Investment securities ^{1,2}	Investment securities ^{1,2}	109,177	653	2.41 %		119,489	650	2.21 %				
Loans held for investment and sale ^{1,3}	Loans held for investment and sale ^{1,3}	3,082,290	43,786	5.71 %		2,836,070	37,494	5.36 %				
Total interest-earning assets ¹	Total interest-earning assets ¹	3,424,469	47,541	5.58 %		3,156,100	40,311	5.18 %				
Interest receivable and other assets, net ⁴												
Total assets	Total assets											
Liabilities and shareholders' equity												
Liabilities and shareholders' equity												
Liabilities and shareholders' equity												
Interest-bearing transaction accounts ¹												
Interest-bearing transaction accounts ¹		\$ 300,325	\$ 1,126	1.51 %		\$ 379,593	\$ 433	0.46 %				
Savings accounts ¹	Savings accounts ¹	124,561	861	2.78 %		155,233	545	1.42 %				
Money market accounts ¹	Money market accounts ¹	1,410,264	12,155	3.47 %		1,087,122	5,436	2.03 %				
Time accounts ¹	Time accounts ¹	429,586	5,369	5.03 %		300,952	2,964	3.99 %				
Subordinated notes and other borrowings ¹	Subordinated notes and other borrowings ¹	82,775	1,286	6.25 %		125,691	1,785	5.76 %				
Total interest-bearing liabilities	Total interest-bearing liabilities	2,347,511	20,797	3.56 %		2,048,591	11,163	2.21 %				
Demand accounts												
Interest payable and other liabilities												

Interest payable and other liabilities						
Interest payable and other liabilities						
Shareholders' equity						
Shareholders' equity						
Shareholders' equity						
Total liabilities and shareholders' equity						
Total liabilities and shareholders' equity						
Total liabilities and shareholders' equity						
Net interest spreads						
Net interest spreads						
Net interest spreads						
Net interest income/margins ⁶	\$26,744	3.14	2.02 %			\$29,148
Net interest income/margins ⁶						

- 1 Interest income/expense is divided by the actual number of days in the period multiplied by the actual number of days in the year to correspond to stated interest rate terms, where applicable.
- 2 Yields on available-for-sale securities are calculated based on fair value. Investment security interest is earned on a 30/360 day basis monthly. Yields are not calculated on a tax-equivalent basis.
- 3 Non-accrual loans are included in total loan balances. No adjustment has been made for these loans in the yield calculations. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs. Allowance for credit losses is not included in total loan balances.
- 4 Allowance for credit losses is included in interest receivable and other assets, net.
- 5 Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
- 6 Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets, then annualized based on the number of days in the given period.

Analysis of changes in interest income and expenses. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average yields/rates. The following table Table 4 shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the current period's average yield/rate. The effect of rate changes is calculated by multiplying the change in average yield/rate by the previous period's volume. Changes not solely attributable to volume or yields/rates have been allocated in proportion to the respective volume and yield/rate components.

For the three months ended March 31, 2024 compared to the three months ended March 31, 2023			Table 4: Interest Income and Expense Change Analysis			For the three months ended June 30, 2024 compared to the three months ended June 30, 2023		
(dollars in thousands)	Volume	Yield/Rate	Total Increase (Decrease)	(dollars in thousands)	Volume	Yield/Rate	Total Increase (Decrease)	
Interest-earning deposits in banks								
Investment securities								
Loans held for investment and sale								
Total interest-earning assets								
Interest-bearing transaction accounts								
Savings accounts								

Money market accounts
Time accounts
Subordinated notes and other borrowings
Total interest-bearing liabilities
Changes in net interest income/margin

Net interest income decreased \$2.4 million and increased \$1.5 million while net interest margin decreased 61.6 basis points for the three months ended March 31, 2024 June 30, 2024 compared to the same quarter of the prior year. The decrease in net interest income is primarily attributable to an additional \$10.1 million in loan growth at higher yields, partially offset by deposit growth at higher interest expense due to increases in interest rates and average balances. Interest income increased by \$6.2 million, as compared to the same quarter of the prior year. The average yield on loans increased 33 basis points compared to the same quarter of the prior year due to increases in interest rates and an increase in average balances of \$283.5 million, or 9.73%. The increase in interest income was partially offset by an additional \$4.7 million in interest expense compared to the same quarter of the prior year. The average cost of interest-bearing total deposits, including wholesale deposits, increased 148.55 basis points compared to the same quarter of the prior year, due to increases in interest rates and an increase in average balances of \$137.0 million, or 4.70%. Average cost of wholesale deposits, individually, increased 23 basis points compared to the same quarter of the prior year, while average balances increased 17.78% decreased 29.52%. In addition, the average balance of non-interest-bearing deposits decreased by \$59.4 million \$11.1 million compared to the same quarter of the prior year. While the increase in total interest income more than offset the increase in total interest expense, net interest income relative to interest-earning assets decreased compared to the same period of the prior year.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

Net interest income decreased \$0.9 million, or 1.57%, to \$55.8 million for the six months ended June 30, 2024 compared to the six months ended June 30, 2023, and our net interest margin of 3.27% for the six months ended June 30, 2024 decreased 32 basis points when compared to the same period in 2023. The decrease was primarily due to deposit growth at higher rates exceeding loan growth at higher yields. These changes related to the change in the effective Federal Funds rate from 5.08% at June 30, 2023 to 5.33% at June 30, 2024. Additional detail relating to net interest margin in each period is provided below.

Average balance sheet, interest, and yield/rate analysis. Table 5 presents average balance sheet information, interest income, interest expense, and the corresponding average yield earned or rate paid for each period reported. The average balances are daily averages and include both performing and nonperforming loans.

Table 5: Average Balances, Interest, and Yield/Rate

(dollars in thousands)	For the six months ended June 30, 2024			For the six months ended June 30, 2023		
	Average Balance	Interest	Average	Average Balance	Interest	Average
		Income/Expense	Yield/Rate		Income/Expense	Yield/Rate
Assets						
Interest-earning deposits in banks ¹	\$ 190,969	\$ 5,088	5.36 %	\$ 190,040	\$ 4,385	4.65 %
Investment securities ^{1,2}	107,498	1,303	2.44 %	117,780	1,296	2.22 %
Loans held for investment and sale ^{1,3}	3,140,106	90,148	5.77 %	2,875,439	77,423	5.43 %
Total interest-earning assets¹	3,438,573	96,539	5.65 %	3,183,259	83,104	5.26 %
Interest receivable and other assets, net ⁴	89,268			72,368		
Total assets	\$ 3,527,841			\$ 3,255,627		
Liabilities and shareholders' equity						
Interest-bearing transaction accounts ¹	\$ 295,897	\$ 2,230	1.52 %	\$ 332,101	\$ 1,258	0.76 %
Savings accounts ¹	122,320	1,718	2.82 %	147,321	1,303	1.78 %
Money market accounts ¹	1,479,039	25,543	3.47 %	1,188,148	13,572	2.30 %
Time accounts ¹	351,237	8,737	5.00 %	336,044	7,214	4.33 %
Subordinated notes and other borrowings ¹	79,261	2,475	6.28 %	102,973	3,031	5.94 %
Total interest-bearing liabilities	2,327,754	40,703	3.52 %	2,106,587	26,378	2.53 %
Demand accounts	829,887			865,004		
Interest payable and other liabilities	41,080			24,202		
Shareholders' equity	329,120			259,834		
Total liabilities and shareholders' equity	\$ 3,527,841			\$ 3,255,627		
Net interest spreads ⁵			2.13 %			2.73 %

Net interest income/margins	\$ 55,836	3.27 %	\$ 56,726	3.59 %
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- 1 Interest income/expense is divided by the actual number of days in the period multiplied by the actual number of days in the year to correspond to stated interest rate terms, where applicable.
- 2 Yields on available-for-sale securities are calculated based on fair value. Investment security interest is earned on a 30/360 day basis monthly. Yields are not calculated on a tax-equivalent basis.
- 3 Non-accrual loans are included in total loan balances. No adjustment has been made for these loans in the yield calculations. Interest income on loans includes amortization of deferred loan fees, net of deferred loan costs. Allowance for credit losses is not included in total loan balances.
- 4 Allowance for credit losses is included in interest receivable and other assets, net.
- 5 Net interest spread represents the average yield earned on interest-earning assets minus the average rate paid on interest-bearing liabilities.
- 6 Net interest margin is computed by calculating the difference between interest income and interest expense, divided by the average balance of interest-earning assets, then annualized based on the number of days in the given period.

Analysis of changes in interest income and expenses. Increases and decreases in interest income and interest expense result from changes in average balances (volume) of interest-earning assets and interest-bearing liabilities, as well as changes in average yields/rates. Table 6 shows the effect that these factors had on the interest earned from our interest-earning assets and interest incurred on our interest-bearing liabilities. The effect of changes in volume is determined by multiplying the change in volume by the current period's average yield/rate. The effect of rate changes is calculated by multiplying the change in average yield/rate by the previous period's volume. Changes not solely attributable to volume or yields/rates have been allocated in proportion to the respective volume and yield/rate components.

Table 6: Interest Income and Expense Change Analysis

(In thousands)	For the six months ended June 30, 2024 compared to the six months ended June 30, 2023			
	Volume	Yield/Rate	Total Increase (Decrease)	
Interest-earning deposits in banks	\$ 25	\$ 678	\$ 703	
Investment securities	(272)	279	7	
Loans held for investment and sale	7,738	4,987	12,725	
Total interest-earning assets	7,491	5,944	13,435	
Interest-bearing transaction accounts	(275)	1,247	972	
Savings accounts	(356)	771	415	
Money market accounts	5,048	6,923	11,971	
Time accounts	384	1,139	1,523	
Subordinated notes and other borrowings	(729)	173	(556)	
Total interest-bearing liabilities	4,072	10,253	14,325	
Changes in net interest income/margin	\$ 3,419	\$ (4,309)	\$ (890)	

Net interest income decreased \$0.9 million and net interest margin decreased 32 basis points for the six months ended June 30, 2024 compared to the six months ended June 30, 2023. The decrease in net interest income is primarily attributable to deposit growth at higher interest rates that exceeded loan growth at higher yields. Interest expense increased by \$14.3 million compared to the same period of the prior year. The cost of interest-bearing deposits increased 107 basis points compared to the same period of the prior year due to increases in interest rates and an increase in average balances of \$244.9 million, or 12.22%. In addition, the average balance of non-interest-bearing deposits decreased by \$35.1 million, or 4.06% compared to the same period of the prior year. The increase in deposit interest expense was partially offset by an increase in total interest income of \$7.2 million compared to the same quarter period of the prior year. Average loan yields The average yield on loans increased 35 34 basis points compared to the same quarter period of the prior year while due to increases in interest rates and an increase in average balances increased 8.68% of \$264.7 million, or 9.20%.

Provision for Credit Losses

The provision for credit losses is based on management's assessment of the adequacy of our allowance for credit losses. Factors impacting the provision include inherent risk characteristics in our loan portfolio, the level of nonperforming loans and net charge-offs, both current and historic, local economic and credit conditions, the direction of the change in collateral values, and the funding probability on unfunded lending commitments. The provision for credit losses is charged against earnings in order to maintain our allowance for credit losses, which reflects management's best estimate of forecasted life of loan losses in our loan portfolio at the balance sheet date.

Three months ended June 30, 2024 compared to three months ended June 30, 2023

We recorded a \$0.9 \$2.0 million provision for credit losses in the first second quarter of 2024, and as compared to a \$1.3 million provision for credit losses for the same period of 2023. The provision recorded during the three months ended March 31, 2024 June 30, 2024 was the net effect of charge-offs and recoveries, and net increases in quantitative

reserves, and reductions qualitative reserves.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

We recorded a \$2.9 million provision for credit losses in reserves the first six months of 2024, as compared to a \$2.2 million provision for credit losses for the same period of 2023. The provision recorded during the first six months of 2024 was the net effect of charge-offs and recoveries, and net increases in quantitative and qualitative factors. reserves.

Non-interest Income

Non-interest income is a secondary contributor to our net income, following interest income. Non-interest income consists of service charges on deposit accounts, net gain on sale of securities, gain on sale of loans, loan-related fees, FHLB stock dividends, earnings on BOLI, and other income.

The following table Three months ended June 30, 2024 compared to three months ended June 30, 2023

Table 7 details the components of non-interest income for the periods indicated.

Table 7: Non-interest Income

	For the three months ended								
(dollars in thousands)	March 31, 2024	March 31, 2023	\$ Change	% Change	Service charges on deposit accounts	% accounts	June 30, 2024	June 30, 2023	\$ Change
Service charges on deposit accounts	\$ 188	\$ 117	\$ 71	60.68	60.68	% accounts	\$ 189	\$ 135	\$ 54
Gain on sale of loans									
Gain on sale of loans									
Gain on sale of loans	369	598	598	(229)	(229)	(38.29)	(38.29)	641	(192)
Loan-related fees	429	308	308	121	121	39.29	39.29	370	(19)
FHLB stock dividends	332	193	193	139	139	72.02	72.02	329	140
Earnings on BOLI	142	102	102	40	40	39.22	39.22	126	32
Other income	373	53	53	320	320	603.77	603.77	1,340	(1,262)
Total non-interest income	\$1,833	\$1,371	\$462	33.70	33.70	%	\$1,573	\$2,820	\$(1,247)

Gain on sale of loans. The decrease related primarily to an overall decline in the volume of loans sold, partially offset by an improvement in the effective yield of loans sold during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023. During the three months ended March 31, 2024 June 30, 2024, approximately \$5.2 million \$6.8 million of loans were sold with an effective yield of 7.08% 6.60%, as compared to approximately \$12.7 million \$10.9 million of loans sold with an effective yield of 4.72% 5.89% during the three months ended March 31, 2023 June 30, 2023.

Loan-related fees. FHLB stock dividends. The increase related to increases in the recognition of \$0.1 million of swap referral fees annualized dividend rate and total average shares outstanding to 8.75% and 150,000 for the three months ended June 30, 2024 from 7.00% and 108,901 shares for the three months ended June 30, 2023.

Other income. The decrease related to a \$1.3 million gain from distributions received on equity investments in venture-backed funds during the three months ended **March 31, 2024** June 30, 2023, which did not occur during the three months ended **March 31, 2023** June 30, 2024.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

Table 8 details the components of non-interest income for the periods indicated.

Table 8: Non-interest Income

(dollars in thousands)	For the six months ended				\$ Change	% Change
	June 30, 2024	June 30, 2023				
Service charges on deposit accounts	\$ 377	\$ 252	\$	125		49.60 %
Gain on sale of loans	818	1,239		(421)		(33.98)%
Loan-related fees	799	697		102		14.63 %
FHLB stock dividends	661	382		279		73.04 %
Earnings on BOLI	300	228		72		31.58 %
Other income	451	1,393		(942)		(67.62)%
Total non-interest income	\$ 3,406	\$ 4,191	\$	(785)		(18.73)%

Service charges on deposit accounts. The increase resulted primarily from a \$0.1 million increase in wire transfer fees recognized during the six months ended June 30, 2024 compared to the six months ended June 30, 2023.

Gain on sale of loans. The decrease related primarily to an overall decline in the volume of loans sold, partially offset by an improvement in the effective yield of loans sold during the six months ended June 30, 2024 compared to the six months ended June 30, 2023. During the six months ended June 30, 2024, approximately \$12.0 million of loans were sold with an effective yield of 6.81%, as compared to approximately \$23.6 million of loans sold with an effective yield of 5.26% during the six months ended June 30, 2023.

Loan-related fees. The increase primarily related to an increase of \$0.1 million in swap referral fees recognized during the six months ended June 30, 2024, as compared to the six months ended June 30, 2023.

FHLB stock dividends. The increase related was primarily due to a higher annualized dividend rate and total increased yields on dividends received, combined with an increase in the average number of FHLB shares outstanding from 7.00% between June 30, 2023 and 108,901 shares for the three months ended March 31, 2023 to 8.75% and 150,000 for the three months ended March 31, 2024 June 30, 2024.

Other income. The increase related to decrease resulted primarily from the difference between a \$0.3 million \$1.3 million gain recorded for distributions received on equity investments in venture-backed funds during the three six months ended March 31, 2024, which did not occur June 30, 2023 compared to a \$0.3 million gain recorded during the three six months ended March 31, 2023 June 30, 2024.

Non-interest Expense

Non-interest expense includes salaries and employee benefits, occupancy and equipment, data processing and software, FDIC insurance, professional services, advertising and promotional, loan-related expenses, and other operating expenses. In evaluating our level of non-interest expense, we closely monitor the Company's efficiency ratio, which is calculated as non-interest expense divided by the sum of net interest income and non-interest income. We constantly seek to identify ways to streamline our business and operate more efficiently in order to reduce our non-interest expense over time as a percentage of our revenue, while continuing to achieve growth in total loans and assets.

Over the past several years, we have invested significant resources in personnel, technology, and infrastructure. As we execute initiatives based on growth, we expect non-interest expense to grow. Non-interest expense has increased throughout the periods presented below; however, we expect our efficiency ratio will improve going forward due, in part, to our past investment in infrastructure.

The following table

Three months ended June 30, 2024 compared to three months ended June 30, 2023

Table 9 details the components of non-interest expense for the periods indicated.

Table 9: Non-interest Expense

For the
three
months
ended

(dollars in thousands)

(dollars in thousands)

(dollars in thousands)	March 31, 2024		March 31, 2023		\$ Change	% Change	Salaries and employee benefits		June 30, 2024		June 30, 2023		\$ Change
Salaries and employee benefits	\$ 7,577	\$ 6,618	\$ 959	\$ 14.49	14.49	14.49	% Salaries and employee benefits		\$ 7,803	\$ 6,421	\$ 1,382	\$ 1,382	
Occupancy and equipment	626	523	103	103	19.69	19.69	Occupancy and equipment		646	551	95	95	
Data processing and software	1,157	872	285	285	32.68	32.68	Data processing and software		1,235	1,013	222	222	
FDIC insurance	400	402	(2)	(2)	(0.50)	(0.50)	FDIC insurance		390	410	410	(20)	
Professional services	707	631	76	76	12.04	12.04	Professional services		767	586	586	181	
Advertising and promotional	460	418	42	42	10.05	10.05	Advertising and promotional		615	733	733	(118)	
Loan-related expenses	297	255	42	42	16.47	16.47	Loan-related expenses		297	324	324	(27)	
Other operating expenses	1,492	1,399	93	93	6.65	6.65	Other operating expenses		1,760	1,941	1,941	(181)	
Total non-interest expense	\$ 12,716	\$ 11,118	\$ 1,598	\$ 14.37	14.37	14.37	Total non-interest expense		\$ 13,513	\$ 11,979	\$ 1,534	\$ 1,534	

Salaries and employee benefits. The increase during the three months ended March 31, 2024, as compared to the three months ended March 31, 2023, related primarily to: (i) a \$0.6 million \$0.9 million increase in salaries, benefits, and benefits bonus expense for new employees hired since June 2023 to support expansion into the San Francisco Bay Area; (ii) a \$0.2 million \$0.3 million increase in commissions earned, largely due to commissions paid to the San Francisco Bay Area team, which did not exist occur during the three months ended March 31, 2023 June 30, 2023; and (iii) a \$0.1 million \$0.2 million decrease in loan origination costs due to lower loan production originations, net of purchased consumer loans, period-over-period.

Data processing and software. The increase was primarily due to: (i) increased usage of our digital banking platform; (ii) higher transaction volumes related to the increased number of loan and deposit accounts; and (iii) an increased number of licenses required for new users on our loan origination and documentation system.

Professional services. The increase was primarily due to: (i) a \$0.1 million increase of audit fees for 2024 audits; and (ii) a \$0.1 million increase in IT consulting services due to an overall increase in service charges.

Advertising and promotional. The decrease related primarily to an overall decline in sponsorships and donations made, as fewer events were sponsored and attended compared to the three months ended June 30, 2023.

Other operating expenses. The decrease was primarily due to a \$0.2 million decrease in travel, conference fees, and professional membership fees, as compared to the three months ended June 30, 2023.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

Table 10 details the components of non-interest expense for the periods indicated.

(dollars in thousands)	For the six months ended			\$ Change	% Change
	June 30, 2024	June 30, 2023			
Salaries and employee benefits	\$ 15,380	\$ 13,039	\$ 2,341	\$ 2,341	17.95 %
Occupancy and equipment	1,272	1,074	198	198	18.44 %
Data processing and software	2,392	1,885	507	507	26.90 %

FDIC insurance	790	812	(22)	(2.71)%
Professional services	1,474	1,217	257	21.12 %
Advertising and promotional	1,075	1,151	(76)	(6.60)%
Loan-related expenses	594	579	15	2.59 %
Other operating expenses	3,252	3,340	(88)	(2.63)%
Total non-interest expense	\$ 26,229	\$ 23,097	\$ 3,132	13.56 %

Salaries and employee benefits. The increase was primarily a result of: (i) a \$1.9 million increase in salaries, benefits, and bonus expense for new employees hired since June 2023 to support expansion into the San Francisco Bay Area, partially offset by a \$0.4 million decrease in salaries, benefits, and bonus expense related to a 6.67% decrease in headcount outside of the San Francisco Bay Area; (ii) a \$0.3 million decrease in loan origination costs due to lower loan originations, net of purchased consumer loans, period-over-period; and (iii) a \$0.5 million increase in commission expense.

Occupancy and equipment. The \$0.1 million increase related to rent expense for temporary office space to support the San Francisco Bay Area expansion during the **three** six months ended **March 31, 2024** June 30, 2024, which did not exist during the **three** six months ended **March 31, 2023** June 30, 2023.

Data processing and software. The increase was primarily due to: (i) increased usage of our digital banking platform; (ii) higher transaction volumes related to the increased number of loan and deposit accounts; and (iii) an increased number of licenses required for new users on our loan origination and documentation system.

Other operating expenses. **Professional services.** The increase was primarily due to: (i) a \$0.1 million increase of audit fees for 2024 audits; and (ii) a \$0.1 million increase in **IntraFi Network fees resulting from IT consulting services due to an overall increase in balances carried in the network.** service charges.

Provision for Income Taxes

Three months ended June 30, 2024 compared to three months ended June 30, 2023

The provision for income taxes was \$4.3 million \$4.4 million for the three months ended **March 31, 2024** June 30, 2024, as compared to \$5.3 million for a \$0.1 million decrease from the three months ended **March 31, 2023** June 30, 2023. The decrease was primarily driven by a decline in \$0.5 million state tax benefit recorded during the provision due to three months ended June 30, 2023 relating to an overall decrease reduction in taxable income. The state tax blended rate for the Company since its transition to a C Corporation, which did not occur during the three months ended June 30, 2024. The effective income tax rates for the three months ended **March 31, 2024** June 30, 2024 and 2023 were 28.94% 28.84% and 28.86% 25.86%, respectively.

Six months ended June 30, 2024 compared to six months ended June 30, 2023

The provision for income taxes was \$8.7 million for the six months ended June 30, 2024, as compared to \$9.8 million for the six months ended June 30, 2023. The decrease was primarily due to an overall decrease in pre-tax income period-over-period, partially offset by a \$0.5 million state tax benefit recorded during the six months ended June 30, 2023 relating to an overall reduction in the state tax blended rate for the Company since its transition to a C Corporation. No such benefit was recorded during the six months ended June 30, 2024. The effective tax rates for the six months ended June 30, 2024 and 2023 were 28.89% and 27.42%, respectively.

FINANCIAL CONDITION SUMMARY

The following discussion compares our financial condition as of **March 31, 2024** June 30, 2024 to our financial condition as of December 31, 2023. The following table Table 11 summarizes selected components of our unaudited consolidated balance sheets as of **March 31, 2024** June 30, 2024 and December 31, 2023.

Table 11: Selected Components of Consolidated Balance Sheets (Unaudited)

(dollars in thousands)	(dollars in thousands)	March 31, 2024	December 31, 2023	(dollars in thousands)	June 30, 2024	December 31, 2023
Total assets						
Cash and cash equivalents						
Total investments						
Loans held for investment						
Total deposits						
Subordinated notes, net						
Total shareholders' equity						

Total Assets

At **March 31, 2024** June 30, 2024, total assets were \$3.5 \$3.63 billion, a decrease an increase of \$116.8 \$41.1 million from \$3.6 \$3.59 billion at December 31, 2023, primarily due to a \$136.3 million decrease in cash and cash equivalents, partially offset by a \$22.4 \$184.6 million increase in total loans held for investment, investment, partially offset by a \$131.2 million decrease in cash and cash equivalents. The \$184.6 million increase in total loans held for investment included a purchase of loans within the consumer concentration of the loan portfolio, representing \$73.3 million.

Cash and Cash Equivalents

Total cash and cash equivalents were **\$185.3** **\$190.4** million at **March 31, 2024** **June 30, 2024**, a decrease of **\$136.3** **\$131.2** million from \$321.6 million at December 31, 2023. The decrease in cash and cash equivalents was primarily due to **decreases in deposits of \$71.1 million**, a decrease in borrowings of **\$50.0** **\$170.0** million and **\$27.0 million** **\$192.4** million in loan originations, net of repayments, partially offset by **increases in deposits of \$122.7 million** and **pre-tax income before provision for income taxes of \$15.0 million**, **\$30.1 million**.

Investment Portfolio

Our investment portfolio is primarily comprised of U.S. government agency securities, mortgage-backed securities, and obligations of states and political subdivisions, which are high-quality liquid investments. We manage our investment portfolio according to written investment policies approved by our board of directors. Our investment strategy is designed to maximize earnings while maintaining liquidity with minimal credit and interest rate risk. Most of our securities are classified as available-for-sale, although we have one long-term, fixed rate municipal security classified as held-to-maturity.

Our total securities available-for-sale and held-to-maturity amounted to **\$108.0** **\$106.2** million at **March 31, 2024** **June 30, 2024** and \$111.2 million at December 31, 2023, representing a decrease of **\$3.2** **\$5.0** million period-over-period. The decrease to available-for-sale securities was primarily due to maturities, prepayments, and calls of **\$2.0** **\$3.8** million and an unrealized loss on securities of **\$1.0** **\$0.7** million, with the remainder of the change due to amortization of premiums. For the **three** **six** months ended **March 31, 2024** **June 30, 2024**, other comprehensive loss was **\$0.7** **\$0.5** million, primarily due to rate changes and other market conditions on securities.

The following table Table 12 presents the carrying value of our investment portfolio as of the dates indicated: indicated.

Table 12: Carrying Value of Investment Securities

										As of		
December 31, March 31, 2024					December 31, 2023							
(dollars in thousands)	(dollars in thousands)	Carrying Value	% of Total	Carrying Value	% of Total	(dollars in thousands)	Carrying Value	% of Total	Carrying Value	% of Total	Carrying Value	
Available-for-sale (at fair value):												
U.S. government agency securities												
U.S. government agency securities												
U.S. government agency securities		\$ 9,929	9.19	9.19 %	\$ 10,541	9.48	9.48 %	\$ 9,529	8.97	8.97 %	\$ 10,541	
Mortgage-backed securities	Mortgage-backed securities	54,945	50.87	50.87 %	56,973	51.25	51.25 %	Mortgage-backed securities	54,020	50.88	50.88 %	
Obligations of states and political subdivisions	Obligations of states and political subdivisions	38,023	35.20	35.20 %	38,459	34.60	34.60 %	Obligations of states and political subdivisions	37,529	35.35	35.35 %	
Collateralized mortgage obligations	Collateralized mortgage obligations	317	0.29	0.29 %	332	0.30	0.30 %	Collateralized mortgage obligations	305	0.28	0.28 %	
Corporate bonds	Corporate bonds	1,792	1.67	1.67 %	1,778	1.60	1.60 %	Corporate bonds	1,821	1.72	1.72 %	
Total available-for-sale	Total available-for-sale	105,006	97.22	97.22 %	108,083	97.23	97.23 %	Total available-for-sale	103,204	97.20	97.20 %	
Held-to-maturity (at amortized cost):												
Held-to-maturity (at amortized cost):												
Held-to-maturity (at amortized cost):												
Obligations of states and political subdivisions												
Obligations of states and political subdivisions												

Obligations of states and political subdivisions	3,000	2.78	2.78 %	3,077	2.77	2.77 %		2,973	2.80	2.80 %	3,077
Total	Total	\$108,006	100.00	100.00 %	\$111,160	100.00	100.00 %	Total	\$106,177	100.00	100.00 %

The following table Table 13 presents the carrying value of our securities by their stated maturities, as well as the weighted average yields for each maturity range, as of **March 31, 2024**: the dates shown.

(dollars in thousands)	Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		Total	
	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield
Available-for-sale:										
U.S. government agency securities	\$ —	— %	\$ 836	3.72 %	\$ 1,660	5.37 %	\$ 7,433	6.64 %	\$ 9,929	6.18 %
Mortgage-backed securities	—	— %	—	— %	580	2.74 %	54,365	1.77 %	54,945	1.78 %
Obligations of states and political subdivisions	—	— %	362	0.84 %	6,908	1.66 %	30,753	1.77 %	38,023	1.74 %
Collateralized mortgage obligations	—	— %	—	— %	317	1.76 %	—	— %	317	1.76 %
Corporate bonds	—	— %	1,792	1.25 %	—	— %	—	— %	1,792	1.25 %
Total available-for-sale	—	— %	2,990	1.89 %	9,465	2.38 %	92,551	2.16 %	105,006	2.17 %
Held-to-maturity:										
Obligations of states and political subdivisions	245	6.00 %	920	6.00 %	1,340	6.00 %	495	6.00 %	3,000	6.00 %
Total	\$ 245	6.00 %	\$ 3,910	2.86 %	\$ 10,805	2.83 %	\$ 93,046	2.18 %	\$ 108,006	2.28 %

The following table presents the carrying value of our securities by their stated maturities, as well as the weighted average yields for each maturity range, as of December 31, 2023: Table 13: Stated Maturities and Weighted Average Yields - Investment Securities

(dollars in thousands)	(dollars in thousands)	Due in one year or less		Due in one year or less		Due after one year through five years		Due after five years through ten years		Due after ten years		
		Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	Carrying Value	Weighted Average Yield	
June 30, 2024												
Available-for-sale:												
Available-for-sale:												
Available-for-sale:												
U.S. government agency securities												
U.S. government agency securities												
U.S. government agency securities	\$ —	— %	\$ 800	3.44	3.44 %	\$ 2,010	5.36	5.36 %	\$ 7,731	5.77	5.	
Mortgage-backed securities	Mortgage-backed securities	—	— %	—	— %	609	2.74	2.74 %	56,364	1.76	1.	

Obligations of states and political subdivisions	Obligations of states and political subdivisions	—	—	— %	367	0.84	0.84 %	5,838	1.71	1.71 %	32,254	1.76	1.
Collateralized mortgage obligations	Collateralized mortgage obligations	—	—	— %	—	—	— %	332	1.76	1.76 %	—	—	
Corporate bonds	Corporate bonds	—	—	— %	1,778	1.25	1.25 %	—	—	— %	—	—	
Total available-for-sale	Total available-for-sale	—	—	— %	2,945	1.79	1.79 %	8,789	2.62	2.62 %	96,349	2.08	2.
Held-to-maturity:													
Obligations of states and political subdivisions													
Obligations of states and political subdivisions													
Obligations of states and political subdivisions													
218		6.00	%	920	6.00	%	1,340	6.00	%	495	6.00	%	
Total		\$ 218	6.00	%	\$ 4,979	3.22	%	\$ 10,452	2.46	%	\$ 90,528	2.20	%
December 31, 2023													
December 31, 2023													
December 31, 2023													
Available-for-sale:													
Available-for-sale:													
Available-for-sale:													
U.S. government agency securities													
U.S. government agency securities													
U.S. government agency securities													
\$ —		—	%	\$ 800	3.44	%	\$ 2,010	5.36	%	\$ 7,731	5.77	%	
Mortgage-backed securities													
Obligations of states and political subdivisions													
367													
Collateralized mortgage obligations													
—													
Corporate bonds													
—		—	%	1,778	1.25	%	—	—	%	—	—	—	%
Total available-for-sale													
—													
2,945													
1.79													
8,789													
2.62													
96,349													
2.08													
Held-to-maturity:													
Held-to-maturity:													
Obligations of states and political subdivisions													
277		6.00	%	935	6.00	%	1,365	6.00	%	500	6.00	%	6.
\$ 277		6.00	%	\$ 3,880	2.81	%	\$ 10,154	3.07	%	\$ 96,849	2.10	%	2.

Weighted average yield for securities available-for-sale is the projected yield to maturity given current cash flow projections for U.S. government agency securities, mortgage-backed securities, and collateralized mortgage obligations. For callable municipal securities and corporate bonds, weighted average yield is a yield to worst. Weighted average yield for securities held-to-maturity is the stated coupon of the bond.

Loan Portfolio

Our loan portfolio is our largest class of interest-earning assets and typically provides higher yields than other types of interest-earning assets. Associated with the higher yields is an inherent amount of credit risk, which we attempt to mitigate with strong underwriting standards. As of **March 31, 2024**, **June 30, 2024** and December 31, 2023, our total loans amounted to **\$3.11 billion**, **\$3.27 billion** and **\$3.09 billion**, respectively. The following table Table 14 presents the balance and associated percentage of each major product type within our portfolio as of the dates indicated.

Table 14: Loans Outstanding

		March 31, 2024		December 31, 2023				As of		
		June 30, 2024		December 31, 2023						
(dollars in thousands)	(dollars in thousands)	Amount	% of Loans	Amount	% of Loans	(dollars in thousands)	Amount	% of Loans		
Loans held for investment:										
Real estate:										
Real estate:										
Real estate:										
Commercial										
Commercial										
Commercial	\$2,687,456	86.23	86.23 %	\$2,685,419	86.76	86.76	\$2,774,001	84.72	84.72	
Commercial land and development	14,678	0.47	0.47 %	15,551	0.50	0.50	4,766	0.15	0.1	
Commercial construction	62,513	2.01	2.01 %	62,863	2.03	2.03	72,444	2.21	2.2	
Residential construction	18,141	0.58	0.58 %	15,456	0.50	0.50	9,011	0.28	0.2	
Residential	28,685	0.92	0.92 %	25,893	0.84	0.84	29,641	0.91	0.9	
Farmland	51,422	1.65	1.65 %	51,669	1.67	1.67	48,852	1.49	1.4	
Commercial:										
Secured										
Secured	143,273	4.60	4.60 %	165,109	5.33	5.33	154,080	4.71	4.71	
Unsecured	26,175	0.84	0.84 %	23,850	0.77	0.77	23,198	0.71	0.7	
Consumer and other										
Consumer and other										
Consumer and other	73,917	2.37	2.37 %	38,166	1.23	1.23	152,564	4.66	4.66	
Loans held for investment, gross	Loans held for investment, gross	3,106,260	99.67	99.67 %	3,083,976	99.63	99.63	3,268,557	99.84	99.8
Loans held for sale:										
Loans held for sale:										
Loans held for sale:										
Commercial										
Commercial										
Commercial	10,243	0.33	0.33 %	11,464	0.37	0.37	5,322	0.16	0.16	
Total loans, gross	Total loans, gross	3,116,503	100.00	100.00 %	3,095,440	100.00	100.00	3,273,879	100.00	100.0
Net deferred loan fees										
Total loans										
Total loans										
Total loans										

Commercial real estate loans consist of term loans secured by a mortgage lien on the real property, such as office and industrial buildings, manufactured home communities, self-storage facilities, hospitality properties, faith-based properties, retail shopping centers, and apartment buildings, as well as commercial real estate construction loans that are offered to builders and developers.

Commercial land and development and commercial construction loans consist of loans made to fund commercial land acquisition and development and commercial construction, respectively. The real estate purchased with these loans is generally located in or near our market.

Commercial loans consist of financing for commercial purposes in various lines of business, including manufacturing, service industry, and professional service areas. Commercial loans can be secured or unsecured but are generally secured with the assets of the company and/or the personal guaranty of the business owner(s).

Residential real estate and construction real estate loans consist of loans secured by single-family and multifamily residential properties, which are both owner-occupied and investor-owned.

The following tables present Table 15 presents the commercial real estate loan balance, associated percentage of commercial real estate concentrations, estimated real estate collateral values, and related loan-to-value ("LTV") ranges by collateral type as of the dates indicated. Revolving lines of credit with zero balance and 0.00% LTV are excluded from this table. Collateral values are determined at origination using third-party real estate appraisals or evaluations. Updated appraisals, which are included in the table below, Table 15, may be obtained for loans that are downgraded to watch or substandard. Loans over \$2.0 million are reviewed annually, at which time an internal assessment of collateral values is completed.

Table 15: Commercial Real Estate Loans

(dollars in thousands)	(dollars in thousands)	Loan Balance	% of Commercial Real Estate	Collateral Value	Minimum LTV	Maximum LTV	(dollars in thousands)	Loan Balance	% of Commercial Real Estate
March 31, 2024									
June 30, 2024									
Manufactured home community									
Manufactured home community	\$847,510	31.54	31.54 %	\$ 1,502,434	14.47	14.47 %	74.52	% \$868,198	31.28
RV Park	RV Park	345,398	12.85	12.85 %	603,311	18.24	18.24 %	75.00 % RV Park	12.91
Retail	Retail	273,063	10.16	10.16 %	542,916	6.79	6.79 %	73.76 % Retail	9.82
Industrial		206,832	7.46	7.46 %	461,169	6.29	82.54 %		
Faith-based	Faith-based	185,545	6.90	6.90 %	491,049	8.30	8.30 %	74.50 % Faith-based	6.62
Industrial		185,377	6.90	6.90 %	452,425	7.14	82.90 %		
Multifamily	Multifamily	177,860	6.62	6.62 %	371,684	12.84	12.84 %	75.00 % Multifamily	6.47
Mini storage	Mini storage	177,256	6.60	6.60 %	360,832	16.48	16.48 %	75.38 % Mini storage	6.39
Office		134,469	5.00	5.00 %	300,469	5.80	73.13 %		
All other types ₁	All other types ₁	360,978	13.43	13.43 %	738,991	3.36	3.36 %	152.17 % All other types ₁	19.05
Total₂									
December 31, 2023									
December 31, 2023									
December 31, 2023									
Manufactured home community									
Manufactured home community	\$813,687	30.30	30.30 %	\$ 1,430,224	16.80	16.80 %	74.52 %	\$813,687	30.30
RV Park	RV Park	343,817	12.80	12.80 %	599,691	18.29	18.29 %	75.00 % RV Park	12.80
Retail	Retail	273,100	10.17	10.17 %	540,660	6.89	6.89 %	74.07 % Retail	10.17
Multifamily	Multifamily	211,598	7.88	7.88 %	427,948	13.12	13.12 %	75.00 % Multifamily	7.88
Faith-based	Faith-based	184,799	6.88	6.88 %	488,160	8.33	8.33 %	74.54 % Faith-based	6.88
Mini storage	Mini storage	176,380	6.57	6.57 %	358,395	16.56	16.56 %	70.00 % Mini storage	6.57

Industrial	Industrial	173,192	6.45	6.45 %	417,439	7.48	7.48 %	83.26	% Industrial	173,192	6.45
Office	Office	135,928	5.06	5.06 %	298,989	9.07	9.07 %	73.52	% Office	135,928	5.06
All other types ¹	All other types ¹	372,918	13.89	13.89 %	756,541	4.00	4.00 %	152.33	% All other types ¹	372,918	13.89
Total ²											

¹ Types of collateral in the “all other types” category are those that individually make up less than 5.00% of the commercial real estate concentration.

² Minimum LTV and maximum LTV not shown for aggregated totals, as such values are meaningful only when presented by specific category.

Over the past several years, we have experienced significant growth in our loan portfolio, although the relative composition of the portfolio has not changed materially. Our primary focus remains commercial real estate lending (including commercial, commercial land and development, and commercial construction), which constitutes **88.97%** **87.20%** of loans held for investment at **March 31, 2024** **June 30, 2024**. Commercial secured lending represents **4.63%** **4.73%** of loans held for investment at **March 31, 2024** **June 30, 2024**. We sell the guaranteed portion of all SBA 7(a) loans in the secondary market and will continue to do so as long as market conditions continue to be favorable.

We recognize that our commercial real estate loan concentration is significant within our balance sheet. Commercial real estate loan balances as a percentage of risk-based capital were **669.49%** **568.36%** and **682.72%** as of **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. We have established internal concentration limits in the loan portfolio for commercial real estate loans by sector (e.g., manufactured home communities, self-storage, hospitality, etc.). All loan sectors were within our established limits as of **March 31, 2024** **June 30, 2024**. Additionally, our loans are geographically concentrated with borrowers and collateralized properties primarily in California.

We believe that our past success is attributable to focusing on products and markets where we have significant expertise. Given our concentrations, we have established strong risk management practices, including risk-based lending standards, self-established product and geographical limits, annual evaluations of income property loans, and semi-annual top-down and bottom-up stress testing. We expect to continue growing our loan portfolio. We do not expect our product or geographic concentrations to materially change.

The following table Table 16 sets forth the contractual maturities of our loan portfolio as of **March 31, 2024**: the dates indicated.

(dollars in thousands)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 15 years	Due after 15 years	Total
Real estate:					
Commercial	\$ 30,322	\$ 289,132	\$ 2,292,288	\$ 75,714	\$ 2,687,456
Commercial land and development	11,372	2,310	996	—	14,678
Commercial construction	30,330	10,263	21,920	—	62,513
Residential construction	14,228	3,913	—	—	18,141
Residential	269	6,494	20,974	948	28,685
Farmland	2,140	4,701	44,581	—	51,422
Commercial:					
Secured	32,098	33,547	87,460	411	153,516
Unsecured	4,502	8,514	13,159	—	26,175
Consumer and other	562	6,555	66,800	—	73,917
Total	\$ 125,823	\$ 365,429	\$ 2,548,178	\$ 77,073	\$ 3,116,503

The following table sets forth the contractual maturities of our loan portfolio as of **December 31, 2023**:

Table 16: Contractual Maturities - Gross Loans

(dollars in thousands)	(dollars in thousands)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 15 years	Due after 15 years	(dollars in thousands)	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 15 years	Due after 15 years	Total
June 30, 2024											
Real estate:											
Real estate:											
Real estate:											
Commercial											
Commercial											
Commercial											
Commercial land and development											
Commercial											
construction											

Residential construction	
Residential Farmland	
Commercial:	
Secured	
Secured	
Secured	
Unsecured	
Consumer and other	
Consumer and other	
Consumer and other	
Total	

December 31, 2023	
December 31, 2023	
December 31, 2023	
Real estate:	
Real estate:	
Real estate:	
Commercial	
Commercial	
Commercial	
Commercial land and development	
Commercial construction	
Residential construction	
Residential	
Farmland	
Commercial:	
Secured	
Secured	
Secured	
Unsecured	
Consumer and other	
Total	

The following table Table 17 sets forth the sensitivity to interest rate changes of our loan portfolio as of March 31, 2024: the dates shown.

(dollars in thousands)	Fixed Interest Rates		Floating or Adjustable Rates		Total
Real estate:					
Commercial	\$	578,389	\$	2,109,067	\$ 2,687,456
Commercial land and development		10,068		4,610	14,678
Commercial construction		—		62,513	62,513
Residential construction		3,913		14,228	18,141
Residential		1,179		27,506	28,685
Farmland		5,298		46,124	51,422
Commercial:					

Secured	37,823	115,693	153,516
Unsecured	17,155	9,020	26,175
Consumer and other	73,874	43	73,917
Total	\$ 727,699	\$ 2,388,804	\$ 3,116,503

The following table sets forth the sensitivity to interest rate changes of our loan portfolio as of December 31, 2023:

Table 17: Sensitivity to Interest Rates - Gross Loans

(dollars in thousands)	(dollars in thousands)	Fixed Interest Rates	Floating or Adjustable Rates	(dollars in thousands)	Fixed Interest Rates	Floating or Adjustable Rates	Total
June 30, 2024							
Real estate:							
Real estate:							
Real estate:							
Commercial							
Commercial							
Commercial							
Commercial land and development							
Commercial construction							
Residential construction							
Residential							
Farmland							
Commercial:							
Secured							
Secured							
Secured							
Unsecured							
Consumer and other							
Consumer and other							
Consumer and other							
Total							
December 31, 2023							
December 31, 2023							
December 31, 2023							
Real estate:							
Real estate:							
Real estate:							
Commercial							
Commercial							
Commercial							
Commercial land and development							
Commercial construction							
Residential construction							
Residential							
Farmland							
Commercial:							
Secured							
Secured							
Secured							

Unsecured
Consumer and other
Total

Asset Quality

We manage the quality of our loans based upon trends at the overall loan portfolio level, as well as within each product type. We measure and monitor key factors that include the level and trend of classified, delinquent, non-accrual, and nonperforming assets, collateral coverage, credit scores, and debt service coverage, where applicable. These metrics directly impact our evaluation of the adequacy of our allowance for credit losses.

Our primary objective is to maintain a high level of asset quality in our loan portfolio. We believe our underwriting policies and practices, executed by experienced professionals, appropriately govern the risk profile for our loan portfolio. These policies are continually evaluated and updated as necessary. All loans are assessed and assigned a risk classification at origination based on underlying characteristics of the transaction, such as collateral cash flow, collateral coverage, and borrower strength. We believe that we have a comprehensive methodology to proactively monitor our credit quality after the origination process. Particular emphasis is placed on our commercial portfolio, where risk assessments are reevaluated as a result of reviewing commercial property operating statements and borrower financials. On an ongoing basis, we also monitor payment performance, delinquencies, and tax and property insurance compliance. We design our practices to facilitate the early detection and remediation of problems within our loan portfolio. Assigned risk classifications are an integral part of management's assessment of the adequacy of our allowance for credit losses. We periodically employ the use of an independent consulting firm to evaluate our underwriting and risk assessment process. Like other financial institutions, we are subject to the risk that our loan portfolio will be exposed to increasing pressures from deteriorating borrower credit due to general economic conditions and rising interest rates.

Nonperforming Assets

Our nonperforming assets consist of nonperforming loans and foreclosed real estate, if any. Nonperforming loans consist of non-accrual loans and loans contractually past due by 90 days or more and still accruing. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal or when a loan becomes contractually past due by 90 days or more with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current period interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Interest accruals are resumed on such loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

SBA Loans

During the three and six months ended **March 31, 2024** **June 30, 2024**, the Company sold **1822** and **40** SBA 7(a) loans, respectively, with government-guaranteed portions totaling **\$5.2 million**, **\$6.8 million** and **\$12.0 million**, respectively. The Company received gross proceeds of **\$5.6 million**, **\$7.2 million** and **\$12.8 million** on the loans sold during the three and six months ended **March 31, 2024** **June 30, 2024**, respectively, resulting in the recognition of net gains on sale of **\$0.4 million** and **\$0.8 million** during the same period, respectively.

Non-accrual Loans

The following table Table 18 provides details of our nonperforming and restructured assets and certain other related information as of the dates presented: presented.

Table 18: Nonperforming and Restructured Assets

		March 31, 2024	December 31, 2023	(dollars in thousands)	As of June 30, 2024	December 31, 2023
(dollars in thousands)	(dollars in thousands)					
Non-accrual loans:						
Real estate:						
Real estate:						
Real estate:						
Commercial						
Commercial						
Commercial						
Commercial:						
Commercial:						
Commercial:						
Secured						
Secured						
Secured						
Total non-accrual loans						
Total non-accrual loans						
Total non-accrual loans						
Loans past due 90 days or more and still accruing:						
Loans past due 90 days or more and still accruing:						

Loans past due 90 days or more and still accruing:

Total loans past due and still accruing
Total loans past due and still accruing
Total loans past due and still accruing

Total nonperforming loans

Real estate owned
Real estate owned
Real estate owned

Total nonperforming assets

Performing LMs (not included above)

Performing LMs (not included above)

Performing LMs (not included above)

Allowance for credit losses to period end nonperforming loans

Allowance for credit losses to period end nonperforming loans

Allowance for credit losses to period end nonperforming loans

Nonperforming loans to loans held for investment

Nonperforming assets to total assets

Nonperforming loans plus performing LMs to loans held for investment

1,806.73 % 1,752.70 %

1,882.30 % 1,752.70 %

Nonperforming loans to loans held for

investment

0.06 %

0.06 %

0.06 %

0.06 %

0.06 %

0.05 %

0.06 %

0.06 %

Nonperforming assets to total assets

Nonperforming loans plus performing

LMs to loans held for investment

0.05 %

0.05 %

0.05 %

0.05 %

The ratio of nonperforming loans to loans held for investment was 0.06% at March 31, 2024 June 30, 2024 and December 31, 2023.

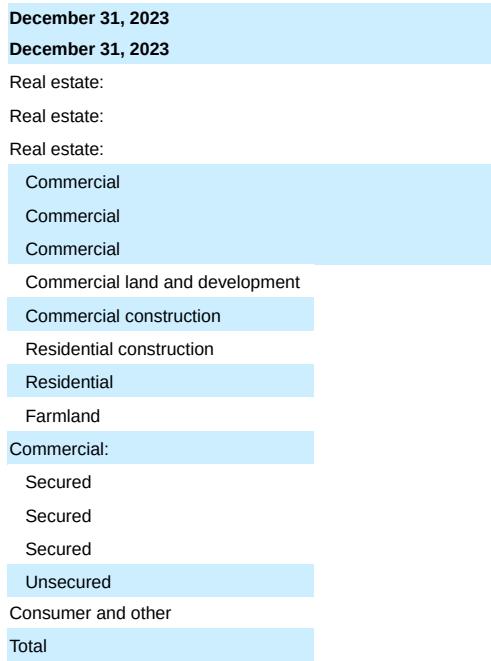
Potential Problem Loans

We utilize a risk grading system for our loans to aid us in evaluating the overall credit quality of our real estate loan portfolio and assessing the adequacy of our allowance for credit losses. All loans are grouped into a risk category at the time of origination. Commercial real estate loans over \$2.0 million are reevaluated at least annually for proper classification in conjunction with our review of property and borrower financial information. All loans are reevaluated for proper risk grading as new information such as payment patterns, collateral condition, and other relevant information comes to our attention.

The banking industry defines loans graded substandard or doubtful as "classified" loans. The following table Table 19 shows our levels of classified loans as of the periods indicated: indicated.

Table 19: Gross Loans Held for Investment by Risk Category

(dollars in thousands)	(dollars in thousands)	Pass	Watch	Substandard	Doubtful	Total (dollars in thousands)	Pass	Watch	Substandard	Doubtful	Total
March 31, 2024											
June 30, 2024											
Real estate:											
Real estate:											
Real estate:											
Commercial											
Commercial											
Commercial											
Commercial land and development											
Commercial construction											
Residential construction											
Residential											
Farmland											
Commercial:											
Secured											
Secured											
Secured											
Unsecured											
Consumer and other											
Total											
December 31, 2023											



Loans designated as watch and substandard, which are not considered adversely classified, increased to \$53.9 million \$59.9 million at March 31, 2024 June 30, 2024 from \$41.6 million at December 31, 2023. There were no loans with doubtful risk grades at March 31, 2024 June 30, 2024 or December 31, 2023.

Allowance for Credit Losses - Loans

The allowance for credit losses - loans is established through a provision for credit losses charged to operations. Provisions are charged against the allowance for credit losses - loans when management believes that the collectability of the principal is unlikely. Subsequent recoveries of previously charged-off amounts, if any, are credited to the allowance for credit losses - loans. losses.

The allowance for credit losses - loans is evaluated on a regular basis by management and is based on management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

At March 31, 2024 June 30, 2024, the Company's allowance for credit losses - loans was \$34.7 million \$35.4 million, as compared to \$34.4 million at December 31, 2023. The \$0.3 million \$1.0 million increase in the allowance is due to a \$1.1 million \$3.0 million provision for credit losses recorded during the three/six months ended March 31, 2024 June 30, 2024, partially offset by net charge-offs of \$0.8 million \$2.0 million, mainly attributable to commercial and industrial loans, during the same period.

While the entire allowance for credit losses - loans is available to absorb losses from any and all loans, the following table Table 20 represents management's allocation of our allowance for credit losses by loan category, and the balance of loans in each category as a percentage of total loans, for the periods indicated.

		December 31, 2023		March 31, 2024						
		December 31, 2023		June 30, 2024						
(dollars in thousands)	(dollars in thousands)	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	% of Loans to Total Loans	(dollars in thousands)	Allowance for Credit Losses	% of Loans to Total Loans	Allowance for Credit Losses	
Real estate:										
Commercial										
Commercial										
Commercial	\$ 28,895	86.23	86.23 %	\$ 29,015	86.76	86.76	\$ 24,708	84.72	84.72 %	
Commercial land and development	164	0.47	0.47 %	178	0.50	0.50	Commercial land and development	72	0.15	0.15 %

Commercial construction	Commercial construction	697	2.01	2.01 %	718	2.03	2.03	%	Commercial construction	1,097	2.21	2.21 %
Residential construction	Residential construction	114	0.58	0.58 %	89	0.50	0.50	%	Residential construction	100	0.28	0.28 %
Residential	Residential	164	0.92	0.92 %	151	0.84	0.84	%	Residential	195	0.91	0.91 %
Farmland	Farmland	438	1.65	1.65 %	399	1.67	1.67	%	Farmland	402	1.49	1.49 %
Commercial:												
Secured	Secured											
Secured		3,262	4.93	4.93 %	3,314	5.70	5.70	%		7,386	4.87	4.87 %
Unsecured	Unsecured	259	0.84	0.84 %	189	0.77	0.77	%	Unsecured	214	0.71	0.71 %
Consumer and other	Consumer and other	660	2.37	2.37 %	378	1.23	1.23	% other		1,232	4.66	4.66 %
Total allowance for credit losses	Total allowance for credit losses	\$ 34,653	100.00	100.00 %	\$ 34,431	100.00	100.00	%	Total allowance for credit losses	\$ 35,406	100.00	100.00 %

The ratio of the allowance for credit losses to total loans held for investment was 1.08% at June 30, 2024, as compared to 1.12% at March 31, 2024 and December 31, 2023.

Table 21: Activity Within the Allowance for Credit Losses

(dollars in thousands)	As of and for the three months ended				As of and for the six months ended			
	June 30, 2024		June 30, 2023		June 30, 2024		June 30, 2023	
	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment
Average loans held for investment	\$ 3,189,505		\$ 2,904,194		\$ 3,129,485		\$ 2,865,323	
Allowance for credit losses	\$ 34,653		\$ 34,172		\$ 34,431		\$ 28,389	
Effect of adoption of ASC 326	—		—		—		5,262	
Net (charge-offs) recoveries:								
Commercial:								
Secured	(1,182)	(0.04)%	(1,077)	(0.04)%	(1,998)	(0.06)%	(1,472)	(0.05)%
Unsecured	(36)	— %	—	— %	(70)	— %	—	— %
Consumer and other	21	— %	(31)	— %	43	— %	(15)	— %
Net charge-offs	(1,197)	(0.04)%	(1,108)	(0.04)%	(2,025)	(0.06)%	(1,487)	(0.05)%
Provision for credit losses	1,950		920		3,000		1,820	
Allowance for credit losses	\$ 35,406		\$ 33,984		\$ 35,406		\$ 33,984	
Loans held for investment	\$ 3,266,291		\$ 2,927,411		\$ 3,266,291		\$ 2,927,411	
Allowance for credit losses to loans held for investment	1.08 %		1.16 %		1.08 %		1.16 %	

The following table provides information on the activity within ratio of the allowance for credit losses - loans as of and for the periods indicated:

(dollars in thousands)	As of and for the three months ended			
	March 31, 2024		March 31, 2023	
	Activity	% of Average Loans Held for Investment	Activity	% of Average Loans Held for Investment
Average loans held for investment	\$ 3,069,466		\$ 2,826,035	

Allowance for credit losses - loans	\$ 34,431	\$ 28,389		
Effect of adoption of ASC 326	—	5,262		
Net (charge-offs) recoveries:				
Commercial:				
Secured	(816)	(0.03)%	(396)	(0.01)%
Unsecured	(34)	— %	—	— %
Consumer and other	22	— %	17	— %
Net charge-offs	(828)	(0.03)%	(379)	(0.01)%
Provision for credit losses	1,050		900	
Allowance for credit losses - loans	\$ 34,653		\$ 34,172	
Loans held for investment	\$ 3,104,130		\$ 2,869,848	
Allowance for credit losses - loans to loans held for investment	1.12 %		1.19 %	

The allowance for credit losses - loans to loans held for investment decreased from 1.19% 1.16% as of March 31, 2023 June 30, 2023 to 1.12% 1.08% as of March 31, 2024 June 30, 2024. Net charge-offs as a percent of average loans held for investment increased to 0.03% remained at 0.04% for the three months ended March 31, 2024 June 30, 2023 and June 30, 2024, respectively. Net charge-offs as a percent of average loans held for investment increased from 0.01% 0.05% to 0.06% for the three six months ended March 31, 2023 June 30, 2023 and June 30, 2024, respectively.

Liabilities

During the first three six months of 2024, total liabilities decreased by \$123.6 \$53.6 million from \$3.3 \$3.31 billion as of December 31, 2023 to \$3.2 billion \$3.25 billion as of March 31, 2024 June 30, 2024. This decrease was primarily due to a decrease in borrowings of \$170.0 million, partially offset by an increase in total deposits of \$71.1 million \$122.7 million, comprised of a decrease an increase of \$57.4 million \$128.1 million in interest-bearing deposits and a decrease of \$13.7 million \$5.4 million in non-interest-bearing deposits. Of the \$57.4 million decrease \$128.1 million increase in interest-bearing deposits, brokered deposits decreased increased by \$58.1 million \$16.9 million and public time deposits decreased by \$125.0 million \$124.5 million. Both Public time deposit decreases were offset by an increase in non-wholesale deposits of \$112.0 million \$230.4 million.

Deposits

Representing 92.84% 96.80% of our total liabilities as of March 31, 2024 June 30, 2024, deposits are our primary source of funding for our business operations.

Total deposits decreased increased by \$71.1 \$122.7 million, or 2.35% 4.05%, to \$2.96 \$3.15 billion at March 31, 2024 June 30, 2024 from \$3.03 billion at December 31, 2023. Deposit decreases increases were primarily attributable to decreases increase in public time and brokered relationship deposits. Non-interest-bearing deposits decreased by \$13.7 \$5.4 million from December 31, 2023 to \$817.4 \$825.7 million at March 31, 2024 June 30, 2024, representing 27.65% 26.22% of total deposits at that date, as compared to 27.46% of total deposits at December 31, 2023. Our loan to deposit ratio was 105.37% 103.87% at March 31, 2024 June 30, 2024, as compared to 102.19% at December 31, 2023. We intend to continue to operate our business with close monitoring of the loan to deposit ratio.

The following table Table 22 summarizes our deposit composition by average deposit balances and average rates paid for the periods indicated: indicated.

Table 22: Deposit Composition by Average Balances and Rates Paid For the three months ended

(dollars in thousands)	(dollars in thousands)	March 31, 2024			March 31, 2023			(dollars in thousands)			For the three months ended								
		June 30, 2024			June 30, 2023														
		Average Amount	Average Rate Paid	% of Total Deposits	Average Amount	Average Rate Paid	% of Total Deposits												
Interest-bearing transaction accounts	Interest-bearing transaction accounts	\$ 300,325	1.51	1.51 %	\$ 379,593	0.46	0.46 %	13.44	%	Interest-bearing transaction accounts	\$ 291,470	1.52							
Money market and savings accounts	Money market and savings accounts	1,534,825	3.41	3.41 %	1,242,355	1.95	1.95 %	43.98	%	Money market and savings accounts	1,667,894	3.44							

Time accounts	Time accounts	429,586	5.03	5.03 %	13.83 %	300,952	3.99	3.99 %	10.66	% accounts	272,887	4.96
Demand accounts	Demand accounts	842,105	—	— %	27.10 %	901,491	—	— %	31.92	% accounts	817,668	—
Total deposits	Total deposits	\$3,106,841	2.53	2.53 %	100.00 %	\$2,824,391	1.35	1.35 %	100.00	%	\$ 3,049,919	2.47

For the six months ended

(dollars in thousands)	June 30, 2024			June 30, 2023		
	Average Amount	Average Rate	% of Total Deposits	Average Amount	Average Rate	% of Total Deposits
Interest-bearing transaction accounts	\$ 295,897	1.52 %	9.61 %	\$ 332,101	0.76 %	11.58 %
Money market and savings accounts	1,601,359	3.42 %	52.02 %	1,335,469	2.24 %	46.56 %
Time accounts	351,237	5.00 %	11.41 %	336,044	4.33 %	11.71 %
Demand accounts	829,887	— %	26.96 %	865,004	— %	30.15 %
Total deposits	\$ 3,078,380	2.50 %	100.00 %	\$ 2,868,618	1.64 %	100.00 %

Uninsured and uncollateralized deposits totaled \$1.1 billion and \$1.0 billion at **March 31, 2024** June 30, 2024 and December 31, 2023, respectively.

As of **March 31, 2024** June 30, 2024, our 3742 largest deposit relationships, each accounting for more than \$10.0 million, totaled \$1.3 billion \$1.5 billion, or 45.41% 47.18% of our total deposits. The average age on deposit relationships of more than \$5.0 million was approximately 98 years. As of December 31, 2023, our 40 largest deposit relationships, each accounting for more than \$10.0 million, totaled \$1.5 billion, or 49.80% of our total deposits. Our

Table 23 shows the entity types making up our large deposit relationships are comprised of at the following entity types as of the periods indicated: dates indicated.

Table 23: Composition of Large Deposit Relationships

(dollars in thousands)	(dollars in thousands)	March 31, 2024	December 31, 2023	(dollars in thousands)	June 30, 2024	December 31, 2023
Municipalities						
Non-profits						
Businesses						
Brokered deposits						
Total						

Our largest single deposit relationship at **March 31, 2024** June 30, 2024 related to a non-profit entity. The balance for this customer was \$200.9 million \$227.7 million, or approximately 6.80% 7.23% of total deposits as of that date. At December 31, 2023, our largest single deposit relationship related to a government agency and had a balance of \$260.0 million, or 8.59% of total deposits as of that date.

The following table Table 24 sets forth the maturity of time deposits as of **March 31, 2024** June 30, 2024.

Table 24: Scheduled Maturities of Time Deposits

(dollars in thousands)	(dollars in thousands)	\$250,000 or Greater	Less than \$250,000	Total	Uninsured Portion	(dollars in thousands)	\$250,000 or Greater	Less than \$250,000	Total	Uninsured Portion
Remaining maturity:										
Three months or less										
Three months or less										
Three months or less										
Over three through six months										
Over six through twelve months										
Over twelve months										
Total										

FHLB Advances and Other Borrowings

From time to time, we utilize short-term collateralized FHLB borrowings to maintain adequate liquidity. There were no borrowings outstanding from the FHLB as of June 30, 2024 and borrowings of \$20.0 million and \$170.0 million outstanding from the FHLB as of March 31, 2024 and December 31, 2023, respectively. There were borrowings of \$100.0 million outstanding from the Federal Reserve Discount Window as of March 31, 2024 and no borrowings outstanding from the Federal Reserve Discount Window as of December 31, 2023.

In 2022, we issued subordinated notes of \$75.0 million. This debt was issued to investors in private placement transactions. See Note 6, Long Term Debt and Other Borrowings, in the notes to our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information regarding these subordinated notes. The proceeds of the notes qualify as Tier 2 capital for the Company under the regulatory capital rules of the federal banking agencies. [The following table](#)

Table 25 is a summary of our outstanding subordinated notes as of [March 31, 2024](#); [June 30, 2024](#).

Table 25: Subordinated Notes Outstanding

(dollars in thousands)	(dollars in thousands)	Issuance Date	Amount of Notes	Prepayment Right	Maturity Date	(dollars in thousands)	Issuance Date	Amount of Notes	Prepayment Right	Maturity Date
Subordinated notes	Subordinated notes	August 2022	\$ 75,000	August 17, 2027	September 1, 2032	Subordinated notes	August 2022	\$ 75,000	August 17, 2027	September 1, 2032
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.58% as of March 31, 2024) through maturity							
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.58% as of March 31, 2024) through maturity							
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.58% as of March 31, 2024) through maturity							
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.60% as of June 30, 2024) through maturity							
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.60% as of June 30, 2024) through maturity							
			Fixed at 6.00% through September 1, 2027, then three-month Term SOFR plus 329.0 basis points (8.60% as of June 30, 2024) through maturity							

Shareholders' Equity

Shareholders' equity totaled [\\$292.6](#) [\\$380.5](#) million at [March 31, 2024](#) [June 30, 2024](#) and \$285.8 million at December 31, 2023. The increase in shareholders' equity was primarily attributable to a result of \$80.9 million of additional common stock issued and outstanding in 2024 and net income recognized of [\\$10.6 million](#) [\\$21.4 million](#), partially offset by: (i) [\\$3.5 million](#) [\\$7.7 million](#) in cash dividends; and (ii) a [\\$0.7 million](#) [\\$0.5 million](#) increase in accumulated other comprehensive loss during the [three](#) [six](#) months ended [March 31, 2024](#) [June 30, 2024](#).

Liquidity and Capital Resources

Liquidity Management

We manage liquidity based upon factors that include the level of diversification of our funding sources, the composition of our deposit types, the availability of unused funding sources, our off-balance sheet obligations, the amount of cash and liquid securities we hold, and the availability of assets to be readily converted into cash without undue loss. As the primary federal regulator of the Bank, the FDIC evaluates our liquidity on a stand-alone basis pursuant to applicable guidance and policies.

Liquidity refers to our capacity to meet our cash obligations at a reasonable cost. Our cash obligations require us to have cash flow that is adequate to fund loan growth and maintain on-balance sheet liquidity while meeting present and future obligations of deposit withdrawals, borrowing maturities, and other contractual cash obligations. In managing our cash flows, management regularly confronts situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints in accessing sources of funds, and the ability to convert assets into cash. Changes in economic conditions or exposure to borrower credit quality, capital markets, and operational, legal, or reputational risks could also affect the Bank's liquidity risk profile and are considered in the assessment of liquidity management.

The Company is a corporation separate and apart from the Bank and, therefore, must provide for its own liquidity, including liquidity required to meet its debt service requirements on its subordinated notes. The Company's main source of cash flow is dividends declared and paid to it by the Bank. There are statutory and regulatory limitations that affect the ability of the Bank to pay dividends to the Company, including various legal and regulatory provisions that limit the amount of dividends the Bank can pay to the Company without regulatory approval. Under the California Financial Code, payment of a dividend from the Bank to the Company without advance regulatory approval is restricted to the lesser of the Bank's retained earnings or the amount of the Bank's net income from the previous three fiscal years less the amount of dividends paid during that period. We believe that these limitations will not impact our ability to meet our ongoing short-term cash obligations. For contingency purposes, the Company maintains a minimum level of cash to fund one year's projected operating cash flow needs plus two years' subordinated notes debt service. We continually monitor our liquidity position in order to meet all reasonably foreseeable short-term, long-term, and strategic liquidity demands. Management has established a comprehensive 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 stress tests, that are commensurate with the complexity of our business activities; 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 stress 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 Bank's liquidity risk management process.

Our liquidity position is supported by management of our liquid assets and liabilities and access to alternative sources of funds. Our liquidity requirements are met primarily through our deposits, Federal Reserve Discount Window advances, FHLB advances, and the principal and interest payments we receive on loans and investment securities. Cash on hand, cash at third-party banks, investments available-for-sale, and maturing or prepaying balances in our investment and loan portfolios are our most liquid assets. Other sources of liquidity that are routinely available to us include funds from retail and wholesale deposits, advances from the FHLB and the Federal Reserve Discount Window, and proceeds from the sale of loans. Less commonly used sources of funding include borrowings from established federal funds lines from unaffiliated commercial banks, and the issuance of debt or equity securities. We believe we have ample liquidity resources to fund future growth and meet other cash needs as necessary.

In addition, we have a shelf registration statement on file with the SEC registering \$250.0 million for any combination of equity or debt securities, depository shares, warrants, purchase contracts, purchase units, subscription rights, and units in one or more offerings. Specific information on the terms of and the any securities being offered, will be including the expected use of proceeds from the sale of such securities, are provided at the time of the offering. Proceeds from any future offerings are expected In April 2024, we sold an aggregate of 3,967,500 shares of our common stock at a price of \$21.75 per share in a public offering (the "2024 Public Offering"), for net proceeds to us, after deducting underwriting discounts and commissions and offering expenses payable by us, of approximately \$80.9 million, to be used for general corporate purposes or other purposes and to be disclosed at support continued growth, including through investments in the timeBank to pursue growth opportunities, and for working capital. The 2024 Public Offering used approximately \$86.3 million of our shelf registration statement on file with the offering SEC, leaving approximately \$163.7 million available for future offerings.

Sources and Uses of Cash

Our executive officers and board of directors review our sources and potential uses of cash in connection with our annual budgeting process. Generally speaking, our principal funding source is cash from deposits, and our principal uses of cash include funding of loans, operating expenses, income taxes, and dividend payments, as described below. As of **March 31, 2024** June 30, 2024, management believes the above-mentioned sources will provide adequate liquidity during the next twelve months for the Bank to meet its operating needs. In addition, in April 2024, the Company closed the 2024 Public Offering and sold an aggregate of 3,967,500 shares of its common stock at a public offering price of \$21.75 per share. Offering. The proceeds to the Company, after deducting underwriting discounts and commissions but before deducting and offering expenses payable by the Company, were approximately \$81.5 million \$80.9 million, providing additional cash to support the Company's ongoing operating needs.

Loans

Loans are a significant use of cash in daily operations, and a source of cash as customers make payments on their loans or as loans are sold to other financial institutions. Cash flows from loans are affected by the timing and amount of customer payments and prepayments, changes in interest rates, the general economic environment, competition, and the political environment.

During the **three** six months ended **March 31, 2024** June 30, 2024, we had cash outflows of \$11.5 million \$175.0 million in loan originations and advances, net of principal collected, and \$15.5 million \$17.4 million in loans originated for sale.

Additionally, we enter into commitments to extend credit in the ordinary course of business, such as commitments to fund new loans and undisbursed construction funds. While these commitments represent contractual cash requirements, a portion of these commitments to extend credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. At **March 31, 2024** June 30, 2024, off-balance sheet commitments totaled \$453.5 million \$449.3 million. We expect to fund these commitments to the extent utilized primarily through the repayment of existing loans, deposit growth, and liquid assets.

Deposits

Deposits are our primary source of funding for our business operations, and the cost of deposits has a significant impact on our net interest income and net interest margin.

Our deposits are primarily made up of money market, interest checking, time, and non-interest-bearing demand deposits. Aside from commercial and business clients, a significant portion of our deposits are from municipalities and non-profit organizations. Cash flows from deposits are impacted by the timing and amount of customer deposits, changes in market rates, and collateral availability.

During the **three** six months ended **March 31, 2024** June 30, 2024, we had cash outflows inflows related to a decrease an increase in deposits of \$71.1 million, primarily as a result of decreases in wholesale funding. \$122.7 million.

During the twelve months following **March 31, 2024** June 30, 2024, approximately \$284.9 million \$330.2 million of time deposits are expected to mature. These deposits may or may not renew due to general competition. We expect the outflow will not be significant and can be replenished through our organic growth in deposits. We believe our emphasis on local deposits and our recent San Francisco Bay area expansion provide a stable funding base.

At **March 31, 2024** June 30, 2024, cash and cash equivalents represented 6.27% 6.04% of total deposits.

Investment Securities

Our investment securities totaled \$108.0 million \$106.2 million at **March 31, 2024** June 30, 2024. Mortgage-backed securities and obligations of states and political subdivisions comprised 50.87% 50.88% and 35.20% 35.35% of our investment portfolio, respectively. Cash proceeds from mortgage-backed securities result from payments of principal and interest by borrowers. Cash proceeds from obligations of states and political subdivisions occur when these securities are called or mature. Assuming the current prepayment speed and interest rate environment, we expect to receive approximately \$7.7 million from our securities over the twelve months following **March 31, 2024** June 30, 2024. In future periods, we expect to maintain approximately the same level of cash flows from our securities. Depending on market yield and our liquidity, we may purchase securities as a use of cash in our interest-earning asset portfolio.

During the **three** six months ended **March 31, 2024** June 30, 2024, we had cash proceeds from sales, maturities, calls, and prepayments of securities of \$2.0 million \$3.8 million. Additionally, at **March 31, 2024** June 30, 2024, securities available-for-sale totaled \$105.0 \$103.2 million, of which \$101.4 million \$99.8 million has been pledged as collateral for borrowings and other commitments.

FHLB Financing

The Bank is a shareholder of the FHLB, which enables the Bank to have access to lower-cost FHLB financing when necessary. At **March 31, 2024** June 30, 2024, the Bank had no outstanding borrowings of \$20.0 million and a total financing availability of \$411.4 million \$432.9 million, net of letters of credit issued of \$571.5 million.

Federal Reserve Discount Window

The Company has the ability to borrow from the Federal Reserve Discount Window when necessary. At **March 31, 2024** **June 30, 2024**, the Bank had **no** outstanding borrowings of **\$100.0 million** and a total financing availability of **\$707.1 million** **\$829.2 million**.

Correspondent Bank Lines of Credit

At **March 31, 2024** **June 30, 2024**, the unused and available amount for borrowing from correspondent bank lines of credit was \$175.0 million.

Total Liquidity

Total liquidity (consisting of cash and cash equivalents and unused and immediately available borrowing capacity as set forth **below** in Table 26) was approximately **\$1.5 billion** **\$1.6 billion** as of **March 31, 2024** **June 30, 2024**.

	March 31, 2024	Available
<u>Table 26: Total Liquidity</u>		
(dollars in thousands)	June 30, 2024	Available
FHLB advances		
FHLB advances		
FHLB advances		
Federal Reserve Discount Window		
Correspondent bank lines of credit		
Cash and cash equivalents		
Total		

Future Contractual Obligations

Our estimated future contractual obligations as of **March 31, 2024** **June 30, 2024** include both current and long-term obligations. Under our operating leases, we have an operating lease liability of **\$7.3 million** **\$7.1 million**. We have a current obligation of **\$284.9 million** **\$330.2 million** and a long-term obligation of \$3.2 million related to time deposits, as discussed in Note 5, Interest-Bearing Deposits. We have net subordinated notes of \$73.8 million, all of which are long-term obligations. We also have contractual obligations on unfunded loan commitments and standby letters of credit totaling **\$453.5 million** **\$449.3 million**.

Dividends

The Company paid dividends to its shareholders totaling **\$3.5 million** **\$4.3 million** during the three months ended **March 31, 2024** **June 30, 2024**.

We expect to continue our current practice of paying quarterly cash dividends with respect to our common stock, subject to our board of directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. We believe our quarterly dividend rate per share, as approved by our board of directors, enables us to balance our multiple objectives of managing our business and returning a portion of our earnings to our shareholders. Assuming continued payment during the rest of 2024 at a rate of \$0.20 per share, our average total dividend paid each quarter would be approximately \$4.3 million based on the number of currently outstanding shares if there are no increases or decreases in the number of shares, and given that unvested RSAs share equally in dividends with outstanding common stock.

Impact of Inflation

Our unaudited consolidated financial statements and related notes have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods or services.

Historical Information

The following table Table 27 summarizes our consolidated cash flow activities: activities.

	Three months ended March 31,		
	Six months ended June 30,		
(dollars in thousands)		2024	2023
Net cash provided by operating activities			\$ Change
Net cash used in investing activities			
Net cash (used in) provided by financing activities			
Net cash provided by financing activities			

Operating Activities

Net cash provided by operating activities decreased by ~~\$0.4 million~~ \$9.4 million for the ~~three~~ six months ended **March 31, 2024** June 30, 2024 compared to the ~~three~~ six months ended **March 31, 2023** June 30, 2023. Cash provided by operating activities is subject to variability period-over-period as a result of timing differences, including with respect to the collection of receivables and payments of interest expense, accounts payable, and bonuses.

Investing Activities

Net cash used in investing activities ~~decreased~~ increased by ~~\$56.6 million~~ \$46.2 million for the ~~three~~ six months ended **March 31, 2024** June 30, 2024 compared to the ~~three~~ six months ended **March 31, 2023** June 30, 2023, primarily due to ~~decreased~~ loan ~~originations~~, originations, including purchased consumer loans.

Financing Activities

Net cash (used in) provided by financing activities decreased by ~~\$280.4 million~~ \$115.8 million for the ~~three~~ six months ended **March 31, 2024** June 30, 2024 compared to the ~~three~~ six months ended **March 31, 2023** June 30, 2023, primarily due to ~~a decline in~~ deposits and ~~lower~~ borrowings, borrowings, partially offset by proceeds from the 2024 Public Offering.

Capital Adequacy

We manage our capital by tracking our level and quality of capital with consideration given to our overall financial condition, our asset quality, our level of allowance for credit losses, our geographic and industry concentrations, and other risk factors on our balance sheet, including interest rate sensitivity.

Bancorp and the Bank are subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements as set forth in the following tables Tables 28 and 29 can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material effect on our unaudited consolidated financial statements.

Historically, as a bank holding company with less than \$3.0 billion in total consolidated assets and that met certain other criteria, we had been operating under the Small Bank Holding Company Policy Statement, which provides an exemption from the Federal Reserve's generally applicable risk-based capital ratio and leverage ratio requirements. Having passed this threshold as of September 30, 2022, we are no longer subject to this policy statement and our capital adequacy is evaluated relative to the Federal Reserve's generally applicable capital requirements. Additionally, as of June 30, 2023, the Company's consolidated assets were in excess of \$3.0 billion, and as a consequence, beginning in March 2024, the Company no longer prepares and files financial reports with the Federal Reserve as a small bank holding company and is subject to capital ratio requirements for bank holding companies.

Under federal regulations implementing the Basel III framework, the Bank is subject to minimum risk-based and leverage capital requirements. The Bank also is subject to regulatory thresholds that must be met for an insured depository institution to be classified as "well-capitalized" under the prompt corrective action framework. 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. Capital amounts for Bancorp and the Bank, and the Bank's prompt corrective action classification, are also subject to qualitative judgments by the regulators about components of capital, risk weightings, and other factors. As of **March 31, 2024** June 30, 2024, both Bancorp and the Bank were in compliance with all applicable regulatory capital requirements, and the Bank qualified as "well-capitalized" under the prompt corrective action framework.

Management reviews capital ratios on a regular basis to ensure that capital exceeds the prescribed regulatory minimums and is adequate to meet our anticipated future needs. For all periods presented, the Bank's ratios exceed the regulatory definition of "well-capitalized" under the regulatory framework for prompt corrective action, and Bancorp's ratios exceed the minimum ratios required for it to be considered a well-capitalized bank holding company.

The capital adequacy ratios as of **March 31, 2024** June 30, 2024 and December 31, 2023 for Bancorp and the Bank are presented in the following tables. Tables 28 and 29. As of **March 31, 2024** June 30, 2024 and December 31, 2023, Bancorp's Tier 2 capital included subordinated notes,

which were not included at the Bank level. Eligible amounts of subordinated notes included in Tier 2 capital will be phased out by 20% per year beginning five years before the maturity date of the notes.

Capital Ratios for Bancorp	Actual Ratio	Required for Capital Adequacy Purposes ¹	Ratio to be Well-Capitalized under	
			Prompt Corrective Action	Provisions

Table 28: Capital Ratios for Bancorp

										Ratio to be Well- Capitalized under Prompt Corrective Action						
Required for Capital Adequacy Purposes ¹					Provisions											
(dollars in thousands)	(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	
March 31, 2024																
June 30, 2024																
Total capital (to risk-weighted assets)																
Total capital (to risk-weighted assets)																
Total capital (to risk-weighted assets)	\$412,503	12.34	12.34 %	\$264,002	8.00	8.00 %		N/A	\$501,114	14.38	14.38 %	\$320,713				
Tier 1 capital (to risk-weighted assets)	\$305,192	9.13	9.13 %	\$200,544	6.00	6.00 %		N/A	Tier 1 capital (to risk-weighted assets)	\$392,964	11.27	11.27 %	\$205,209			
Common equity tier 1 capital (to risk-weighted assets)	\$305,192	9.13	9.13 %	\$150,408	4.50	4.50 %		N/A	Common equity tier 1 capital (to risk-weighted assets)	\$392,964	11.27	11.27 %	\$156,142			
Tier 1 leverage	\$305,192	8.63	8.63 %	\$141,459	4.00	4.00 %		N/A	Tier 1 leverage	\$392,964	11.05	11.05 %	\$142,142			
December 31, 2023																
Total capital (to risk-weighted assets)																
Total capital (to risk-weighted assets)																
Total capital (to risk-weighted assets)	\$404,829	12.30	12.30 %	\$259,090	8.00	8.00 %		N/A	\$404,829	12.30	12.30 %	\$259,090				
Tier 1 capital (to risk-weighted assets)	\$298,749	9.07	9.07 %	\$197,534	6.00	6.00 %		N/A	Tier 1 capital (to risk-weighted assets)	\$298,749	9.07	9.07 %	\$197,534			
Common equity tier 1 capital (to risk-weighted assets)	\$298,749	9.07	9.07 %	\$148,150	4.50	4.50 %		N/A	Common equity tier 1 capital (to risk-weighted assets)	\$298,749	9.07	9.07 %	\$148,150			
Tier 1 leverage	\$298,749	8.73	8.73 %	\$136,953	4.00	4.00 %		N/A	Tier 1 leverage	\$298,749	8.73	8.73 %	\$136,953			

Capital Ratios for the Bank	Actual Ratio	Required for Capital Adequacy Purposes	Ratio to be Well-Capitalized under Prompt Corrective Action Provisions
			Ratio to be Well-Capitalized under Prompt Corrective Action Provisions

Table 29: Capital Ratios for the Bank

			Ratio to be Well-Capitalized under Prompt Corrective Action Provisions
			Ratio to be Well-Capitalized under Prompt Corrective Action Provisions
(dollars in thousands)	(dollars in thousands)	Actual Ratio	Required for Capital Adequacy Purposes
		Amount	Amount
March 31, 2024		Ratio	Ratio
June 30, 2024			
Total capital (to risk-weighted assets)			
Total capital (to risk-weighted assets)			
Total capital (to risk-weighted assets)	\$398,228	11.94	11.94 %
Tier 1 capital (to risk-weighted assets)	\$266,911	8.00	8.00 %
Tier 1 capital (to risk-weighted assets)	\$364,702	10.93	10.93 %
Common equity tier 1 capital (to risk-weighted assets)	\$200,183	6.00	6.00 %
Tier 1 leverage	\$266,911	8.00	8.00 %
Tier 1 leverage	\$266,911	8.00	8.00 %
Tier 1 capital (to risk-weighted assets)	\$487,517	14.01	14.01 %
Common equity tier 1 capital (to risk-weighted assets)	\$453,189	13.03	13.03 %
Common equity tier 1 capital (to risk-weighted assets)	\$453,189	13.03	13.03 %
Tier 1 leverage	\$453,189	12.76	12.76 %
December 31, 2023	December 31, 2023		
Total capital (to risk-weighted assets)	\$392,114	11.93	11.93 %
Tier 1 capital (to risk-weighted assets)	\$262,947	8.00	8.00 %
Tier 1 capital (to risk-weighted assets)	\$359,783	10.95	10.95 %
Total capital (to risk-weighted assets)	\$328,684	10.00	10.00 %
Tier 1 capital (to risk-weighted assets)	\$359,783	10.95	10.95 %

Common equity tier 1 capital (to risk-weighted assets)	Common equity tier 1 capital (to risk-weighted assets)	\$359,783	10.95	10.95 %	\$147,908	4.50	4.50 %	\$	213,645	6.50	6.50 %	Common equity tier 1 capital (to risk-weighted assets)	\$ 359,783	10.95
Tier 1 leverage	Tier 1 leverage	\$359,783	10.52	10.52 %	\$136,757	4.00	4.00 %	\$	170,946	5.00	5.00 %	Tier 1 leverage	\$ 359,783	10.52

¹ The listed capital adequacy ratios exclude capital conservation buffers.

Non-GAAP Financial Measures

Some of the financial measures discussed herein are non-GAAP financial measures. In accordance with SEC rules, we classify a financial measure as being a non-GAAP financial measure if that financial measure excludes or includes amounts, or is subject to adjustments that have the effect of excluding or including amounts, that are included or excluded, as the case may be, in the most directly comparable measure calculated and presented in accordance with GAAP in our consolidated statements of income, balance sheets, statements of shareholders' equity, or statements of cash flows.

Tangible shareholders' equity to tangible assets is defined as total equity less goodwill and other intangible assets, divided by total assets less goodwill and other intangible assets. The most directly comparable GAAP financial measure is total shareholders' equity to total assets. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible shareholders' equity to tangible assets is the same as total shareholders' equity to total assets at the end of each of the periods indicated.

Tangible book value per share is defined as total shareholders' equity less goodwill and other intangible assets, divided by the outstanding number of common shares at the end of the period. The most directly comparable GAAP financial measure is book value per share. We had no goodwill or other intangible assets at the end of any period indicated. As a result, tangible book value per share is the same as book value per share at the end of each of the periods indicated.

We believe that these non-GAAP financial measures provide useful information to management and investors that is supplementary to our financial condition, results of operations, and cash flows computed in accordance with GAAP. However, we acknowledge that our non-GAAP financial measures have a number of limitations. As such, you should not view these disclosures as a substitute for results determined in accordance with GAAP, and they are not necessarily comparable to non-GAAP financial measures that other banking companies use. Other banking companies may use names similar to those we use for the non-GAAP financial measures we disclose, but may calculate them differently. You should understand how we and other companies each calculate our non-GAAP financial measures when making comparisons.

Recent Legislative and Regulatory Developments

Bank Merger Review

On March 21, 2024, there have been no material changes to the FDIC published proposed revisions to its Statement of Policy legislative and regulatory disclosures previously disclosed in the Company's 2023 Annual Report on Bank Merger Transactions that may change the way the FDIC reviews bank merger applications. While the Federal Reserve has not issued a similar proposal, Federal Reserve Vice Chair for Supervision Michael Barr has stated that the Federal Reserve is working Form 10-K, previously filed with the U.S. Department of Justice to update guidelines setting forth standards for the review of the competitive impact of a bank merger transaction. These pending regulatory revisions create uncertainty regarding the standards that the agencies may apply to their review of bank mergers and may make it more difficult and/or costly to obtain regulatory approval of a bank merger, or otherwise result in more burdensome conditions in approval orders than the agencies have previously imposed. Additionally, the agencies may begin to apply new standards in practice before they formally finalize changes to their merger policies. As a result, these new standards may limit banking organizations' ability to grow through an acquisition or make it more costly or less beneficial for them to do so. SEC.

Glossary of Acronyms, Abbreviations, and Terms

The terms identified below are used in various sections of this Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 and the unaudited Consolidated Financial Statements and Notes to the Financial Statements in Item 1 of this Form 10-Q.

2023 Annual Report on Form 10-K	Company's Annual Report on Form 10-K for the year ended December 31, 2023	GNMA FHLMC	Government Federal Home Loan Mortgage Corporation
ACL	Allowance for Credit Losses	FNMA	Federal National Mortgage Association
ASC	Accounting Standards Codification	GSE GAAP	Government Sponsored Entity Generally Accepted Accounting Principles in the U.S.
ASU	Accounting Standards Update	ICS GNMA	Insured Cash Sweep® Government National Mortgage Association
Bancorp	Five Star Bancorp and its subsidiary	IPO GSE	Initial Public Offering Government Sponsored Entity
Bank	Five Star Bank	LM ICS	Loan modification made to borrower experiencing financial difficulty Insured Cash Sweep®
Basel III	A capital framework and rules for U.S. banking organizations	EVE IPO	Economic Value of Equity Initial Public Offering
BOLI	Bank-Owned Life Insurance	NI LM	Net Income Loan modification made to borrower experiencing financial difficulty
CDARS	Certificate of Deposit Account Registry Service®	NI EVE	Economic Value of Equity
CECL	Current Expected Credit Loss	NI	Net Interest Income
CME	Chicago Mercantile Exchange	NII	Net Interest Income
CRE	Commercial Real Estate	OCI	Other Comprehensive Income
EPSC&I	Earnings per Share Commercial and Industrial	RSA	Restricted Stock Award
FASB EPS	Financial Accounting Standards Board Earnings per Share	ROAA	Return on Average Assets, annualized
FDIC FASB	Federal Deposit Insurance Corporation Financial Accounting Standards Board	ROAE	Return on Average Equity, annualized
FDIC	Federal Deposit Insurance Corporation	ROUA	Right-of-Use Asset
Federal Reserve	Board of Governors of the Federal Reserve System	ROUA SBA	Right-of-Use Asset U.S. Small Business Administration
FFIEC	Federal Financial Institutions Examination Council	SEC	Securities and Exchange Commission
FHLB	Federal Home Loan Bank of San Francisco	SBA	U.S. Small Business Administration
FHLMC	Federal Home Loan Mortgage Corporation	SEC	Securities and Exchange Commission
FNMA	Federal National Mortgage Association	SOFR	Secured Overnight Financing Rate
GAAP	Generally Accepted Accounting Principles in the U.S.		

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. As a financial institution, the Company experiences market risk arising primarily from interest rate risk inherent in lending and deposit-taking activities. Because the interest rates on the Company's assets and liabilities do not necessarily change at the same speed or rate as market interest rates, sudden and/or substantial changes in interest rates may adversely impact our earnings. In particular, the Company's financial results are sensitive to significant changes in the treasury yield curve, the Federal Funds rate, and the Wall Street Prime Index.

The Company's total interest income was \$47.5 million \$49.0 million for the three months ended March 31, 2024 June 30, 2024 and \$174.4 million for the year ended December 31, 2023. As market interest rates that serve as reference indices for our variable rate loans and investment securities have continued to increase, our total interest income has grown. Our total interest expense was \$20.8 million \$19.9 million for the three months ended March 31, 2024 June 30, 2024 and \$63.5 million for the year ended December 31, 2023. As rates paid on borrowed funds are correlated with short-term interest rates, the cost associated with our borrowings generally increases in a rising rate environment. Overall, our net interest income was \$26.7 million \$29.1 million for the three months ended March 31, 2024 June 30, 2024 and \$110.9 million for the year ended December 31, 2023.

Economic value of equity ("EVE") measures our long-term earnings exposure from changes in market rates of interest. EVE is defined as the present value of assets minus the present value of liabilities at a point in time for a given set of market rate assumptions. An increase in EVE due to a specified rate change indicates an improvement in the long-term earnings capacity of the balance sheet, assuming that the rate change remains in effect over the life of the current balance sheet. As of March 31, 2024 June 30, 2024, the Company carried a slightly higher balance of liabilities than assets that will reprice in the event that interest rates fall. As such, we generally expect the Company to benefit from a declining rate environment.

Our policies and procedures provide management with guidelines for effective funds management, and we have established a measurement system for monitoring our net interest rate sensitivity position. This is overseen and adjusted as needed by our Management Asset Liability Committee ("MALCO") on a monthly basis and our Director Asset Liability Committee ("ALCO") on a quarterly basis. We have historically managed our sensitivity position within our established guidelines. With the intent of stabilizing or increasing net interest income, management typically deploys the Company's excess liquidity and seeks to migrate certain earning assets into higher-yielding categories (from investment securities into loans, for example). However, in situations where deposit balances contract, management relies upon various borrowing facilities and/or the use of brokered deposits. The Company monitors the impact of interest rate risk on EVE by reviewing and managing assets and liabilities with varying interest rate risks, such as cash and time deposits. Assets and liabilities are subject to fluctuations at each measurement date based on the composition of the balance sheet at each measurement date. EVE results are compared to previous periods and established policies on a quarterly basis.

As of March 31, 2024 June 30, 2024, the overnight Federal Funds rate the rate used in the interest rate shock scenarios listed below was 5.33%. The scenarios presented assume that interest rates change instantaneously ("shock") and that there are no significant changes in the structure of the Company's balance sheet over the twelve months being measured.

The following table Table 30 summarizes the estimated effect on net interest income and EVE from changing interest rates as measured against a flat rate (no interest rate change) instantaneous parallel shock scenario over a twelve month period utilizing an interest sensitivity (GAP) analysis based on the Company's specific mix of interest-earning assets and interest-bearing liabilities as of **March 31, 2024** June 30, 2024 and December 31, 2023.

	March 31, 2024	December 31, 2023
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Table 30: Estimated Effect on Net Interest Income and

EVE from Changing Interest Rates

Change in Interest Rates (in basis points)	Change in Interest Rates	December 31, 2023				Change in Interest Rates	Estimated Change in NII (as % of NII)	Estimated Change in EVE (as % of EVE)	Estimated Change in Interest Rates	Estimated Change in NII (as % of NII)	Estimated Change in EVE (as % of EVE)	Estimated Change in NII (as % of NII)	Estimated Change in EVE (as % of EVE)	
		June 30, 2024	Estimated Change in NII (as % of NII)	Estimated Change in EVE (as % of EVE)	Estimated Change in NII (as % of NII)									
+300 (shock)		(14.62) %	(19.52) %	(13.73) %	(22.17) %	(13.12) %	(16.44) %	(13.73) %	(22.17) %					
+300 (shock)														
+300 (shock)		(9.64) %	(13.37) %	(9.02) %	(15.23) %	+200 (shock)	(8.69) %	(11.25) %	(9.02) %	(15.23) %				
+200 (shock)	+200 (shock)													
+100 (shock)	+100 (shock)	(4.79) %	(6.72) %	(4.63) %	(7.90) %	+100 (shock)	(4.30) %	(5.79) %	(4.63) %	(7.90) %				
+ 0 (flat)	+ 0 (flat)	— %	— %	— %	— %	+ 0 (flat)	— %	— %	— %	— %				
-100 (shock)	-100 (shock)	4.69 %	7.05 %	4.43 %	8.09 %	-100 (shock)	4.30 %	5.80 %	4.43 %	8.09 %				
-200 (shock)	-200 (shock)	9.44 %	13.57 %	8.93 %	14.76 %	-200 (shock)	8.55 %	11.00 %	8.93 %	14.76 %				
-300 (shock)	-300 (shock)	14.36 %	20.19 %	13.72 %	22.38 %	-300 (shock)	13.13 %	16.55 %	13.72 %	22.38 %				

The computation of the prospective effects of hypothetical interest rate changes requires numerous assumptions, which are based upon our experience and published industry experience. Such assumptions may not necessarily reflect the manner or timing in which our interest-earning assets and interest-bearing liabilities respond to changes in market rates. Because these assumptions are inherently uncertain, actual results will differ from simulated results.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness as of **March 31, 2024** June 30, 2024 of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply judgment in evaluating its controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended **March 31, 2024** June 30, 2024 that has materially affected, or is reasonably likely to materially affect, such controls.

PART II OTHER INFORMATION

ITEM 1. Legal Proceedings

From time to time, we are a party to various litigation matters incidental to the conduct of our business. We do not believe that any currently pending legal proceedings will have a material adverse effect on our business, financial condition, or results of operations.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed under Item 1A of the Company's 2023 Annual Report on Form 10-K, previously filed with the SEC.

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

(a) Unregistered Sales of Equity Securities

None.

(b) Use of Proceeds

Not applicable.

(c) Issuer Purchases of Equity Securities

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

During the three months ended **March 31, 2024** **June 30, 2024**, none of our directors or executive officers adopted or terminated any contract, instruction, or written plan for the purchase or sale of our securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement".

ITEM 6. Exhibits

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

Incorporated by Reference						
Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					Filed
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					Filed
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					Filed
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					Filed
101	Inline XBRL Interactive Data					Filed
104	Cover Page Interactive Data File (embedded within the Inline XBRL document in Exhibit 101)					Filed

SIGNATURES

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

Five Star Bancorp
(registrant)

/s/ James E. Beckwith
James E. Beckwith
President &
Chief Executive Officer
(Principal Executive Officer)

/s/ Heather C. Luck
Heather C. Luck
Senior Vice President &
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 31.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James E. Beckwith, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated 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.

May 8, August 6, 2024

Date

/s/ James E. Beckwith

James E. Beckwith

President & Chief Executive Officer

EXHIBIT 31.2

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/15d-14(a), AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Heather C. Luck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Five Star Bancorp (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated 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.

May 8, August 6, 2024

Date

/s/ Heather C. Luck

Heather C. Luck

Senior Vice President & Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE 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 Quarterly Report on Form 10-Q of Five Star Bancorp (the "Company") for the period ended **March 31, 2024** **June 30, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James E. Beckwith, President & Chief Executive Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 8, August 6, 2024

Date

/s/ James E. Beckwith

James E. Beckwith

President & Chief Executive Officer

EXHIBIT 32.2

**CERTIFICATION OF PRINCIPAL 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 Quarterly Report on Form 10-Q of Five Star Bancorp (the "Company") for the period ended **March 31, 2024** **June 30, 2024**, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Heather C. Luck, Senior Vice President & Chief Financial Officer of the Company, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

May 8, August 6, 2024

Date

/s/ Heather C. Luck

Heather C. Luck

Senior Vice President & Chief Financial Officer

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