

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

FORM 10-Q

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

For the quarterly period ended September 30, 2024
OR

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

For the transition period from _____ to _____

Commission File Number: 001-41196



USCB Financial Holdings, Inc.
(Exact name of registrant as specified in its charter)

Florida
(State or other jurisdiction of incorporation or organization)

87-4070846
(I.R.S. Employer Identification No.)

2301 N.W. 87th Avenue, Doral, FL 33172
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (305) 715-5200

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A common stock, \$1.00 par value per share	USCB	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," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒ Smaller reporting company ☒ Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of October 31, 2024 the registrant had 19,840,632 shares of Class A common stock outstanding.



FORM 10-Q
September 30, 2024

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PART I
Item 1. Financial Statements

USCB FINANCIAL HOLDINGS, INC
Consolidated Balance Sheets – Unaudited
(Dollars in thousands, except share data)

	September 30, 2024	December 31, 2023
ASSETS:		
Cash and due from banks	\$ 7,084	\$ 8,019
Interest-bearing deposits in banks	31,402	33,043
Total cash and cash equivalents	38,486	41,062
Investment securities held to maturity, net of allowance of \$ for both periods (fair value \$53,125 and \$155,510, respectively)	167,001	174,974
Investment securities available for sale, at fair value	259,527	229,329
Federal Home Loan Bank stock, at cost	7,242	10,153
Loans held for investment, net of allowance of \$3,067 and \$21,084, respectively	1,908,295	1,759,743
Accrued interest receivable	10,765	10,688
Premises and equipment, net	4,656	4,836
Bank owned life insurance	53,038	51,781
Deferred tax assets, net	29,540	37,282
Lease right-of-use asset	9,194	11,423
Other assets	16,210	7,822
Total assets	\$ 2,503,954	\$ 2,339,093
LIABILITIES:		
Deposits:		
Demand deposits	\$ 637,313	\$ 552,762
Money market and savings accounts	1,091,029	1,048,272
Interest-bearing checking	64,333	47,702
Time deposits	333,942	288,403
Total deposits	2,126,617	1,937,139
Federal Home Loan Bank advances and other borrowings	118,000	183,000
Lease liability	9,194	11,423
Accrued interest and other liabilities	36,227	15,563
Total liabilities	2,290,038	2,147,125
Commitments and contingencies (See Notes 5 and 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock - Class C; \$1.00 par value; \$1,000 per share liquidation preference; 52,748 authorized; 0 and 0 issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Preferred stock - Class D; \$1.00 par value; \$5.00 per share liquidation preference; 12,309,480 authorized; 0 and 0 issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Preferred stock - Class E; \$1.00 par value; \$1,000 per share liquidation preference; 3,185,024 authorized; 0 and 0 issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Common stock - Class A Voting; \$1.00 par value; 45,000,000 shares authorized; 19,620,632 issued and outstanding as of September 30, 2024, 19,575,435 issued and outstanding as of December 31, 2023	19,621	19,575
Common stock - Class B Non-voting; \$1.00 par value; 8,000,000 shares authorized; 0 and 0 issued and outstanding as of September 30, 2024 and December 31, 2023	-	-
Additional paid-in capital on common stock	306,100	305,212
Accumulated deficit	(73,827)	(88,548)
Accumulated other comprehensive loss	(37,978)	(44,271)
Total stockholders' equity	213,916	191,968
Total liabilities and stockholders' equity	\$ 2,503,954	\$ 2,339,093

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

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USCB FINANCIAL HOLDINGS, INC.
Consolidated Statements of Operations - Unaudited
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income:				
Loans, including fees	\$ 29,819	\$ 22,523	\$ 84,479	\$ 63,081
Investment securities	2,754	2,833	8,634	7,501
Interest-bearing deposits in financial institutions	989	1,026	3,953	2,459
Total interest income	33,562	26,382	97,066	73,041
Interest expense:				
Interest-bearing checking	411	331	1,171	574
Money market and savings accounts	10,064	8,779	30,529	20,532
Time deposits	3,391	2,565	9,907	5,767
Federal Home Loan Bank advances and other borrowings	1,587	685	4,881	1,976
Total interest expense	15,453	12,360	46,488	28,849
Net interest income before provision for credit losses	18,109	14,022	50,578	44,192
Provision for credit losses	931	653	2,127	892
Net interest income after provision for credit losses	17,178	13,369	48,451	43,300
Non-interest income:				
Service fees	2,544	1,329	6,172	3,707
Gain (loss) on sale of securities available for sale, net	-	(955)	14	(976)
Gain on sale of loans held for sale, net	109	255	593	696
Other non-interest income	785	1,532	2,334	2,650
Total non-interest income	3,438	2,161	9,113	6,077
Non-interest expense:				
Salaries and employee benefits	7,200	6,066	20,863	18,325
Occupancy	1,341	1,350	3,921	3,968
Regulatory assessment and fees	452	365	1,361	1,041
Consulting and legal fees	161	513	1,016	1,257
Network and information technology services	513	481	1,499	1,464
Other operating expense	1,787	1,686	5,528	5,034
Total non-interest expense	11,454	10,461	34,188	31,089
Income before income tax expense	9,162	5,069	23,376	18,288
Income tax expense	2,213	1,250	5,606	4,464
Net income	\$ 6,949	\$ 3,819	\$ 17,770	\$ 13,824
Per share information:				
Net income per share, basic	\$ 0.35	\$ 0.20	\$ 0.90	\$ 0.70
Net income per share, diluted	\$ 0.35	\$ 0.19	\$ 0.90	\$ 0.70
Cash dividend declared	\$ 0.05	\$ -	\$ 0.15	\$ -

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

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USCB FINANCIAL HOLDINGS, INC.
Consolidated Statements of Comprehensive Income (Loss) - Unaudited
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income	\$ 6,949	\$ 3,819	\$ 17,770	\$ 13,824
Other comprehensive income (loss):				
Unrealized gain (loss) on investment securities	9,848	(7,858)	8,624	(11,145)
Amortization of net unrealized gain on securities transferred from available-for-sale to held-to-maturity	67	64	200	184
Reclassification adjustment for (gain) loss included in net income	-	955	(14)	976
Unrealized gain (loss) on cash flow hedge	(930)	266	(381)	1,312
Tax effect	(2,277)	1,666	(2,136)	2,198
Total other comprehensive income (loss), net of tax	6,708	(4,907)	6,293	(6,475)
Total comprehensive income (loss)	\$ 13,657	\$ (1,088)	\$ 24,063	\$ 7,349

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

USCB FINANCIAL HOLDINGS, INC.
Consolidated Statements of Changes in Stockholders' Equity - Unaudited
(Dollars in thousands, except per share data)

	Common Stock						Total Stockholders' Equity
	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss		
Balance at June 30, 2024	19,630,632	\$ 19,631	\$ 305,835	\$ (79,760)	\$ (44,686)	\$	201,020
Net income	-	-	-	6,949	-	-	6,949
Other comprehensive income	-	-	-	-	6,708	-	6,708
Repurchase of Class A common stock	(10,000)	(10)	(111)	-	-	-	(121)
Dividend payment	-	-	-	(1,016)	-	-	(1,016)
Stock-based compensation	-	-	376	-	-	-	376
Balance at September 30, 2024	<u>19,620,632</u>	<u>\$ 19,621</u>	<u>\$ 306,100</u>	<u>\$ (73,827)</u>	<u>\$ (37,978)</u>	<u>\$</u>	<u>213,916</u>
Balance at June 30, 2023	19,544,777	\$ 19,545	\$ 305,547	\$ (95,088)	\$ (46,319)	\$	183,685
Net income	-	-	-	3,819	-	-	3,819
Other comprehensive loss	-	-	-	-	(4,907)	-	(4,907)
Restricted stock forfeiture	(2,487)	(3)	3	-	-	-	-
Stock-based compensation	-	-	287	-	-	-	287
Balance at September 30, 2023	<u>19,542,290</u>	<u>\$ 19,542</u>	<u>\$ 305,837</u>	<u>\$ (91,269)</u>	<u>\$ (51,226)</u>	<u>\$</u>	<u>182,884</u>

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

	Common Stock						Total Stockholders' Equity
	Shares	Par Value	Additional Paid-in Capital on Common Stock	Accumulated Deficit	Accumulated Other Comprehensive Loss		
Balance at December 31, 2023	19,575,435	\$ 19,575	\$ 305,212	\$ (88,548)	\$ (44,271)	\$	191,968
Net income	-	-	-	17,770	-	-	17,770
Other comprehensive income	-	-	-	-	6,293	-	6,293
Repurchase of Class A common stock	(42,100)	(42)	(459)	-	-	-	(501)
Restricted stock issued	57,922	58	(58)	-	-	-	-
Restricted stock forfeiture	(8,625)	(8)	8	-	-	-	-
Exercise of stock options	38,000	38	285	-	-	-	323
Dividend payment	-	-	-	(3,049)	-	-	(3,049)
Stock-based compensation	-	-	1,112	-	-	-	1,112
Balance at September 30, 2024	<u>19,620,632</u>	<u>\$ 19,621</u>	<u>\$ 306,100</u>	<u>\$ (73,827)</u>	<u>\$ (37,978)</u>	<u>\$</u>	<u>213,916</u>
Balance at December 31, 2022	20,000,753	20,001	311,282	(104,104)	(44,751)		182,428
After tax cumulative effect of adoption of accounting principle related to ASC 326	-	-	-	(989)	-		(989)
Adjusted beginning balance after cumulative effect adjustment	20,000,753	20,001	311,282	(105,093)	(44,751)		181,439
Net income	-	-	-	13,824	-		13,824
Other comprehensive loss	-	-	-	-	(6,475)		(6,475)
Repurchase of Class A common stock	(577,603)	(577)	(6,036)	-	-		(6,613)
Restricted stock issued	121,627	121	(121)	-	-		-
Restricted stock forfeiture	(2,487)	(3)	3	-	-		-
Stock-based compensation	-	-	709	-	-		709
Balance at September 30, 2023	<u>19,542,290</u>	<u>\$ 19,542</u>	<u>\$ 305,837</u>	<u>\$ (91,269)</u>	<u>\$ (51,226)</u>	<u>\$</u>	<u>182,884</u>

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

USCB FINANCIAL HOLDINGS, INC.
Consolidated Statements of Cash Flows - Unaudited
(Dollars in thousands)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 17,770	\$ 13,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,127	892
Depreciation and amortization	436	443
(Accretion) amortization of premiums on securities, net	(365)	(651)
Accretion of deferred loan fees, net	660	(236)
Stock-based compensation	1,112	709
(Gain) loss on sale of available for sale securities	(14)	976
Gain on sale of loans held for sale	(593)	(696)
Increase in cash surrender value of bank owned life insurance	(1,257)	(1,756)
Decrease in deferred tax assets	5,129	4,465
Net change in operating assets and liabilities:		
Accrued interest receivable	(77)	(1,374)
Other assets	(8,292)	(751)
Accrued interest and other liabilities	20,505	12,679
Net cash provided by operating activities	37,141	28,524
Cash flows from investing activities:		
Purchase of investment securities held to maturity	-	(86,788)
Proceeds from maturities and pay-downs of investment securities held to maturity	8,110	79,085
Purchase of investment securities available for sale	(70,996)	(26,792)
Proceeds from maturities and pay-downs of investment securities available for sale	15,097	11,679
Proceeds from sales of investment securities available for sale	34,753	15,409
Net increase in loans held for investment	(99,627)	(165,662)
Purchase of loans held for investment	(58,368)	(13,277)
Additions to premises and equipment	(256)	(131)
Proceeds from the sale of loans held for sale	7,408	10,715
Purchase of Bank owned life insurance	-	(11,100)
Proceeds from the redemption of Federal Home Loan Bank stock	8,645	6,517
Purchase of Federal Home Loan Bank stock	(5,734)	(9,940)
Net cash used in investment activities	(160,968)	(190,285)
Cash flows from financing activities:		
Proceeds from issuance of Class A common stock, net	323	-
Cash dividends paid	(3,049)	-
Repurchase of Class A common stock	(501)	(6,613)
Net increase in deposits	189,478	91,641
Proceeds from Federal Home Loan Bank advances and other borrowings	197,000	259,350
Repayments on Federal Home Loan Bank advances and other borrowings	(262,000)	(203,350)
Net cash provided by financing activities	121,251	141,028
Net decrease in cash and cash equivalents	(2,576)	(20,733)
Cash and cash equivalents at beginning of period	41,062	54,168
Cash and cash equivalents at end of period	\$ 38,486	\$ 33,435
Supplemental disclosure of cash flow information:		
Interest paid	\$ 46,058	\$ 27,872
Supplemental schedule of non-cash investing and financing activities:		
Transfer of loans held for investment to loans held for sale	\$ 6,815	\$ 10,019

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

USCB Financial Holdings, Inc., a Florida corporation incorporated in 2021, is a bank holding company with one direct wholly owned subsidiary, U.S. Century Bank (the "Bank"), together referred to as "the Company". The Bank, established in 2002, is a Florida state-chartered, non-member financial institution providing financial services through its banking centers located in South Florida.

The Bank owns a subsidiary, Florida Peninsula Title LLC, that offers our clients title insurance policies for real estate transactions closed at the Bank. Licensed in the State of Florida and approved by the Department of Insurance Regulation, Florida Peninsula Title LLC began operations in 2021.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all the information and footnotes required by U.S. generally accepted accounting principles ("U.S. GAAP") for complete financial statements. All adjustments consisting of normally recurring accruals that, in the opinion of management, are necessary for a fair presentation of the financial position and results of operations for the periods presented have been included. These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and related notes appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Principles of Consolidation

The Company consolidates entities in which it has a controlling financial interest. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

To prepare financial statements in conformity with U.S. GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements. The most significant estimates impacting the Company's consolidated financial statements are the allowance for credit losses ("ACL") and income taxes.

Reclassifications

Certain amounts in the consolidated financial statements have been reclassified to conform to the current presentation. Reclassifications had no impact on the net income or stockholders' equity of the Company.

Recently Issued Accounting Standards

Adoption of New Accounting Standards

Reference Rate Reform

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2020-04, Reference Rate Reform (Topic 848), aiming to facilitate the impacts of reference rate reform on financial reporting. This initiative was subsequently clarified in January 2021 through ASU 2021-01, providing optional directives for a designated timeframe to alleviate challenges associated with accounting for, or acknowledging the effects of, reference rate reform on financial reporting. These amendments offer discretionary guidance for a defined period to alleviate potential complexities associated with reference rate reform in financial reporting. The expedients and exceptions provided by these amendments are not applicable to contract modifications executed and hedging relationships initiated or reviewed after December 31, 2022, except for pre-existing hedging relationships as of December 31, 2022, for which an entity has opted for specific optional expedients, and which are retained until the conclusion of the hedging relationship. Additionally, the amendments permit entities to make a one-time choice to divest, transfer, or both divest and transfer debt categorized as held to maturity, referencing a rate impacted by reference rate reform, and classified as held to maturity prior to January 1, 2020. In December 2022, the FASB issued new guidance extending the expiration date of this guidance from December 31, 2022 to December 31, 2024, after which entities will no longer be authorized to apply the relief provided.

USCB FINANCIAL HOLDINGS, INC.

Notes to the Consolidated Financial Statements - Unaudited

under this guidance. Before this recent guidance, these amendments were effective for all entities from March 12, 2020, to December 31, 2022. The Company executed its transition strategy in preparation for the cessation of the London Intra-bank Offered Rate ("LIBOR") and the adjustment of its existing financial instruments affected by LIBOR, whether directly or indirectly. LIBOR-based originations were ceased as of June 30, 2023, and for existing LIBOR-based transactions, the Company substituted the Secured Overnight Financing Rate ("SOFR") for LIBOR. The Company has completed its transition away from LIBOR for its loan and other financial instruments.

Issued and Not Yet AdoptedImprovements to Income Tax Disclosures

In December 2023, the FASB issued ASU 2023-09, "Income Taxes" (Topic 740): Improvements to Disclosures. This ASU pertains to disclosures regarding effective tax rates and cash income taxes paid with the goal of providing stakeholders with more transparent and relevant information. This ASU is effective for public business entities for annual periods beginning after Dec. 15, 2024. The Company is currently assessing the potential impact of this ASU on its financial reporting and has not yet concluded whether the changes will materially affect its business operations or financial statements.

Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued ASU 2023-07, "Improvements to Reportable Segment Disclosures." ASU 2023-07 requires disclosure of significant segment expenses and other segment items on an interim and annual basis. It is effective for fiscal years beginning after December 15, 2023 and for interim periods beginning after December 15, 2024. The Company is evaluating the impact of the changes to its existing disclosures.

2. INVESTMENT SECURITIES

The measurement of expected credit losses under the current expected credit loss ("CECL") methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. Accounting for available-for-sale debt securities credit losses is presented as an allowance rather than as a write-down. Management does not intend to sell or believes that it is more likely they will not be required to sell AFS securities.

CECL requires a loss reserve for securities classified as held-to-maturity ("HTM"). The reserve should reflect historical credit performance as well as the impact of projected economic forecasts. For U.S. Government bonds and U.S. Agency bonds classified as HTM, the explicit guarantee of the U.S. Government is sufficient to conclude that a credit reserve is not required. The reserve requirement is for three primary assets groups: municipal bonds, corporate bonds, and non-agency securitizations. The Company calculates quarterly the loss reserve utilizing Moody's ImpairmentStudio. The CECL measurement for investment securities incorporates historical data, containing defaults and recoveries information, and Moody's baseline economic forecast. The solution uses probability of default/loss given default ("PD/LGD") approach. PD represents the likelihood a borrower will default. Within the Moody's model, this is determined using historical default rates adjusted for the current economic environment. LGD projects the expected loss if a borrower were to default.

The Company monitors the credit quality of HTM securities through the use of credit ratings. Credit ratings are monitored by the Company on at least a quarterly basis. As of September 30, 2024 and December 31, 2023, all HTM securities held by the Company were rated investment grade.

At quarter end, HTM securities included \$157.7 million of U.S. Government and U.S. Agency issued bonds and mortgage-backed securities. Because of the explicit and/or implicit guarantee on these bonds, the Company no longer holds reserves on these holdings. The remaining portion of the HTM portfolio is made up of \$0.3 million in investment grade corporate bonds. The required reserve for these holdings is determined each quarter using the model described above. For the portion of the HTM exposed to non-government credit risk, the Company utilized the PD/LGD methodology to estimate a \$8 thousand ACL as of September 30, 2024. The book value for debt securities classified as HTM represents amortized cost less the ACL related to these securities.

The Company determined that an ACL on its debt securities available for sale as of September 30, 2023 and December 31, 2023 was not required.

USCB FINANCIAL HOLDINGS, INC.
Notes to the Consolidated Financial Statements - Unaudited

The following tables present a summary of the amortized cost, unrealized or unrecognized gains and losses, and value of investment securities at the dates indicated (in thousands):

September 30, 2024				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 11,916	\$ 21	\$ (1,204)	\$ 10,733
Collateralized mortgage	104,228	55	(20,089)	84,194
Mortgage-backed securities - residential	60,390	21	(9,649)	50,762
Mortgage-backed securities - commercial	75,263	676	(5,606)	70,333
Municipal securities	24,945	-	(4,520)	20,425
Bank subordinated debt securities	24,272	193	(1,385)	23,080
	<u>\$ 301,014</u>	<u>\$ 966</u>	<u>\$ (42,453)</u>	<u>\$ 259,527</u>
Held-to-maturity:				
U.S. Government Agency	\$ 42,909	\$ 97	\$ (4,041)	\$ 38,965
Collateralized mortgage	58,345	386	(6,328)	52,403
Mortgage-backed securities - residential	41,173	677	(3,537)	38,313
Mortgage-backed securities - commercial	15,316	35	(788)	14,563
Corporate bonds	9,266	-	(385)	8,881
	<u>\$ 167,009</u>	<u>\$ 1,195</u>	<u>\$ (15,079)</u>	<u>\$ 153,125</u>
Allowance for credit losses - securities held-to-maturity	(8)			
Securities held-to maturity, net of allowance for credit losses	<u>\$ 167,001</u>			
December 31, 2023				
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 9,664	\$ -	\$ (1,491)	\$ 8,173
Collateralized mortgage	103,645	-	(23,039)	80,606
Mortgage-backed securities - residential	63,795	-	(11,608)	52,187
Mortgage-backed securities - commercial	49,212	56	(6,504)	42,764
Municipal securities	25,005	-	(5,667)	19,338
Bank subordinated debt securities	28,106	188	(2,033)	26,261
	<u>\$ 279,427</u>	<u>\$ 244</u>	<u>\$ (50,342)</u>	<u>\$ 229,329</u>
Held-to-maturity:				
U.S. Government Agency	\$ 43,626	\$ 2	\$ (5,322)	\$ 38,306
Collateralized mortgage	62,735	-	(7,983)	54,752
Mortgage-backed securities - residential	43,784	348	(4,533)	39,599
Mortgage-backed securities - commercial	15,439	-	(1,257)	14,182
Corporate bonds	9,398	-	(727)	8,671
	<u>\$ 174,982</u>	<u>\$ 350</u>	<u>\$ (19,822)</u>	<u>\$ 155,510</u>
Allowance for credit losses - securities held-to-maturity	(8)			
Securities held-to maturity, net of allowance for credit losses	<u>\$ 174,974</u>			

During the quarter ended September 30, 2024 there were no investment securities that were transferred from available-for-sale ("AFS") to HTM. For the three months ended September 30, 2024, total amortization out of Additional Other Comprehensive Income ("AOCI") for net unrealized losses on securities transferred in 2022 from AFS to HTM was \$7 thousand. The unamortized net unrealized loss as of September 30, 2024, was \$63 million. For the nine months ended September 30, 2024, total amortization out of Additional Other Comprehensive Income ("AOCI") for net unrealized losses on securities transferred in 2022 from AFS to HTM was \$ 200 thousand.

For the years ended December 31, 2023 total amortization out of AOCI for the net unrealized losses on securities transferred from AFS to HTM was \$ 251 thousand. In addition for these securities, the balance of the net unrealized losses retained in AOCI was \$ 9.5 million at December 31, 2023.

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Gains and losses on the sale of securities are recorded on the trade date and are determined on the identified basis. The following table presents the proceeds, realized gross gains and realized gross losses on sales and calls of AFS debt securities for the three and nine months ended September 30, 2024 and 2023 (in thousands):

Available-for-sale:	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Proceeds from sale and call of securities	\$ -	\$ 6,792	\$ 34,753	\$ 15,409
Gross gains	\$ -	\$ -	\$ 195	\$ 3
Gross losses	-	(955)	(181)	(979)
Net realized gain (loss)	\$ -	\$ (955)	\$ 14	\$ (976)

The amortized cost and fair value of investment securities, by contractual maturity, are shown below as of the indicated (in thousands). Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
September 30, 2024:				
Due within one year	\$ -	\$ -	\$ -	\$ -
Over one year through five years	1,000	1,006	9,266	8,881
Over five years through ten years	42,975	38,294	-	-
Over ten years	5,242	4,205	-	-
U.S. Government Agency	11,916	10,733	42,909	38,965
Collateralized mortgage	104,228	84,194	58,345	52,403
Mortgage-backed securities - residential	60,390	50,762	41,173	38,313
Mortgage-backed securities - commercial	75,263	70,333	15,316	14,563
	<u>\$ 301,014</u>	<u>\$ 259,527</u>	<u>\$ 167,009</u>	<u>\$ 153,125</u>

At September 30, 2024, there were no securities held in the portfolio from any one issuer in an amount greater than 10% of the total stockholders' equity other than the U.S. Government and Government Agency securities. All the collateralized mortgage obligations and mortgage-backed securities at September 30, 2024 and December 31, 2023 were issued by U.S. sponsored entities.

Information pertaining to investment securities with gross unrealized losses, aggregated by investment category and length of time that those individual securities have been in a continuous loss position, are presented as of the following (in thousands):

	September 30, 2024					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agency	\$ 796	\$ (2)	\$ 47,141	\$ (6,302)	\$ 47,937	\$ (6,304)
Collateralized mortgage	1,854	(1)	130,104	(30,448)	131,958	(30,449)
Mortgage-backed securities - residential	-	-	82,457	(15,097)	82,457	(15,097)
Mortgage-backed securities - commercial	15,347	(173)	39,657	(7,672)	55,004	(7,845)
Municipal securities	-	-	20,425	(4,520)	20,425	(4,520)
Bank subordinated debt	3,062	(131)	14,605	(1,254)	17,667	(1,385)
Corporate bonds	-	-	8,881	(170)	8,881	(170)
	<u>\$ 21,059</u>	<u>\$ (307)</u>	<u>\$ 343,270</u>	<u>\$ (65,463)</u>	<u>\$ 364,329</u>	<u>\$ (65,770)</u>

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	December 31, 2023					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Agency	\$ -	\$ -	\$ 46,479	\$ (8,043)	\$ 46,479	\$ (8,043)
Collateralized mortgage obligations	-	-	135,358	(35,566)	135,358	(35,566)
Mortgage-backed securities - residential	5,290	(47)	83,484	(18,365)	88,774	(18,412)
Mortgage-backed securities - commercial	20,292	(611)	33,083	(8,623)	53,375	(9,234)
Municipal securities	-	-	19,338	(5,667)	19,338	(5,667)
Bank subordinated debt	8,600	(331)	12,287	(1,703)	20,887	(2,034)
Corporate bonds	-	-	8,671	(406)	8,671	(406)
	<u>\$ 34,182</u>	<u>\$ (989)</u>	<u>\$ 338,700</u>	<u>\$ (78,373)</u>	<u>\$ 372,882</u>	<u>\$ (79,362)</u>

The unrealized losses associated with \$11.9 million of outstanding investment securities transferred from the portfolio to the HTM portfolio represent unrealized losses since the date of purchase, independent of the impact associated with changes in the cost basis of the securities upon transfer between portfolios.

When evaluating AFS debt securities under ASC Topic 326, the Company has evaluated whether the decline in value is attributable to credit losses or other factors like interest rate risk, using both quantitative and qualitative analyses, including company performance analysis, review of credit ratings, bond vintage, remaining payment terms, prepayment analysis of macro-economic conditions. Each investment is expected to recover its price depreciation over its holding period as it moves to maturity and the Company has the intent and ability to hold these securities to maturity. As a result of this evaluation, the Company concluded that no allowance was required on AFS securities as of September 30, 2024.

At September 30, 2024, the Company had \$6.0 million of unrealized losses on mortgage-backed securities collateralized mortgage obligations of U.S. government-sponsored entities having a fair value of \$10.6 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase.

At December 31, 2023, the Company had \$4.9 million of unrealized losses on mortgage-backed securities collateralized mortgage obligations of U.S. government-sponsored entities having a fair value of \$14.1 million that were attributable to a combination of factors, including relative changes in interest rates since the time of purchase.

The contractual cash flows for these securities are guaranteed by U.S. government agencies and U.S. government entities. The municipal bonds are of high credit quality and the declines in fair value are not due to credit quality. Based on the assessment of these mitigating factors, management believed that the unrealized losses on these holdings are a function of changes in investment spreads and interest rate movements and not changes in credit quality. Management expects to recover the entire amortized cost basis of these securities.

At September 30, 2024, the Company did not intend to sell debt securities that are in an unrealized loss position and it is more than likely not required to sell these securities before recovery of the amortized cost basis.

The Bank is a Qualified Public Depository ("QPD") with the State of Florida. As a QPD, the Bank has the legal authority to maintain public deposits from cities, municipalities, and the State of Florida. These public deposits are securities pledged to the State of Florida at a ratio of 100% of the outstanding uninsured deposits at September 30, 2024 and 25% at December 31, 2023. The Bank must also maintain a minimum amount of pledged securities to be in the public funds program.

As of September 30, 2024, the Bank had a total of \$14.5 million in deposits under the public funds program pledged to the State of Florida for these public funds were fifty-one bonds with an aggregate fair value of \$ 69.7 million.

As of December 31, 2023, the Bank had a total of \$68.4 million in deposits under the public funds program and pledged to the State of Florida for these public funds were twenty-eight bonds with an aggregate fair value of \$ 86.9 million.

The Board of Governors of the Federal Reserve System, on March 12, 2023, announced the creation of a new Term Asset Funding Program ("BTFP"). The BTFP offered loans of up to one year in length to banks, savings associations, credit unions, and other eligible depository institutions pledging U.S. Treasuries, U.S. agency debt and mortgage-backed securities, and other qualifying assets as collateral. The BTFP program ceased making new loans as of March 2024.

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The Company paid off \$0 million in borrowings under the BTFP program during the third quarter 2024. The original maturity of this borrowing under the BTFP program was January 2025, and there are no remaining borrowings under this program.

3. LOANS

The following table is a summary of the distribution of loans held for investment by type (in thousands):

	September 30, 2024		December 31, 2023	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	\$ 283,477	14.7 %	\$ 204,419	11.5 %
Commercial Real Estate	1,095,112	56.8 %	1,047,593	58.8 %
Commercial and Industrial	246,539	12.8 %	219,757	12.4 %
Correspondent	103,815	5.4 %	114,945	6.5 %
Banker and Other	198,604	10.3 %	191,930	10.8 %
Total gross loans	1,927,547	100.0 %	1,778,644	100.0 %
Plus: Deferred fees/costs	3,815		2,183	
Total loans net of deferred fees/costs	1,931,362		1,780,827	
Less: Allowance for credit losses	23,067		21,084	
Total net loans	\$ 1,908,295		\$ 1,759,743	

At September 30, 2024 and December 31, 2023, the Company had \$535.7 million and \$ 534.2 million, respectively, of commercial real estate and residential mortgage loans pledged as collateral for lines of credit with the FHLB and the Federal Reserve Bank of Atlanta.

Allowance for Credit Losses

In general, the Company utilizes the Discounted Cash Flow ("DCF") method or the Remaining Life method ("RLM") to estimate the quantitative portion of the ACL for loan pools. The DCF method uses a loss driver analysis and discounted cash flow analyses. Management engaged advisors and consultants with expertise in CECL model development to assist in development of a LDA based on regression models and supportable forecast. Peer group data obtained from FFIEC Call Report filings is used to inform regression analyses to quantify the impact of reasonable supportable forecasts in projective models. Economic forecasts applied to regression models to estimate probability of default in receivables use at least one of the following economic indicators: civilian unemployment rate (national), real gross domestic product growth (national GDP) or the House Price Index ("HPI"). For each of the segments in which the RLM methodology is used, the long-term average loss rate is calculated and applied on a quarterly basis for the remaining life of the pool. Adjustments for economic expectations are made through qualitative factors.

Qualitative factors ("Q-Factors") used in the ACL methodology include:

- Changes in lending policies, procedures, and strategies
- Changes in international, national, regional, and local conditions
- Changes in nature and volume of portfolio
- Changes in the volume and severity of past due loans and other similar conditions
- Concentration risk
- Changes in the value of underlying collateral
- The effect of other external factors: e.g., competition, legal, and regulatory requirements
- Changes in lending management, among others

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Changes in the ACL for the three and nine months ended September 30, 2024 and 2023 were as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Correspondent Banks	Consumer and Other	Total
Three Months Ended September 30, 2024						
Beginning balance	\$ 3,193	\$ 10,272	\$ 4,747	\$ 892	\$ 3,126	\$ 22,230
Provision for credit losses ⁽¹⁾	760	(86)	(96)	(69)	322	831
Reverses	2	-	10	-	1	13
Charge-offs	-	-	-	-	(7)	(7)
Ending Balance	<u>\$ 3,955</u>	<u>\$ 10,186</u>	<u>\$ 4,661</u>	<u>\$ 823</u>	<u>\$ 3,442</u>	<u>\$ 23,067</u>
Nine Months Ended September 30, 2024						
Beginning balance	\$ 2,695	\$ 10,366	\$ 3,974	\$ 911	\$ 3,138	\$ 21,084
Provision for credit losses ⁽²⁾	1,252	(180)	666	(88)	318	1,968
Reverses	8	-	21	-	3	32
Charge-offs	-	-	-	-	(17)	(17)
Ending Balance	<u>\$ 3,955</u>	<u>\$ 10,186</u>	<u>\$ 4,661</u>	<u>\$ 823</u>	<u>\$ 3,442</u>	<u>\$ 23,067</u>

(1) Provision for credit losses excludes a 101 thousand charge due to unfunded commitments included in other liabilities and a 1 thousand release related to investment securities held to maturity.

(2) Provision for credit losses excludes a 159 thousand charge due to unfunded commitments included in other liabilities.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Correspondent Banks	Consumer and Other	Total
Three Months Ended September 30, 2023						
Beginning balance	\$ 2,673	\$ 10,183	\$ 2,500	\$ 677	\$ 2,782	\$ 18,815
Provision for credit losses ⁽¹⁾	(162)	(84)	738	73	108	673
Reverses	-	-	8	-	-	8
Charge-offs	-	-	-	-	(3)	(3)
Ending Balance	<u>\$ 2,511</u>	<u>\$ 10,099</u>	<u>\$ 3,246</u>	<u>\$ 750</u>	<u>\$ 2,887</u>	<u>\$ 19,493</u>
Nine Months Ended September 30, 2023						
Beginning balance	\$ 1,352	\$ 10,143	\$ 4,163	\$ 720	\$ 1,109	\$ 17,487
Cumulative effect of adoption of accounting ⁽²⁾	1,238	1,105	(2,158)	23	858	1,066
Provision for credit losses ⁽³⁾	(89)	(1,149)	1,181	7	965	915
Reverses	10	-	60	-	3	73
Charge-offs	-	-	-	-	(48)	(48)
Ending Balance	<u>\$ 2,511</u>	<u>\$ 10,099</u>	<u>\$ 3,246</u>	<u>\$ 750</u>	<u>\$ 2,887</u>	<u>\$ 19,493</u>

(1) Provision for credit losses excludes a 17 thousand release due to unfunded commitments included in other liabilities and 3 thousand expense related to investment securities held to maturity.

(2) Impact of CECL adoption on January 1, 2023.

(3) Provision for credit losses excludes a 39 thousand release due to unfunded commitments included in other liabilities and 16 thousand expense related to investment securities held to maturity.

At September 30, 2024, the ACL was \$23.1 million compared to \$21.1 million at December 31, 2023. The increase of \$2.0 million in the ACL was due to loan growth.

Charge-offs for the three months ended September 30, 2024 totaled 7 thousand and were all originated in 2024. Charge-offs for the nine months ended September 30, 2024 totaled \$ 17 thousand and were all originated in 2024.

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The Company had charge offs totaling \$3 thousand for the quarter ended September 30, 2023 related to loans originated in 2023. The Company had charge offs totaling \$8 thousand for the nine months ended September 30, 2023 related to loans. \$27 thousand was related to loans originated in 2023 and \$21 thousand of charge offs was related to loans originated in 2015.

The Federal Open Market Committee ("FOMC") economic forecasts as of September 30, 2024, showed determination in unemployment and a slight improvement forecast for real GDP. Fannie Mae HPI forecast reflected moderate improvement in national housing prices over the next four quarters. The Company continued to adjust the HPI index effect on 1-4 Family loan portfolio with a qualitative factor because Florida housing prices are performing better than national. The Q-factor scorecard was updated based on the latest portfolio stress test and the resulting calculation loss.

Our ACL included residential loans. To assess the potential impact of changes in qualitative factors related to loans, management performed a sensitivity analysis. The Company evaluated the impact of the HPI used in calculating losses on the residential loan segment. As of September 30, 2024, for every 100 basis points increase in the HPI index, the forecast reduces reserves by approximately \$244 thousand and about 1 basis point to the reserve coverage ratio, everything else being constant. This sensitivity analysis provides a hypothetical result to assess the sensitivity of the ACL and does not represent a change in management's judgement.

As of September 30, 2024, we stress tested two qualitative factors in our commercial real estate loan pool, as its largest segment in our portfolio. We evaluated the impact of a change in the qualitative factors from no risk to loss to measure the sensitivity of the qualitative factors. The change from no risk to high risk resulted in \$6.4 million or 29.3% increase in ACL. This sensitivity analysis provides a hypothetical result to assess the sensitivity of the ACL and does not represent a change in management's judgement.

The ACL and the outstanding balances in the specified loan categories as of September 30, 2024 and December 31, 2023 are as follows (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Correspondent Banks	Consumer and Other	Total
September 30, 2024:						
Allowance for credit losses:						
Individually evaluated	\$ 43	\$ -	\$ 38	\$ -	\$ 17	\$ 98
Collectively evaluated	3,912	10,186	4,623	823	3,425	22,969
Balances, end of period	<u>\$ 3,955</u>	<u>\$ 10,186</u>	<u>\$ 4,661</u>	<u>\$ 823</u>	<u>\$ 3,442</u>	<u>\$ 23,067</u>
Loans:						
Individually evaluated	\$ 6,848	\$ -	\$ 719	\$ -	\$ 1,990	\$ 9,557
Collectively evaluated	276,629	1,095,112	245,820	103,815	196,614	1,917,990
Balances, end of period	<u>\$ 283,477</u>	<u>\$ 1,095,112</u>	<u>\$ 246,539</u>	<u>\$ 103,815</u>	<u>\$ 198,604</u>	<u>\$ 1,927,547</u>
December 31, 2023:						
Allowance for credit losses:						
Individually evaluated	\$ 145	\$ -	\$ 128	\$ -	\$ -	\$ 273
Collectively evaluated	2,550	10,366	3,846	911	3,138	20,811
Balances, end of period	<u>\$ 2,695</u>	<u>\$ 10,366</u>	<u>\$ 3,974</u>	<u>\$ 911</u>	<u>\$ 3,138</u>	<u>\$ 21,084</u>
Loans:						
Individually evaluated	\$ 6,994	\$ -	\$ 1,668	\$ -	\$ -	\$ 8,662
Collectively evaluated	197,425	1,047,593	218,089	114,945	191,930	1,769,982
Balances, end of period	<u>\$ 204,419</u>	<u>\$ 1,047,593</u>	<u>\$ 219,757</u>	<u>\$ 114,945</u>	<u>\$ 191,930</u>	<u>\$ 1,778,644</u>

Credit Quality Indicators

The Company grades loans based on the estimated capability of the borrower to repay the contractual obligation of the loan agreement based on relevant information which may include: current financial information on the borrower, historical

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payment experience, credit documentation and other current economic trends. Internal credit risk grades are periodically.

The Company's internally assigned credit risk grades are as follows:

Pass – Loans indicate different levels of satisfactory financial condition and performance.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligator or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified at substandard, with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible.

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Loan credit exposures by internally assigned grades are presented below for the periods indicated (in thousands):

As of September 30,								
2024								
Term Loans by Origination								
Year								
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Residential real estate								
Pass	\$ 96,900	\$ 40,187	\$ 34,454	\$ 23,930	\$ 5,823	\$ 71,867	\$ 9,748	\$ 282,909
Substandard	-	-	-	-	-	568	-	568
Total	96,900	40,187	34,454	23,930	5,823	72,435	9,748	283,477
Commercial real estate								
Pass	116,130	132,831	323,299	177,281	99,368	239,803	3,936	1,092,648
Substandard	-	-	-	1,776	688	-	-	2,464
Total	116,130	132,831	323,299	179,057	100,056	239,803	3,936	1,095,112
Commercial and industrial								
Pass	46,599	91,611	35,031	30,950	4,469	12,494	23,466	244,620
Substandard	-	-	-	536	-	1,146	237	1,919
Total	46,599	91,611	35,031	31,486	4,469	13,640	23,703	246,539
Correspondent banks								
Pass	100,865	2,950	-	-	-	-	-	103,815
Total	100,865	2,950	-	-	-	-	-	103,815
Consumer and lines								
Pass	34,623	53,815	66,254	37,800	495	1,636	1,990	196,613
Substandard	-	-	1,991	-	-	-	-	1,991
Total	34,623	53,815	68,245	37,800	495	1,636	1,990	198,604
Total Loans								
Pass	395,117	321,394	459,038	269,961	110,155	325,800	39,140	1,920,605
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	1,991	2,312	688	1,714	237	6,942
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 395,117	\$ 321,394	\$ 461,029	\$ 272,273	\$ 110,843	\$ 327,514	\$ 39,377	\$ 1,927,547

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As of December 31, 2023								
Term Loans by Origination								
	Year							
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
Residential real estate								
Pass	\$ 44,365	\$ 36,325	\$ 26,180	\$ 6,080	\$ 9,325	\$ 75,654	\$ 6,198	\$ 204,127
Substandard	-	-	-	-	292	-	-	292
Total	44,365	36,325	26,180	6,080	9,617	75,654	6,198	204,419
Commercial real estate								
Pass	148,311	337,938	184,024	104,182	78,153	182,714	4,710	1,040,032
Substandard	-	-	6,867	694	-	-	-	7,561
Total	148,311	337,938	190,891	104,876	78,153	182,714	4,710	1,047,593
Commercial and industrial								
Pass	97,753	37,414	34,090	6,499	13,706	3,113	25,554	218,129
Substandard	-	-	330	-	1,298	-	-	1,628
Total	97,753	37,414	34,420	6,499	15,004	3,113	25,554	219,757
Correspondent banks								
Pass	114,945	-	-	-	-	-	-	114,945
Total	114,945	-	-	-	-	-	-	114,945
Consumer and								
loans								
Pass	71,593	74,387	41,966	615	560	1,337	1,472	191,930
Total	71,593	74,387	41,966	615	560	1,337	1,472	191,930
Total Loans								
Pass	476,967	486,064	286,260	117,376	101,744	262,818	37,934	1,769,163
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	7,197	694	1,590	-	-	9,481
Doubtful	-	-	-	-	-	-	-	-
Total	\$ 476,967	\$ 486,064	\$ 293,457	\$ 118,070	\$ 103,334	\$ 262,818	\$ 37,934	\$ 1,778,644

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Loan Aging

The Company also considers the performance of loans in grading and in evaluating the credit quality of the loan portfolio. The Company analyzes credit quality and loan grades based on payment performance and the aging status of the loan. The following tables include an aging analysis of accruing loans and total non-accruing loans as of September 30, 2024 and December 31, 2023 (in thousands):

	Accruing					
As of September 30, 2024	Current	Past Due 30-89 Days	Past Due 90 Days or > and Still Accruing	Total Accruing	Non-Accrual	Total Loans
Residential real estate:						
Home equity line of credit and other	\$ 843	\$ -	\$ -	\$ 843	\$ -	\$ 843
Multi-family residential	229,797	4,017	-	233,814	-	233,814
Condo residential	48,506	-	-	48,506	314	48,820
	279,146	4,017	-	283,163	314	283,477
Commercial real estate:						
Land and construction	38,342	-	-	38,342	-	38,342
Multi-family residential	204,298	-	-	204,298	-	204,298
Condo	56,921	-	-	56,921	-	56,921
Commercial property	795,551	-	-	795,551	-	795,551
Leasehold improvements	-	-	-	-	-	-
	1,095,112	-	-	1,095,112	-	1,095,112
Commercial and industrial	230,202	-	-	230,202	420	230,622
Unsecured	15,917	-	-	15,917	-	15,917
	246,119	-	-	246,119	420	246,539
Correspondent banks	103,815	-	-	103,815	-	103,815
Consumer and other	196,613	-	-	196,613	1,991	198,604
Total	\$ 1,920,805	\$ 4,017	\$ -	\$ 1,924,822	\$ 2,725	\$ 1,927,547

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As of December 31,	Accruing					Non-Accrual	Total Loans
	Current	Past Due 30-89 Days	Past Due 90 Days or > and Still Accruing	Total Accruing			
Residential real estate:							
Home equity line of credit and other	\$ 559	\$ -	\$ -	\$ 559	\$ -	\$ -	\$ 559
Multi-family residential	155,842	711	-	156,553	-	-	156,553
Commercial	43,572	3,735	-	47,307	-	-	47,307
	199,973	4,446	-	204,419	-	-	204,419
Commercial real estate:							
Land and construction	33,710	-	-	33,710	-	-	33,710
Multi-family residential	181,287	-	-	181,287	-	-	181,287
Condo	58,106	-	-	58,106	-	-	58,106
Commercial property	772,569	1,890	-	774,459	-	-	774,459
Leasehold improvements	31	-	-	31	-	-	31
	1,045,703	1,890	-	1,047,593	-	-	1,047,593
Commercial and industrial	200,235	29	-	200,264	468	-	200,732
Unsecured	19,025	-	-	19,025	-	-	19,025
	219,260	29	-	219,289	468	-	219,757
Correspondent banks	114,945	-	-	114,945	-	-	114,945
Consumer and other	191,930	-	-	191,930	-	-	191,930
Total	\$ 1,771,811	\$ 6,365	\$ -	\$ 1,778,176	\$ 468	\$ -	\$ 1,778,644

Non-accrual Status

The following table includes the amortized cost basis of loans on non-accrual status and loans past due over 90 days and still accruing as of September 30, 2024 and as of December 31, 2023 (in thousands):

	September 30, 2024			
	Nonaccrual Loans With No Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Due 90 Days and Still Accruing
Residential real estate	\$ 314	\$ -	\$ 314	\$ -
Commercial and industrial	-	420	420	-
Consumer and other	-	1,991	1,991	-
Total	\$ 314	\$ 2,411	\$ 2,725	\$ -

	December 31, 2023			
	Nonaccrual Loans With No Allowance	Nonaccrual Loans With Related Allowance	Total Nonaccruals	Loans Past Due 90 Days and Still Accruing
Commercial and industrial	\$ -	\$ 468	\$ 468	\$ -
Total	\$ -	\$ 468	\$ 468	\$ -

Accrued interest receivable is excluded from the estimate of credit losses. There was no interest income recognized attributable to non-accrual loans outstanding during the three months ended September 30, 2024 and 2023. Interest income on these loans for the three months ended September 30, 2024 and 2023, would have been approximately \$24 thousand and \$12 thousand, respectively, had these loans performed in accordance with their original terms. Interest income on these

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loans for the nine months ended September 30, 2024 and 2023, would have been approximately \$4 thousand and \$28 thousand, respectively, had these loans performed in accordance with their original terms.

Collateral-Dependent Loans

A loan is collateral dependent when the borrower is experiencing financial difficulty and repayment of the loan is to be provided substantially through the sale or operation of the collateral. There were no collateral dependent loans as of September 30, 2024, or as of December 31, 2023.

Loan Modifications to Borrowers Experiencing Financial Difficulties

The following table presents newly restructured loans, by type of modification, which occurred during the nine months ended September 30, 2024 (in thousands):

	Recorded Investment Prior to			Recorded Investment After		
	Number of Loans	Modification	Combination Modifications	Number of Loans	Modification	Combination Modifications
Commercial and industrial	1	\$	468	1	\$	468
Total	1	\$	468	1	\$	468

The Company had no new modifications to borrowers experiencing financial difficulties for the three months ended September 30, 2024 and one new modification for the nine months ended September 30, 2024. There were no existing loan modifications that subsequently defaulted during the three months and nine months ended September 30, 2024. The Company had no new modification to borrowers experiencing financial difficulties for the three and nine months ended September 30, 2023. There were no existing loan modifications that subsequently defaulted for the three and nine months ended September 30, 2023.

4. INCOME TAXES

The Company's provision for income taxes is presented in the following table for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2024	2023
Current:		
Federal	\$ -	\$ -
State	-	-
Total current	-	-
Deferred:		
Federal	4,384	3,510
State	1,222	954
Total deferred	5,606	4,464
Total tax expense	\$ 5,606	\$ 4,464

The actual income tax expense for the nine months ended September 30, 2024 and 2023 differs from the statutory tax expense for the periods (computed by applying the U.S. federal corporate tax rate of 21% for both 2024 and 2023 periods to income before provision for income taxes) as follows (in thousands):

	Nine Months Ended September 30,	
	2024	2023
Federal taxes at statutory rate	\$ 4,909	\$ 3,840
State income taxes, net of federal tax benefit	1,016	795
Bank owned life insurance	(319)	(171)
Deferred tax expense	-	-
Total tax expense	\$ 5,606	\$ 4,464

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The Company's deferred tax assets and deferred tax liabilities as of the dates indicated were (in thousands):

	September 30, 2024	December 31, 2023
Deferred tax assets		
State net operating loss carryforwards	\$ 10,562	\$ 16,430
Allowance for credit losses	5,912	5,410
Leases liability	2,330	2,895
Unrealized losses on available for sale	12,881	15,114
Depreciable property	149	203
Equity compensation	906	630
Accruals	417	382
Other, net	61	10
Deferred tax assets:	33,218	41,074
Deferred tax liabilities		
Interest on loan cost	(967)	(553)
Lease right of use	(2,330)	(2,895)
Deferred	(298)	(180)
Expenses	(5)	(85)
Debt net	(78)	(79)
Deferred tax liabilities:	(3,678)	(3,792)
Net deferred tax assets	\$ 29,540	\$ 37,282

The Company has approximately \$37.8 million of federal and \$60.5 million of state net operating loss carryforwards expiring in various amounts between 2031 and 2036 and which are limited to offset, to the extent permitted, future taxable earnings of the Company.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment.

The major tax jurisdictions where the Company files income tax returns are the U.S. federal jurisdiction and the State of Florida. With few exceptions, the Company is no longer subject to U.S. federal and state income tax return examinations by tax authorities for years before 2020.

For the three months and nine months ended September 30, 2024 and 2023, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. Additionally, no interest or penalties were recorded as a result of tax uncertainties.

5. OFF-BALANCE SHEET ARRANGEMENTS

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business in order to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include unfunded commitments under lines of credit, commitments to extend credit, standby and commercial letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Company's Consolidated Balance Sheets. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for unused lines of credit, and standby letters of credit is represented by the contractual amount of these commitments.

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A summary of the amounts of the Company's financial instruments with off-balance sheet risk are shown September 30, 2024 and December 31, 2023 (in thousands):

	September 30, 2024	December 31, 2023
Commitments to grant loans and unfunded lines of credit	\$ 104,851	\$ 85,117
Standby and commercial letters of credit	4,507	3,987
Total	\$ 109,358	\$ 89,104

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any established condition in the contract. Commitments generally have fixed expiration dates or other termination clauses.

Unfunded lines of credit and revolving credit lines are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Company committed.

Standby and commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit have fixed maturity dates and since many of them expire without being drawn upon, they do not generally present a significant liquidity risk to the Company.

6. DERIVATIVES

The Company utilizes interest rate swap agreements as part of its asset-liability management strategy to help manage its interest rate risk exposure. The notional amount of the interest rate swaps does not represent actual amounts exchanged by the parties. The amounts exchanged are determined by reference to the notional amount and the other terms of the individual interest rate swap agreements.

Interest Rate Swaps Designated as a Cash Flow Hedge

As of September 30, 2024, the Company had two interest rate swap agreements with a notional aggregate amount of \$50 million that were designated as cash flow hedges of certificates of deposit. The interest rate swap agreements have an average maturity of 1.63 years, a weighted average fixed-rate paid of 5.59%, and with a weighted average 3-month compound SOFR being received.

As of December 31, 2023, the Company had two interest rate swap agreements with a notional aggregate amount of \$50 million that were designated as cash flow hedges of certificates of deposit. The interest rate swap agreements have an average maturity of 2.38 years, a weighted average fixed-rate paid of 5.59%, and with a weighted average 3-month compound SOFR being received.

The changes in fair value on these interest rate swaps are recorded in other assets or other liabilities corresponding recognition in other comprehensive income (loss) and subsequently reclassified to earnings when gains or losses are realized.

Interest Rate Swaps Designated as Fair Value Hedge

During the quarter ended September 30, 2024, the Company unwound four fair value interest rate swaps with a notional aggregate amount of \$200 million. The decision to unwind these swaps was driven by changes in interest rate and asset-liability management strategies. The early termination fee to unwind the fair value swaps totaled \$ 3.7 million. The termination fees allocated to each loan category will be amortized over the remaining life of the hedge loans on a straight-line basis with full recognition of the unamortized cost upon the early payoff of the hedge loan. The amortization of the termination fee is reflected in the loan interest income line in the statement of operations. The original maturities of these fair value interest swaps were between 2025 and 2026. The fair value interest rate swap agreements had an average maturity of 1.51 years at the date of termination.

Interest Rate Swaps

The Company enters into interest rate swaps with its loan customers. The Company had 39 and 20 interest rate swaps with loan customers with an aggregate notional amount of \$4.8 million and \$6.5 million at September 30, 2024 and December 31, 2023, respectively. At September 30, 2024, these interest rate swaps mature between 2025 and 2051. The

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Company entered into corresponding and offsetting derivatives with third parties. The fair value of liability on derivatives requires the Company to provide the counterparty with funds to be held as collateral which the Company reports as other assets under the Consolidated Balance Sheets. While these derivatives represent economic hedges, they do not qualify as hedges for accounting purposes.

The following table reflects the Company's interest rate swaps at the dates indicated (in thousands):

				Fair Value	
	Notional Amount	Collateral Amount	Balance Sheet Location	Asset	Liability
September 30, 2024:					
Derivatives designated as cash flow hedges:					
Interest rate swaps	\$ 50,000	\$ -	Other assets	\$ 18	\$ -
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	\$ 143,801	\$ 4,886	Other assets/Other liabilities	\$ 7,695	\$ 7,695
December 31, 2023:					
Derivatives designated as cash flow hedges:					
Interest rate swaps	\$ 50,000	\$ -	Other assets	\$ 334	\$ -
Derivatives designated as fair value hedges:					
Interest rate swaps	\$ 200,000	\$ -	Other liabilities	\$ -	\$ 3,430
Derivatives not designated as hedging instruments:					
Interest rate swaps related to customer loans	\$ 46,463	\$ 1,326	Other assets/Other liabilities	\$ 4,558	\$ 4,558

7. FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Company uses fair value measurements to record fair-value adjustments to certain assets and liabilities and determine fair value disclosures. In accordance with the fair value measurements accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or

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liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments that are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Items Measured at Fair Value on a Recurring Basis

AFS investment securities: When instruments are traded in secondary markets and quoted market prices do not exist for such securities, management generally relies on prices obtained from independent vendors or third-party broker-dealers. Management reviews pricing methodologies provided by the vendors and third-party broker-dealers in order to determine if observable market information is being utilized. Securities measured with pricing provided by independent vendors or third-party broker-dealers are classified within Level 2 of the hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses utilizing inputs observable in the market where available.

Derivatives: The fair value of derivatives are measured with pricing provided by third-party participants classified within Level 2 of the hierarchy.

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2024 and December 31, 2023 for each of the fair value hierarchy levels (in thousands):

	September 30, 2024				December 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Investment securities available for sale:								
U.S. Government Agency	\$ -	\$ 10,733	\$ -	\$ 10,733	\$ -	\$ 8,173	\$ -	\$ 8,173
Collateralized mortgage	-	84,194	-	84,194	-	80,606	-	80,606
Mortgage-backed securities - residential	-	50,762	-	50,762	-	52,187	-	52,187
Mortgage-backed securities - commercial	-	70,333	-	70,333	-	42,764	-	42,764
Municipal securities	-	20,425	-	20,425	-	19,338	-	19,338
Bank subordinated debt	-	23,080	-	23,080	-	26,261	-	26,261
Total investment securities	-	259,527	-	259,527	-	229,329	-	229,329
Derivative assets	-	7,713	-	7,713	-	4,892	-	4,892
Total assets at fair value	\$ -	\$ 267,240	\$ -	\$ 267,240	\$ -	\$ 234,221	\$ -	\$ 234,221
Derivative liabilities	\$ -	\$ 7,695	\$ -	\$ 7,695	\$ -	\$ 7,988	\$ -	\$ 7,988
Total liabilities at fair value	\$ -	\$ 7,695	\$ -	\$ 7,695	\$ -	\$ 7,988	\$ -	\$ 7,988

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Items Not Measured at Fair Value

The following table presents the carrying amounts and estimated fair values of financial instruments not carried at fair value as of September 30, 2024 and December 31, 2023 (in thousands):

	Carrying Amount	Fair Value Hierarchy			Fair Value Amount
		Level 1	Level 2	Level 3	
September 30, 2024:					
Financial Assets:					
Cash and due from banks	\$ 7,084	\$ 7,084	\$ -	\$ -	\$ 7,084
Interest-bearing deposits in banks	\$ 31,402	\$ 31,402	\$ -	\$ -	\$ 31,402
Investment securities held to maturity, net	\$ 167,001	\$ -	\$ 153,125	\$ -	\$ 153,125
Loans held for investment,	\$ 1,908,295	\$ -	\$ -	\$ 1,924,884	\$ 1,924,884
Accrued interest receivable	\$ 10,765	\$ -	\$ 1,536	\$ 9,229	\$ 10,765
Financial Liabilities:					
Demand deposits	\$ 637,313	\$ 637,313	\$ -	\$ -	\$ 637,313
Money market and savings accounts	\$ 1,091,029	\$ 1,091,029	\$ -	\$ -	\$ 1,091,029
Interest-bearing checking	\$ 64,333	\$ 64,333	\$ -	\$ -	\$ 64,333
Time deposits	\$ 333,942	\$ -	\$ -	\$ 333,659	\$ 333,659
FHLB advances and other borrowings	\$ 118,000	\$ -	\$ 118,193	\$ -	\$ 118,193
Accrued interest payable	\$ 1,802	\$ -	\$ 537	\$ 1,265	\$ 1,802
December 31, 2023:					
Financial Assets:					
Cash and due from banks	\$ 8,019	\$ 8,019	\$ -	\$ -	\$ 8,019
Interest-bearing deposits in banks	\$ 33,043	\$ 33,043	\$ -	\$ -	\$ 33,043
Investment securities held to maturity	\$ 174,974	\$ -	\$ 155,510	\$ -	\$ 155,510
Loans held for investment,	\$ 1,759,743	\$ -	\$ -	\$ 1,723,210	\$ 1,723,210
Accrued interest receivable	\$ 10,688	\$ -	\$ 1,448	\$ 9,240	\$ 10,688
Financial Liabilities:					
Demand deposits	\$ 552,762	\$ 552,762	\$ -	\$ -	\$ 552,762
Money market and savings accounts	\$ 1,048,272	\$ 1,048,272	\$ -	\$ -	\$ 1,048,272
Interest-bearing checking	\$ 47,702	\$ 47,702	\$ -	\$ -	\$ 47,702
Time deposits	\$ 288,403	\$ -	\$ -	\$ 287,104	\$ 287,104
FHLB advances	\$ 183,000	\$ -	\$ 182,282	\$ -	\$ 182,282
Accrued interest payable	\$ 1,372	\$ -	\$ 551	\$ 821	\$ 1,372

8. STOCKHOLDERS' EQUITY

Common Stock

In July 2021, the Bank completed the initial public offering of its Class A common stock, in which it issued and 4,606,000 shares of Class A common stock at a price of \$10.00 per share. The Bank received total net proceeds of \$40.0 million after deducting underwriting discounts and expenses.

In December 2021, the Company acquired all the issued and outstanding shares of the Class A common stock of the Bank, which at the time were the only issued and outstanding shares of the Bank's capital stock, in a share exchange (the "Reorganization") effected under the Florida Business Corporation Act. Each outstanding share of the Bank's Class A stock, par value \$1.00 per share, formerly held by its shareholders was converted into and exchanged for one newly issued share of the Company's Class A common stock, par value \$1.00 per share, and the Bank became the Company's wholly owned subsidiary.

In the Reorganization, each shareholder of the Bank received securities of the same class, having substantially same designations, rights, powers, preferences, qualifications, limitations and restrictions, as those that the shareholder held in the Bank, and the Company's then current shareholders owned the same percentages of the Company's common stock as they previously owned of the Bank's common stock.

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During the first quarter 2024, the Company issued 52,753 shares of Class A common stock to employees as restricted stock awards pursuant to the Company's 2015 equity incentive plan. During the first quarter 2023, the Company issued 627 shares of Class A common stock to employees and directors as restricted stock awards pursuant to the Company's 2015 equity incentive plan.

As previously announced, on April 22, 2024, the Board of Directors approved a new share repurchase program of up to 500,000 shares of Class A common stock or approximately 2.5% of the Company's issued and outstanding shares of common stock. Under the repurchase program, the Company may purchase shares of Class A common stock discretionary basis from time to time through open market repurchases, privately negotiated transactions, or other means. The repurchase program has no expiration date and may be modified, suspended, or terminated at any time. The repurchase program will commence upon completion of the Company's current repurchase program. Repurchases under this new program will be funded from the Company's existing cash and cash equivalents or future cash flow.

During the three months ended September 30, 2024, the Company repurchased 10,000 shares of Class A common stock at a weighted average price per share of \$1.99. The aggregate purchase price for these transactions was approximately \$20 thousand, including transaction costs. These repurchases were made pursuant to the publicly announced repurchase programs. As of September 30, 2024, 537,980 shares remained authorized for repurchase under the Company's two stock repurchase programs. During the nine months ended September 30, 2023, the Company repurchased 577,603 shares of Class A common stock at a weighted average price per share of \$7.75. The aggregate purchase price for these transactions was approximately \$ 6.6 million, including transaction costs.

In addition, the Company will provide prior notification to the Federal Reserve prior to effecting proposed repurchases in new share repurchase programs.

Shares of the Company's Class A common stock issued and outstanding as of September 30, 2024 and December 31, 2023 were 19,620,632 and 19,575,435, respectively.

See Note 11, Subsequent Events, for information regarding issuance of Class A common stock to employees in October 2024.

Dividends

Declaration of dividends by the Board is required before dividend payments are made. The Company is limited in the amount of cash dividends that it may pay. Payment of dividends is generally limited to the Company's net income of the current year combined with the Company's retained income for the preceding two years, as defined by state regulations. However, for any dividend declaration, the Company must consider additional factors such as the amount of current period net income, liquidity, asset quality, capital adequacy and economic conditions at the Bank since the Bank is the primary source of funds to fund dividends by the Company. It is likely that these factors would further limit the amount of dividends which the Company could declare. In addition, bank regulators have the authority to prohibit banks and bank holding companies from paying dividends if they deem such payment to be an unsafe or unsound practice.

As of September 30, 2024, the Company was not subject to any formal supervisory restrictions on its ability to pay dividends but will notify the Federal Reserve Bank of Atlanta in advance of any proposed dividend to the stockholders in light of the Bank's negative retained earnings. In addition, under applicable FDIC regulations and policies, because the Bank has negative retained earnings, it must obtain the prior approval of the FDIC before effecting a dividend or other capital distribution.

On January 29, 2024, the Company announced that its Board of Directors approved a quarterly cash dividend program. The quarterly dividend for the first quarter of 2024 was \$0.05 per share of Class A common stock, paid on March 5, 2024, to stockholders of record as of the close of business on February 15, 2024. The aggregate distribution in connection with the first quarter dividend was \$1.0 million. The quarterly dividend for the second quarter was \$0.05 per share of Class A common stock, paid on June 5, 2024, to stockholders of record as of the close of business on May 15, 2024. The aggregate distribution on connection with the second quarter dividend was \$1.0 million. The quarterly dividend for the third quarter was \$0.05 per share of Class A common stock, paid on September 5, 2024, to stockholders of record as of the close of business on August 15, 2024. The aggregate distribution on connection with the second quarter dividend was \$ 1.0 million.

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No dividends were declared by the Board for the stockholders for the three months and nine months ended September 30, 2023.

See Note 11, Subsequent Events, for information regarding dividends declared in October 2024.

The following table details the dividends declared and paid by the Company during the three months and nine months ended September 30, 2024:

Declaration Date	Record Date	Payment Date	Dividend Per Share	Dividend Amount
January 22, 2024	February 15, 2024	March 5, 2024	\$ 0.05	\$ 0.05 million
April 22, 2024	May 15, 2024	June 5, 2024	\$ 0.05	\$ 1.0 million
July 22, 2024	August 15, 2024	September 5, 2024	\$ 0.05	\$ 1.0 million

The Company and the Bank exceeded all regulatory capital requirements and remained above "well-guided" capital as of September 30, 2024 and December 31, 2023. At September 30, 2024, the total risk-based capital ratios for the Bank was 13.14%.

9. EARNINGS PER SHARE

Earnings per share ("EPS") for common stock is calculated using the two-class method required for securities. Basic EPS is calculated by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted EPS is computed by dividing net income (loss) available to common share holders by the weighted -average number of shares outstanding for the period and the weighted-average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, common stock equivalents include common stock options and are only included in the calculation of diluted EPS when their effect is dilutive.

The following table reflects the calculation of net income available to common shareholders for the three months ended September 30, 2024 and 2023 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Income	\$ 6,949	\$ 3,819	\$ 17,770	\$ 13,824
Net income available to common shareholders	\$ 6,949	\$ 3,819	\$ 17,770	\$ 13,824

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The following table reflects the calculation of basic and diluted earnings per common share class for the three and nine months ended September 30, 2024 and 2023 (in thousands, except per share amounts):

	Three Months Ended September 30,	
	2024	2023
	Class A	Class A
Basic EPS		
Numerator:		
Net income available to common shares	\$ 6,949	\$ 3,819
Denominator:		
Weighted average shares	19,621,447	19,542,723
Earnings per share, basic	\$ 0.35	\$ 0.20
Diluted EPS		
Numerator:		
Net income available to common	\$ 6,949	\$ 3,819
Denominator:		
Weighted average shares outstanding for basic	19,621,447	19,542,723
Options Dilutive effects of assumed exercises of stock	203,764	69,174
Weighted avg. shares including dilutive potential common	19,825,211	19,611,897
Earnings per share, diluted	\$ 0.35	\$ 0.19
Anti-dilutive stock options excluded from diluted EPS	-	720,500

Net income has not been allocated to unvested restricted stock awards that are participating securities because the amounts that would be allocated are not material to net income per share of common stock. Unvested restricted stock awards that are participating securities represent less than one percent of the outstanding shares of common stock for each of the periods presented.

	Nine Months Ended September 30,	
	2024	2023
	Class A	Class A
Basic EPS		
Numerator:		
Net income available to common	\$ 17,770	\$ 13,824
Denominator:		
Weighted average shares	19,653,103	19,661,685
Earnings per share, basic	\$ 0.90	\$ 0.70
Diluted EPS		
Numerator:		
Net income available to common	\$ 17,770	\$ 13,824
Denominator:		
Weighted average shares outstanding for basic	19,653,103	19,661,685
Options Dilutive effects of assumed exercises of stock	108,139	67,496
Weighted avg. shares including dilutive potential common	19,761,242	19,729,181
Earnings per share, diluted	\$ 0.90	\$ 0.70
Anti-dilutive stock options excluded from diluted EPS	15,000	720,500

Net income has not been allocated to unvested restricted stock awards that are participating securities because the amounts that would be allocated are not material to net income per share of common stock. Unvested restricted stock awards that are participating securities represent less than one percent of the outstanding shares of common stock for each of the periods presented.

10. LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions may arise in the ordinary course of business. In the opinion of management, none of these actions, either individually or in the aggregate, is expected to have a material adverse effect on the Company's Consolidated Financial Statements.

11. SUBSEQUENT EVENTS

Common Stock

During the month of October 2024, the Company issued 20,000 shares of Class A common stock to employees as restricted stock awards pursuant to the Company's 2015 equity incentive plan. Shares of the Company's Class A common stock issued and outstanding as of October 31, 2024 was 19,840,632.

Dividends

On October 28, 2024, the Company announced that its Board of Directors declared its fourth quarterly cash dividend. The quarterly dividend for the fourth quarter of 2024 was \$0.05 per share of Class A common stock and will be paid on December 5, 2024, to stockholders of record as of the close of business on November 15, 2024.

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

The following discussion and analysis is designed to provide a better understanding of the consolidated financial condition and results of operations of the Company and the Bank, its wholly owned subsidiary, as of and for the three and nine months ended September 30, 2024. This discussion and analysis is best read in conjunction with the consolidated financial statements and related notes included in this Quarterly Report on Form 10-Q ("Form 10-Q") and the audited consolidated financial statements and related notes included in the Annual Report on Form 10-K ("2023 Form 10-K") filed with the Securities and Exchange Commission ("SEC") for the year ended December 31, 2023.

This discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause such differences are discussed in the sections entitled "Forward-Looking Statements" and Item 1A "Risk Factors" below in Part II hereof and in the 2023 Form 10-K filed with the SEC which is available at the SEC's website www.sec.gov.

Throughout this document, references to "we," "us," "our," and "the Company" generally refer to USCB Financial Holdings, Inc.

Forward-Looking Statements

This Form 10 -Q contains statements that are not historical in nature are intended to be, and are hereby identified as, forward-looking statements for purposes of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934, as amended. The words "may," "will," "anticipate," "could," "should," "would," "believe," "contemplate," "expect," "aim," "plan," "estimate," "continue," and "intend," as well as other similar words and expressions of the future, are intended to identify forward-looking statements. These forward-looking statements include statements related to our projected growth, anticipated future financial performance, and management's long-term performance goals, as well as statements relating to the anticipated effects on results of operations and financial condition from expected developments or events, or business and growth strategies, including anticipated internal growth.

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

- the strength of the United States economy in general and the strength of the local economies in which we conduct operations;
- our ability to successfully manage interest rate risk, credit risk, liquidity risk, and other risks inherent to our industry;
- the accuracy of our financial statement estimates and assumptions, including the estimates used for our credit loss reserve and deferred tax asset valuation allowance;
- the efficiency and effectiveness of our internal control procedures and processes;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- adverse changes or conditions in capital and financial markets, including actual or potential stresses in the banking industry;
- deposit attrition and the level of our uninsured deposits;
- legislative or regulatory changes and changes in accounting principles, policies, practices or guidelines, including the on-going effects of the implementation of the Current Expected Credit Losses ("CECL") standard;
- the lack of a significantly diversified loan portfolio and the concentration in the South Florida market, including the risks of geographic, depositor, and industry concentrations, including our concentration in loans secured by real estate, in particular, commercial real estate;
- the effects of climate change;
- the concentration of ownership of our common stock;
- fluctuations in the price of our common stock;
- our ability to fund or access the capital markets at attractive rates and terms and manage our growth, both organic growth as well as growth through other means, such as future acquisitions;
- inflation, interest rate, unemployment rate, market and monetary fluctuations;
- impacts of international hostilities and geopolitical events;
- increased competition and its effect on the pricing of our products and services as well as our interest rate spread and net interest margin;
- the loss of key employees;
- the effectiveness of our risk management strategies, including operational risks, including, but not limited to, client, employee, or third-party fraud and security breaches; and
- other risks described in this Form 10-Q, the 2023 Form 10-K and other filings we make with the SEC.

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All forward-looking statements are necessarily only estimates of future results, and there can be no assurance that actual results will not differ materially from expectations. Therefore, you are cautioned not to place undue reliance on any forward-looking statements. Further, forward-looking statements included in this Form 10-Q are made only as of the date hereof, and we undertake no obligation to update or revise any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events, unless required to do so under the federal securities laws. You should also review the risk factors described in the 2023 Form 10-K and in the reports the Company filed or will file with the SEC.

Overview

The Company reported net income of \$6.9 million or \$0.35 per diluted share of common stock for the three months ended September 30, 2024 compared to \$3.8 million or \$0.19 per diluted share of common stock for the three months ended September 30, 2023.

On October 28, 2024, the Company's Board of Directors declared its fourth quarterly cash dividend of \$0.05 per share of the Company's Class A common stock. The cash dividend will be paid on December 5, 2024 to shareholders of record at the close of business on November 15, 2024. The aggregate amount distributed in connection with the three prior quarterly cash dividends paid in 2024 was \$3.0 million.

10,000 shares of Class A common stock were repurchased at a weighted average price per share of \$11.99 during the third quarter 2024. These repurchases were made pursuant to the Company's publicly announced repurchase programs. As of September 30, 2024, 537,980 shares remained authorized for repurchase under the Company's program.

In evaluating our financial performance, the Company considers the level of and trends in net interest income, the net interest margin, the cost of deposits and borrowings, levels and composition of non-interest income and non-interest expense, performance ratios, asset quality ratios, regulatory capital ratios, and any significant event or transaction.

Unless otherwise stated, all period comparisons in the bullet points below are calculated at or for the quarter ended September 30, 2024 compared to at or for the quarter ended September 30, 2023 and as of September 30, 2024 compared to December 31, 2023, and annualized where appropriate:

- Net interest income for the three months ended September 30, 2024 increased \$4.1 million or 29.1% to \$18.1 million from \$14.0 million for the quarter ended September 30, 2023.
- Net interest margin ("NIM") was 3.03% for the three months ended September 30, 2024 compared to 2.60% for the three months ended September 30, 2023.
- Total assets were \$2.5 billion at September 30, 2024, representing an increase of \$259.4 million or 11.6% from September 30, 2023 and an increase of \$164.9 million or 9.4% annualized from December 31, 2023.
- Total loans were \$1.9 billion at September 30, 2024, representing an increase of \$254.8 million or 15.2% from September 30, 2023 and an increase of \$150.5 million or 11.3% annualized from December 31, 2023.
- Total deposits were \$2.1 billion at September 30, 2024, representing an increase of \$205.7 million or 10.7% from September 30, 2023 and an increase of \$189.5 million or 13.1% annualized from December 31, 2023.
- Annualized return on average assets for the quarter ended September 30, 2024 was 1.11% compared to 0.67% for the quarter ended September 30, 2023.
- Annualized return on average stockholders' equity for the quarter ended September 30, 2024 was 13.38% compared to 8.19% for quarter ended September 30, 2023.
- The ACL to total loans was 1.19% at September 30, 2024 and 1.18% at December 31, 2023.
- Non-performing loans to total loans was 0.14% at September 30, 2024 and 0.03% at December 31, 2023.
- At September 30, 2024, the total risk-based capital ratios for the Company and the Bank were 13.22% and 13.14%, respectively.
- Tangible book value per common share (a non-GAAP measure) was \$10.90 at September 30, 2024, representing an increase of \$0.66 or 25.6% annualized from \$10.24 at June 30, 2024. At September 30, 2024, tangible book value per common share was negatively affected by \$1.94 due to an accumulated comprehensive loss of \$38.0

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million. At June 30, 2024, tangible book value per common share was negatively affected by \$2.28 due to accumulated comprehensive loss of \$44.7 million. See "Reconciliation and Management Explanation for Non-GAAP Financial Measures" included in this Form 10-Q for a reconciliation of this non-GAAP financial measure.

Critical Accounting Policies and Estimates

The consolidated financial statements are prepared based on the application of U.S. GAAP, the most significant which are described in Note 1 "Summary of Significant Accounting Policies" in the Company's 2023 Form 10-K and "Summary of Significant Accounting Policies" in Part I in this Form 10-Q. To prepare financial statements in conformity with US GAAP, management makes estimates, assumptions, and judgments based on available information. These estimates, assumptions, and judgments affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements and, as this information changes, actual results could differ from the estimates, assumptions and judgments reflected in financial statements. In particular, management has identified accounting policies that, due to the estimates, assumptions and judgments inherent in those policies, are critical to an understanding of our financial statements. Management has presented the application of these policies to the Audit and Risk Committee of our Board of Directors.

Non-GAAP Financial Measures

This Form 10-Q includes financial information determined by methods other than in accordance with generally accepted accounting principles ("GAAP"). This financial information includes certain operating performance measures. Management has included these non-GAAP measures because it believes these measures may provide useful supplemental information for evaluating the Company's underlying performance trends. Further, management uses these measures in managing and evaluating the Company's business and intends to refer to them in discussions about our operations and performance. Operating performance measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP, and are not necessarily comparable to non-GAAP measures that may be presented by other companies. To the extent applicable, reconciliations of these non-GAAP measures to the most directly comparable GAAP measures can be found in the section "Reconciliation and Management Explanation of Non-GAAP Financial Measures" included in this Form 10-Q.

Segment Reporting

Management monitors the revenue streams for all its various products and services. The identifiable segments are not material and operations are managed and financial performance is evaluated on an overall Company-wide basis. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

Results of Operations

General

The following tables present selected balance sheet, income statement, and profitability ratios for the dates indicated (in thousands, except ratios):

		September 30, 2024	December 31, 2023
Consolidated Balance Sheet			
Assets:			
Total loans ⁽¹⁾	\$	2,503,954	\$ 2,339,093
Total deposits	\$	2,126,617	\$ 1,937,139
Total stockholders' equity	\$	213,916	\$ 191,968

(1) Loan amounts include deferred fees/costs.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Consolidated Statements of Operations				
Interest income before provision for credit losses	\$ 18,109	\$ 14,022	\$ 50,578	\$ 44,192
Provision for credit losses	\$ 3,438	\$ 2,161	\$ 9,113	\$ 6,077
Total non-interest income	\$ 11,454	\$ 10,461	\$ 34,188	\$ 31,089
Net income	\$ 6,949	\$ 3,819	\$ 17,770	\$ 13,824
Profitability:				
Efficiency	53.16%	64.64%	57.27%	61.85%
Net interest margin	3.03%	2.60%	2.87%	2.84%

The Company's results of operations depend substantially on the levels of our net interest income and non-interest income. Other factors contributing to the results of operations include our provision for credit losses, the level of non-interest expense, and the provision for income taxes.

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

Net income increased to \$6.9 million for the three months ended September 30, 2024 from \$3.8 million for the same period in 2023. The \$3.1 million or 82% increase in net income was attributable to higher interest income from a larger loan portfolio, net interest margin expansion, and increased activity in fee generating transactions (wire fees, gain on sale of loans, SWAP fees, and treasury management fees) between periods.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

Net income increased to \$17.8 million for the nine months ended September 30, 2024 from \$13.8 million for the same period in 2023. The \$3.9 million or 28.5% increase in net income was attributable to higher interest income from a larger loan portfolio and increased activity in fee generating transactions (wire fees, SWAP fees, and treasury management fees) between periods.

Net Interest Income

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities and is the primary driver of core earnings. Interest income is generated from interest and dividends on interest-earning assets, including loans, investment securities and other short-term investments. Interest expense is incurred from interest paid on interest-bearing liabilities, including interest-bearing deposits, FHLB advances and other borrowings.

To evaluate net interest income, we measure and monitor (i) yields on loans and other interest-earning assets, (ii) the costs of deposits and other funding sources, (iii) net interest spread, and (iv) net interest margin. Net interest spread is equal to the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities. Net interest margin is equal to the annualized net interest income divided by average interest-earning assets. Because non-interest-bearing sources of funds, such as non-interest-bearing deposits and stockholders' equity, also fund interest-earning assets, net interest margin includes the indirect benefit of these non-interest-bearing funding sources.

Changes in market interest rates and interest rates we earn on interest-earning assets or pay on interest-bearing liabilities, as well as the volume and types of interest-earning assets and interest-bearing and non-interest-bearing liabilities, are usually the largest drivers of periodic changes in net interest spread, net interest margin and net interest income. Our asset liability committee ("ALCO") has in place asset-liability management techniques to manage major factors that affect net interest income and net interest margin.

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The following table contains information related to average balances, average yields earned on assets, and average costs of liabilities for the periods indicated (dollars in thousands):

	Three Months Ended September 30,					
	2024			2023		
	Average ⁽¹⁾ Balance	Interest	Yield/Rate ⁽²⁾	Average ⁽¹⁾ Balance	Interest	Yield/Rate ⁽²⁾
Assets						
Interest-earning assets:						
Loans ⁽³⁾	\$ 1,878,230	\$ 29,819	6.32%	\$ 1,610,864	\$ 22,523	5.55%
Investment securities ⁽⁴⁾	419,315	2,754	2.61%	445,828	2,833	2.52%
Other interest-earnings assets	80,378	989	4.89%	83,479	1,026	4.88%
Total interest-earning assets	2,377,923	33,562	5.61%	2,140,171	26,382	4.89%
Non-interest-earning assets	107,511			110,087		
Total assets	\$ 2,485,434			\$ 2,250,258		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
Interest-bearing checking	\$ 57,925	411	2.82%	\$ 52,080	331	2.52%
Saving and money market deposits	1,084,562	10,064	3.69%	1,011,164	8,779	3.44%
Time deposits	325,580	3,391	4.14%	290,272	2,565	3.51%
Total interest-bearing deposits	1,468,067	13,866	3.76%	1,353,516	11,675	3.42%
FHLB advances and other borrowings	156,043	1,587	4.05%	85,326	685	3.19%
Total interest-bearing liabilities	1,624,110	15,453	3.79%	1,438,842	12,360	3.41%
Non-interest-bearing demand deposits	609,456			587,917		
Other non-interest-bearing liabilities	45,227			38,598		
Total liabilities	2,278,793			2,065,357		
Stockholders' equity	206,641			184,901		
Total liabilities and stockholders' equity	\$ 2,485,434			\$ 2,250,258		
Net interest income		\$ 18,109			\$ 14,022	
Net interest spread ⁽⁵⁾			1.82%			1.48%
Net interest margin ⁽⁶⁾			3.03%			2.60%

(1) Average balances - Daily average balances are used to calculate yields/rates.

(2) Annualized.

(3) Average loan balances include non-accrual loans. Interest income on loans includes accretion of deferred loan fees, net of deferred loan costs.

(4) At fair value except for securities held to maturity. This amount includes FHLB stock.

(5) Net interest spread is the weighted average yield on total interest-earning assets minus the weighted average rate on total interest-bearing liabilities.

(6) Net interest margin is the ratio of net interest income to average total interest-earning assets.

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Nine Months Ended September 30,							
2024				2023			
	Average Balance ⁽¹⁾	Interest	Yield/Rate ⁽²⁾	Average Balance ⁽¹⁾	Interest	Yield/Rate ⁽²⁾	
Assets							
Interest-earning assets:							
Loans ⁽³⁾	\$ 1,829,593	\$ 84,479	6.17 %	\$ 1,576,074	\$ 63,081	5.35 %	
Investment securities ⁽⁴⁾	426,594	8,634	2.70 %	430,118	7,501	2.33 %	
Other interest-earning assets	101,919	3,953	5.18 %	71,514	2,459	4.60 %	
Total interest-earning assets	2,358,106	97,066	5.50 %	2,077,706	73,041	4.70 %	
Non-interest earning assets	108,902			107,443			
Total assets	\$ 2,467,008			\$ 2,185,149			
Liabilities and stockholders' equity							
Interest-bearing liabilities:							
Interest-bearing checking	\$ 55,887	1,171	2.80 %	\$ 54,554	\$ 574	1.41 %	
Money market and savings accounts	1,094,433	30,529	3.73 %	949,858	20,532	2.89 %	
Time deposits	321,470	9,907	4.12 %	264,241	5,767	2.92 %	
Total interest-bearing deposits	1,471,790	41,607	3.78 %	1,268,653	26,873	2.83 %	
Borrowings and repurchase agreements	160,726	4,881	4.06 %	80,087	1,976	3.30 %	
Total interest-bearing liabilities	1,632,516	46,488	3.80 %	1,348,740	28,849	2.87 %	
Non-interest bearing demand deposits	598,294			617,741			
Other non-interest-bearing liabilities	37,045			34,492			
Total liabilities	2,267,855			2,000,973			
Stockholders' equity	199,153			184,176			
Total liabilities and stockholders' equity	\$ 2,467,008			\$ 2,185,149			
Net interest income		\$ 50,578			\$ 44,192		
Net interest spread ⁽⁵⁾			1.70 %			1.83 %	
Net interest margin ⁽⁶⁾			2.87 %			2.84 %	

(1) Average balances - Daily average balances are used to calculate yields/rates.

(2) Annualized.

(3) Average loan balances include non-accrual loans. Interest income on loans includes accretion of deferred loan fees, net of deferred loan costs.

(4) At fair value except for securities held to maturity. This amount includes FHLB stock.

(5) Net interest spread is the weighted average yield on total interest-earning assets minus the weighted average rate on total interest-bearing liabilities.

(6) Net interest margin is the ratio of net interest income to average total interest-earning assets.

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

Net interest income before the provision for credit losses was \$18.1 million for the three months ended September 30, 2024, an increase of \$4.1 million or 29.1%, from \$14.0 million for the same period in 2023. This increase was primarily attributable to higher income from a larger loan portfolio combined with an increase in the weighted average loan yield.

Net interest margin was 3.03% for the quarter ended September 30, 2024 and 2.60% for the same period in 2023. The volume of and rates on loans and interest-bearing liabilities both increased; however, the volume of and yields on loans grew at a higher rate, offsetting the increase in deposits and borrowing costs.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

Net interest income before the provision for credit losses was \$50.6 million for the nine months ended September 30, 2024, an increase of \$6.4 million or 14.5%, from \$44.2 million for the same period in 2023. This increase was primarily attributable to higher income from a larger loan portfolio combined with an increase in the weighted average loan yield.

Net interest margin was 2.87% for the nine months ended September 30, 2024 and 2.84% for the same period in 2023. Loan yields and the rate paid on interest-bearing liabilities both increased; however, the interest-earning assets balance was greater than that of interest-bearing liabilities. Therefore the effect of the increase in yields resulted in a NIM expansion of 3 bps between periods.

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Provision for Credit Losses

The provision for credit losses represents a charge to earnings necessary to maintain an allowance for credit losses that, in management's evaluation, is adequate to provide coverage for all expected credit losses. The provision for credit losses is impacted by variations in the size and composition of our loan and debt securities portfolio, recent historical and projected future economic conditions, our internal assessment of the credit quality of the loan and debt securities portfolios and net charge-offs.

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

The provision for credit loss was \$931 thousand for the three months ended September 30, 2024 compared to \$653 thousand for the same period in 2023. Growth in the loan portfolio was the primary driver of the increase in the provision expense during the three months ended September 30, 2024.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

The provision for credit loss was \$2.1 million for the nine months ended September 30, 2024 compared to \$802 thousand for the same period in 2023. Growth in the loan portfolio was the primary driver of the increase in the provision expense during the nine months ended September 30, 2024.

Non-Interest Income

Our services and products generate service charges and fees, mainly from our depository accounts. We also generate income from gain on sale of loans through our swap and SBA programs. In addition, we own and are beneficiaries of the life insurance policies on some of our employees and generate income from the increase in the cash surrender value of these policies.

The following table presents the components of non-interest income for the dates indicated (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Service fees	\$ 2,544	\$ 1,329	\$ 6,172	\$ 3,707
Gain (loss) on sale of securities available for sale,	-	(955)	14	(976)
Gain on sale of loans held for sale,	109	255	593	696
Other non-interest income	785	1,532	2,334	2,650
Total non-interest income	<u>\$ 3,438</u>	<u>\$ 2,161</u>	<u>\$ 9,113</u>	<u>\$ 6,077</u>

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

Non-interest income for the three months ended September 30, 2024 increased \$1.3 million or 59.1% to \$3.4 million, compared to the same period in 2023. This increase was primarily driven by growth in SWAP loan fees reported under service fees category, partially offset by declines in gains on sale of loans and other non-interest income.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

Non-interest income for the nine months ended September 30, 2024 increased \$3.0 million or 50.0%, compared to the same period in 2023. This increase was primarily driven by growth in SWAP loan fees reported under service fees category and gain on sale of loans, , partially offset by declines in gains on sale of loans and other non-interest income.

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Non-Interest Expense

The following table presents the components of non-interest expense for the dates indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Salaries and employee benefits	\$ 7,200	\$ 6,066	\$ 20,863	\$ 18,325
Occupancy	1,341	1,350	3,921	3,968
Regulatory assessment and fees	452	365	1,361	1,041
Consulting and legal	161	513	1,016	1,257
Network and information technology	513	481	1,499	1,464
Other operating	1,787	1,686	5,528	5,034
Total non-interest expense	<u>\$ 11,454</u>	<u>\$ 10,461</u>	<u>\$ 34,188</u>	<u>\$ 31,089</u>

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

Non-interest expense for the three months ended September 30, 2024 increased \$1.0 million or 9.5%, compared to the same period in 2023. The increase was primarily driven by an increase of \$1.1 million in salaries and employee benefits due to management bonus accrual based on the Company's performance, and stock-based compensation expense.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

Non-interest expense for the nine months ended September 30, 2024 increased \$3.1 million or 10.0%, compared to the same period in 2023. The increase was primarily driven by an increase of \$2.5 million in salaries and employee benefits due to sales incentives, management bonus accrual based on the Company's performance, merit increases, and stock-based compensation expense. Regulatory assessment and fees increased by \$306 thousand due to FDIC deposit insurance. Other operating expenses increased due to an increase of \$153 thousand in audit and tax services.

Provision for Income Tax

Fluctuations in the effective tax rate reflect the effect of the differences in the inclusion or deductibility of certain income and expenses for income tax purposes. Therefore, future decisions on the investments we choose will affect our effective tax rate. The cash surrender value of bank-owned life insurance policies covering key employees, purchasing municipal bonds, and overall levels of taxable income will be important elements in determining our effective tax rate.

Three months ended September 30, 2024 compared to the three months ended September 30, 2023

Income tax expense for the quarter ended September 30, 2024 was \$2.2 million as compared to \$1.3 million for the same period in 2023. The effective tax rate for the three months ended September 30, 2024 was 24.2% compared to 24.7% for 2023.

Nine months ended September 30, 2024 compared to the nine months ended September 30, 2023

Income tax expense for the nine months ended September 30, 2024 was \$5.6 million as compared to \$4.5 million for the same period in 2023. The effective tax rate for the nine months ended September 30, 2024 was 24.0% compared to 24.4% for the same period in 2023.

For a further discussion of income taxes, see Note 4 "Income Taxes" to the unaudited Consolidated Financials in Item 1 of Part I of this Form 10-Q.

Analysis of Financial Condition

Total assets at September 30, 2024 were \$2.50 billion, an increase of \$164.9 million, or 9.4% annualized, over total assets of \$2.34 billion at December 31, 2023. Total loans, net of deferred fees/costs, increased \$150.5 million, or 11.3% annualized, to \$1.93 billion at September 30, 2024 compared to \$1.78 billion at December 31, 2023. Total deposits increased by \$189.5 million, or 13.1% annualized, to \$2.13 billion at September 30, 2024 compared to \$1.94 billion at December 31, 2023.

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Investment Securities

The investment portfolio is used and managed to provide liquidity through cash flows, marketability and, if necessary, collateral for borrowings. The investment portfolio is also used as a tool to manage interest rate risk and the Company's capital market risk exposure. The philosophy of the portfolio is to maximize the Company's profitability taking into consideration the Company's risk appetite and tolerance, manage the asset composition and diversification, and maintain adequate risk-based capital ratios.

The investment portfolio is managed in accordance with the Board approved Asset and Liability Management ("ALM") policy, which includes investment guidelines. Such policy is reviewed at least annually or more frequently if deemed necessary, depending on market conditions and/or unexpected events. The investment portfolio composition is subject to change depending on the funding and liquidity needs of the Company, and the interest risk management objective directed by the Asset-Liability Committee ("ALCO"). The portfolio of investments also can be used to modify the duration of the balance sheet. The allocation of cash into securities takes into consideration anticipated future cash flows (uses and sources) and all available sources of credit.

Our investment portfolio consists primarily of securities issued by U.S. government-sponsored agencies, U.S. agency mortgage-backed securities, collateralized mortgage obligation securities, corporate securities, other debt securities, and municipal securities all with varying contractual maturities and coupons. Due to the optionality embedded in these securities, the final maturities do not necessarily represent the expected life of the portfolio. Some of these securities will be called or paid down prior to maturity depending on capital market conditions and expectations. The investment portfolio is regularly reviewed by the Chief Financial Officer, Treasurer, and the ALCO of the Company to ensure an appropriate risk and return profile as well as for adherence to the investment policy.

When evaluating AFS debt securities under ASC Topic 326, the Company evaluates whether the decline in fair value is attributable to credit losses or other factors like interest rate risk, using both quantitative and qualitative analyses, including company performance analysis, review of credit ratings, vintage bonds, remaining payment terms, prepayment speeds and analysis of macro-economic conditions. Each investment is expected to recover its unrealized loss position over its holding period as it approaches to maturity and the Company has the intent and ability to hold these securities maturity. As a result of this evaluation, the Company concluded that no allowance was required on AFS securities as of September 30, 2024.

At quarter end, HTM securities included \$157.7 million of U.S. Government and U.S. Agency issued bonds and mortgage-backed securities. Because of the explicit and/or implicit guarantee on these bonds, the Company holds no reserves on these holdings. The remaining portion of the HTM portfolio is made up of \$9.3 million in investment grade corporate bonds. The required reserve for these holdings is determined each quarter using the model described above. For the portion of the HTM exposed to non-government credit risk, the Company utilized the PD/LGD methodology to estimate a \$8 thousand allowance for credit losses ("ACL") as of September 30, 2024. The book value for debt securities classified as HTM represents amortized cost less ACL.

AFS and HTM investment securities increased \$22.2 million, or 7.3% annualized, to \$426.5 million at September 30, 2024 from \$404.3 million at December 31, 2023. Investment securities increased due to reinvestment of payments received and investment of excess in cash balances into high credit quality investments to increase the Company's profitability and modify the Company's balance sheet duration according to the ALM policy. As of September 30, 2024, investment securities with a market value of \$69.7 million were pledged to secure public deposits. The investment portfolio does not have any tax-exempt securities.

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The following table presents the amortized cost and fair value of investment securities for the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
U.S. Government Agency	\$ 11,916	\$ 10,733	\$ 9,664	\$ 8,173
Collateralized mortgage	104,228	84,194	103,645	80,606
MBS - residential	60,390	50,762	63,795	52,187
MBS - commercial	75,263	70,333	49,212	42,764
Municipal securities	24,945	20,425	25,005	19,338
Bank subordinated debt securities	24,272	23,080	28,106	26,261
	<u>\$ 301,014</u>	<u>\$ 259,527</u>	<u>\$ 279,427</u>	<u>\$ 229,329</u>
Held-to-maturity:				
U.S. Government Agency	\$ 42,909	\$ 38,965	\$ 43,626	\$ 38,306
Collateralized mortgage	58,345	52,403	62,735	54,752
MBS - residential	41,173	38,313	43,784	39,599
MBS - commercial	15,316	14,563	15,439	14,182
Corporate bonds	9,266	8,881	9,398	8,671
	<u>\$ 167,009</u>	<u>\$ 153,125</u>	<u>\$ 174,982</u>	<u>\$ 155,510</u>
Allowance for credit losses - securities held-to-maturity	(8)		(8)	
Securities held-to maturity, net of allowance for credit losses	<u>\$ 167,001</u>		<u>\$ 174,974</u>	

The following table shows the weighted average yields, categorized by contractual maturity, for investment securities as of September 30, 2024 (in thousands, except yields):

	Within 1 year		After 1 year through 5 years		After 5 years through 10 years		After 10 years		Total	
	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield	Amortized Cost	Yield
Available-for-sale:										
U.S. Government	\$ -	0.00%	\$ -	0.00%	\$ 2,375	3.15%	\$ 9,541	1.96%	\$ 11,916	2.19%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	104,228	1.64%	104,228	1.64%
MBS - residential	-	0.00%	-	0.00%	-	0.00%	60,390	1.84%	60,390	1.84%
MBS - commercial	-	0.00%	-	0.00%	4,099	4.70%	71,164	3.40%	75,263	3.47%
Municipal securities	-	0.00%	-	0.00%	19,704	1.72%	5,241	1.85%	24,945	1.75%
Bank subordinated debt securities	-	0.00%	1,000	7.99%	23,272	5.07%	-	0.00%	24,272	5.19%
	<u>\$ -</u>		<u>\$ 1,000</u>		<u>\$ 49,450</u>		<u>\$ 250,564</u>		<u>\$ 301,014</u>	2.45%
Held-to-maturity:										
U.S. Government	\$ -	0.00%	\$ 7,945	1.02%	\$ 20,067	1.42%	\$ 14,897	2.06%	\$ 42,909	1.57%
Collateralized mortgage obligations	-	0.00%	-	0.00%	-	0.00%	58,345	1.66%	58,345	1.66%
MBS - residential	-	0.00%	4,352	1.86%	5,891	1.75%	30,930	2.22%	41,173	2.12%
MBS - commercial	-	0.00%	3,061	1.62%	-	0.00%	12,255	2.85%	15,316	2.60%
Corporate bonds	-	0.00%	9,266	2.81%	-	0.00%	-	0.00%	9,266	2.81%
	<u>\$ -</u>		<u>\$ 24,624</u>		<u>\$ 25,958</u>		<u>\$ 116,427</u>		<u>\$ 167,009</u>	1.90%

Loans

Loans are the largest category of interest-earning assets on the unaudited Consolidated Balance Sheets, and usually provide higher yields than the remainder of the interest-earning assets. Higher yields typically carry greater inherent credit and liquidity risks in comparison to lower yield assets. The Company manages and mitigates such risks in accordance with the credit and ALM policies, risk tolerance and balance sheet composition.

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The following table shows the loan portfolio composition as of the dates indicated (in thousands):

	September 30, 2024		December 31, 2023	
	Total	Percent of Total	Total	Percent of Total
Residential Real Estate	\$ 283,477	14.7 %	\$ 204,419	11.5 %
Commercial Real Estate	1,095,112	56.8 %	1,047,593	58.8 %
Commercial and Industrial	246,539	12.8 %	219,757	12.4 %
Correspondent	103,815	5.4 %	114,945	6.5 %
Consumer and Other	198,604	10.3 %	191,930	10.8 %
Total gross loans	1,927,547	100.0 %	1,778,644	100.0 %
Plus: Deferred fees/costs	3,815		2,183	
Total loans net of deferred fees/costs	1,931,362		1,780,827	
Less: Allowance for credit losses	23,067		21,084	
Total net loans	\$ 1,908,295		\$ 1,759,743	

Total loans, net of deferred fees/costs, increased by \$150.5 million, or 11.3% annualized to \$1.93 billion, September 30, 2024 compared to December 31, 2023. The residential real estate loan segment had the most significant growth.

Our loan portfolio continues to grow, with commercial real estate lending as the primary focus which represented 56.8% of the total gross loan portfolio as of September 30, 2024. Our loan growth strategy since inception has been reflective of the market in which we operate and of our strategic plan as approved by the Board.

Most of the commercial real estate exposure represents loans to commercial businesses secured by owner-occupied real estate. The growth experienced in recent years is primarily due to implementation of our relationship-based banking model and the success of our relationship managers in competing for new business in a highly competitive metropolitan area. Many of our larger loan clients have long-term relationships with members of our senior management team or our relationship managers that date back to former institutions.

From a liquidity perspective, our loan portfolio provides us with additional liquidity due to repayments or unexpected prepayments. The following table shows maturities and sensitivity to interest rate changes of the loan portfolio as of September 30, 2024 (in thousands):

	Due in 1 year or less	Due in 1 to 5 years	Due after 5 to 15 years	Due after 15 years	Total
Residential Real Estate	\$ 6,136	\$ 69,921	\$ 67,027	\$ 140,393	\$ 283,477
Commercial Real Estate	88,789	304,663	696,167	5,493	1,095,112
Commercial and Industrial	10,396	64,579	125,719	45,845	246,539
Correspondent	103,815	-	-	-	103,815
Consumer and Other	3,186	2,976	14,144	178,298	198,604
Total gross loans	\$ 212,322	\$ 442,139	\$ 903,057	\$ 370,029	\$ 1,927,547
Interest rate sensitivity:					
Fixed interest	\$ 177,851	\$ 208,887	\$ 184,199	\$ 279,696	\$ 850,633
Floating or adjustable rates	34,471	233,252	718,858	90,333	1,076,914
Total gross loans	\$ 212,322	\$ 442,139	\$ 903,057	\$ 370,029	\$ 1,927,547

The information presented in the table above is based upon the contractual maturities of the individual loans, which may be subject to renewal at their contractual maturity. Renewals will depend on approval by our credit department and balance sheet composition at the time of the analysis, as well as any modification of terms at the loan's maturity. Additionally, maturity concentrations, loan duration, prepayment speeds and other interest rate sensitivity measures are discussed, reviewed, and analyzed by the ALCO. Decisions on term /rate modifications are discussed as well.

As of September 30, 2024, approximately 56% of the loans have adjustable/variable rates and 44% of the loans have fixed rates. The adjustable/variable rate loans re-price to different benchmarks and tenors and in different periods of time. By contractual characteristics, there are no material concentrations on anniversary repricing. Additionally, it is important to note that most of our loans have interest rate floors. This embedded option protects the Company from a decrease in interest rates below the floor and positions us to gain in the scenario of higher interest rates.

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Asset Quality

Our asset quality grading analysis estimates the capability of the borrower to repay the contractual obligation of the loan agreement as scheduled or at all. The Company's internal credit risk grading system is based on experiences with similarly graded loans. Internal credit risk grades are reviewed at least once a year, and more frequently as needed. Internal credit risk ratings may change based on management's assessment of the results from the annual review, portfolio monitoring, and other developments observed with borrowers.

The internal credit risk grades used by the Company to assess the credit worthiness of a loan are shown below:

Pass – Loans indicate different levels of satisfactory financial condition and performance.

Special Mention – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligator or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Loans classified as doubtful have all the weaknesses inherent in those classified at substandard, with the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss – Loans classified as loss are considered uncollectible.

Loan credit exposures by internally assigned grades are as follows for the dates indicated (in thousands):

September 30, 2024					
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	\$ 282,909	\$ -	\$ 568	\$ -	\$ 283,477
Commercial Real Estate	1,092,648	-	2,464	-	1,095,112
Commercial and Industrial	244,620	-	1,919	-	246,539
Correspondent	103,815	-	-	-	103,815
Banker and Other	196,613	-	1,991	-	198,604
	<u>\$ 1,920,605</u>	<u>\$ -</u>	<u>\$ 6,942</u>	<u>\$ -</u>	<u>\$ 1,927,547</u>

December 31, 2023					
	Pass	Special Mention	Substandard	Doubtful	Total
Residential Real Estate	\$ 204,127	\$ -	\$ 292	\$ -	\$ 204,419
Commercial Real Estate	1,040,032	-	7,561	-	1,047,593
Commercial and Industrial	218,129	-	1,628	-	219,757
Correspondent	114,945	-	-	-	114,945
Banker and Other	191,930	-	-	-	191,930
	<u>\$ 1,769,163</u>	<u>\$ -</u>	<u>\$ 9,481</u>	<u>\$ -</u>	<u>\$ 1,778,644</u>

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Non-Performing Assets

The following table presents non-performing assets as of the dates shown (in thousands, except ratios):

	September 30, 2024	December 31, 2023
Non-accrual loans	\$ 2,725	\$ 468
Loans past due over 90 days and still accruing	-	-
Total non-performing loans	\$ 2,725	\$ 468
Other real estate owned	-	-
Total non-performing assets	\$ 2,725	\$ 468
Asset quality ratios:		
Allowance for credit losses to total loans	1.19%	1.18%
Allowance for credit losses to non-performing loans	846%	4,505%
Non-performing loans to total loans	0.14%	0.03%

Non-performing assets include all loans categorized as non-accrual, other real estate owned ("OREO") and other repossessed assets. Problem loans for which the collection or liquidation in full is reasonably uncertain are placed on a non-accrual status. This determination is based on current existing facts concerning collateral values and the paying capacity of the borrower. When the collection of the full contractual balance is unlikely, the loan is placed on non-accrual to avoid stating the Company's income for a loan with increased credit risk.

If the principal or interest on a commercial loan becomes due and unpaid for 90 days or more, the loan is placed on non-accrual status as of the date it becomes 90 days past due and remains in non-accrual status until it meets the criteria for restoration to accrual status. Residential loans, on the other hand, are placed on non-accrual status when the principal or interest becomes due and unpaid for 120 days or more and remains in non-accrual status until it meets the criteria for restoration to accrual status. Restoring a loan to accrual status is possible when the borrower resumes payment of principal and interest payments for a period of six consecutive months and the Company has a documented expectation of repayment of the remaining contractual principal and interest or the loan becomes secured and in the process of collection.

The Company may grant a loan concession to a borrower experiencing financial difficulties. This determination is performed during the annual review process or whenever problems surface regarding the borrower's ability to repay in accordance with the original terms of the loan or line of credit. The concessions are given to the debtor in various forms, including interest rate reductions, principal forgiveness, extension of maturity date, waiver, or deferral of payments and other concessions intended to minimize potential losses.

For further discussion of non-performing loans and borrowers experiencing financial difficulties, see Note 3 "Loans" to the unaudited Consolidated Financial Statements in Item 1 of Part 1 of this Form 10-Q.

Allowance for Credit Losses

The ACL represents an amount that, in management's evaluation, is adequate to provide coverage for all expected future credit losses on outstanding loans. Additionally, qualitative adjustments are made to the ACL when, based on management's judgment, there are factors impacting the allowance estimate not considered by the quantitative calculations. See Note 3 "Loans" in Item 1 of Part 1 of this Form 10-Q for more information on the ACL.

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The following table presents ACL and net charge-offs to average loans by type for the periods indicated (in thousands):

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Correspondent Banks	Consumer and Other	Total
Three Months Ended September 30, 2024						
Beginning balance	\$ 3,193	\$ 10,272	\$ 4,747	\$ 892	\$ 3,126	\$ 22,230
Provision for credit (1)	760	(86)	(96)	(69)	322	831
Recoveries	2	-	10	-	1	13
Charge-offs	-	-	-	-	(7)	(7)
Ending Balance	\$ 3,955	\$ 10,186	\$ 4,661	\$ 823	\$ 3,442	\$ 23,067
Average loans	\$ 238,113	\$ 1,093,599	\$ 238,331	\$ 105,388	\$ 202,799	\$ 1,878,230
Net charge-offs to average loans (3)	(0.00)%	-	(0.02)%	-	0.01%	0.00%
Nine Months Ended September 30, 2024						
Beginning balance	\$ 2,695	\$ 10,366	\$ 3,974	\$ 911	\$ 3,138	\$ 21,084
Provision for credit (2)	1,252	(180)	666	(88)	318	1,968
Recoveries	8	-	21	-	3	32
Charge-offs	-	-	-	-	(17)	(17)
Ending Balance	\$ 3,955	\$ 10,186	\$ 4,661	\$ 823	\$ 3,442	\$ 23,067
Average loans	\$ 231,947	\$ 1,065,280	\$ 232,160	\$ 102,659	\$ 197,547	\$ 1,829,593
Net charge-offs to average loans (3)	(0.01)%	-	(0.02)%	-	0.01%	0.00%

(1) Provision for credit losses excludes a \$101 thousand expense due to unfunded commitments included in other liabilities and a \$10 thousand release related to investment securities held to maturity.

(2) Provision for credit losses excludes \$159 thousand expense due to unfunded commitments included in other liabilities and a \$10 thousand release related to investment securities held to maturity.

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Correspondent Banks	Consumer and Other	Total
Three Months Ended September 30, 2023						
Beginning balance	\$ 2,673	\$ 10,183	\$ 2,500	\$ 677	\$ 2,782	\$ 18,815
Provision for credit (1)	(162)	(84)	738	73	108	673
Recoveries	-	-	8	-	-	8
Charge-offs	-	-	-	-	(3)	(3)
Ending Balance	\$ 2,511	\$ 10,099	\$ 3,246	\$ 750	\$ 2,887	\$ 19,493
Average loans	\$ 183,643	\$ 992,171	\$ 179,127	\$ 87,847	\$ 168,076	\$ 1,610,864
Net charge-offs to average loans (4)	-	-	(0.02)%	-	0.01%	0.00%
Nine Months Ended September 30, 2023						
Beginning balance	\$ 1,352	\$ 10,143	\$ 4,163	\$ 720	\$ 1,109	\$ 17,487
Cumulative effect of adoption of accounting principle (2)	1,238	1,105	(2,158)	23	858	1,066
Provision for credit (3)	(89)	(1,149)	1,181	7	965	915
Recoveries	10	-	60	-	3	73
Charge-offs	-	-	-	-	(48)	(48)
Ending Balance	\$ 2,511	\$ 10,099	\$ 3,246	\$ 750	\$ 2,887	\$ 19,493
Average loans	\$ 186,918	\$ 980,244	\$ 164,466	\$ 90,597	\$ 153,849	\$ 1,576,074
Net charge-offs to average loans (4)	(0.01)%	-	(0.05)%	-	0.04%	0.00%

(1) Provision for credit losses excludes a \$17 thousand expense due to unfunded commitments included in other liabilities and a \$10 thousand release related to investment securities held to maturity.

(2) Impact of CECL adoption on January 1, 2023.

(3) Provision for credit losses excludes \$39 thousand release due to unfunded commitments included in other liabilities and a \$10 thousand expense due to investment securities held to maturity.

(4) Annualized.

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Bank-Owned Life Insurance

As of September 30, 2024, the combined cash surrender value of all bank-owned life insurance ("BOLI") policies was \$53.0 million. Changes in cash surrender value are recorded to non-interest income in the unaudited Consolidated Statements of Operations. The Company had BOLI policies with five insurance carriers. The Company is the beneficiary of these policies.

Deposits

Customer deposits are the primary funding source for the Bank's growth. Through our network of banking centers, we offer a competitive array of deposit accounts and treasury management services designed to meet our customers' business needs. Our primary deposit customers are small-to-medium sized businesses ("SMBs"), and the personal business of owners and operators of these SMBs, as well as the retail/consumer relationships of the employees of these businesses.

The following table presents the daily average balance and average rate paid on deposits by category for the periods presented (in thousands, except ratios):

	Three Months Ended September 30,			
	2024		2023	
	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Non-interest-bearing	\$ 609,456	0.00%	\$ 587,917	0.00%
Interest-bearing	57,925	2.82%	52,080	2.52%
Money market and savings deposits	1,084,562	3.69%	1,011,164	3.44%
Time deposits	325,580	4.14%	290,272	3.51%
Total	\$ 2,077,523	2.66%	\$ 1,941,433	2.39%

The Company has a granular deposit portfolio with outstanding balances comprised of 59% in commercial deposits, 31% personal deposits, 5% public funds (which are partially collateralized) and 5% brokered deposits. The brokered deposits balance at September 30, 2024 was \$100.0 million and \$50.0 million at December 31, 2024.

The Company has approximately 20 thousand deposit accounts with the majority in personal accounts, approximately 13 thousand or 62.3%. The estimated average account size of our deposit portfolio was approximately \$104 thousand as of September 30, 2024.

The uninsured deposits are estimated based on the FDIC deposit insurance limit of \$250 thousand for all accounts at the Company per account holder. The total estimated amount of uninsured deposits was 56% at September 30, 2024 and 53% at September 30, 2023. The Company offers Insured Cash Sweep ("ICS") and Certificate of Deposit Account Registry Service ("CDARS") deposit products to fully insure our clients. The deposit balance in ICS/CDARS at quarter end was \$106.0 million at September 30, 2024 and \$107.3 million at December 31, 2023.

The following table shows scheduled maturities of uninsured time deposits as of September 30, 2024 (in thousands):

	September 30, 2024
Three months or less	\$ 33,952
Over three through six months	50,797
Over six through twelve months	10,780
Over twelve months	776
	\$ 96,305

Other Liabilities

The Company collects from commercial and residential loan customers funds which are held in escrow for future payment of real estate taxes and insurance. These escrow funds are disbursed by the Company directly to the insurance companies and taxing authority of the borrower. Escrow funds are recorded as other liabilities.

As of September 30, 2024 escrow balances totaled \$22.5 million compared to \$2.3 million at December 31, 2023.

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Borrowings

As a member of the FHLB of Atlanta, we are eligible to obtain advances with various terms and conditions. The availability of additional funding allows us to efficiently and timely meet both expected and unexpected outgoing cash flows and collateral needs without adversely affecting either daily operations or the financial condition of the Company.

As of September 30, 2024, we had \$118.0 million of fixed-rate advances outstanding from the FHLB with a weighted average rate of 3.47%. Maturity dates for the advances range between 2024 to 2028 as detailed in the table below.

The following table presents the FHLB advances as of September 30, 2024 (in thousands):

Interest Rate	Type of Rate	Maturity Date	Amount
2.05%	Fixed	March 27, 2025	10,000
1.07%	Fixed	July 18, 2025	6,000
3.76%	Fixed	January 24, 2028	11,000
3.77%	Fixed	April 25, 2028	50,000
3.68%	Fixed	September 13, 2027	21,000
3.79%	Fixed	March 23, 2026	20,000
			<u>\$ 118,000</u>

During the third quarter 2024, the Company paid off the \$80.0 million fixed-rate loan outstanding from the Bank Term Funding Program with an original maturity date of January 10, 2025.

The Company has also established Federal Funds lines of credit with our upstream correspondent banks and Federal Reserve Bank of Atlanta Discount Window to manage temporary fluctuations in our daily cash balances. As of September 30, 2024, there were no outstanding balances with any of these liquidity sources.

Off-Balance Sheet Arrangements

We engage in various financial transactions in our operations that, under GAAP, may not be included on the balance sheet. To meet the financing needs of our customers, we may include commitments to extend credit and standby letters of credit. To a varying degree, such commitments involve elements of credit, market, and interest rate risk in excess of the amount recognized in the balance sheet. We use more conservative credit and collateral policies in making these credit commitments than we do for on-balance sheet items. We are not aware of any accounting loss to be incurred by funding these commitments; however, we maintain an allowance for off-balance sheet credit risk which is recorded under other liabilities on the unaudited Consolidated Balance Sheets.

Since commitments associated with letters of credit and commitments to extend credit may expire unused, the amounts shown do not necessarily reflect actual future cash funding requirements. The following table presents lending commitments outstanding as of the dates indicated (in thousands):

	September 30, 2024	December 31, 2023
Commitments to grant loans and unfunded lines of credit	\$ 104,851	\$ 85,117
Standby and commercial letters of credit	4,507	3,987
	<u>\$ 109,358</u>	<u>\$ 89,104</u>

Commitments to extend credit are agreements to lend funds to a client, as long as there is no violation of any condition established in the contract, for a specific purpose. Commitments generally have variable interest rates, fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being fully drawn, the total commitment amounts disclosed above do not necessarily represent future cash requirements.

Unfunded lines of credit represent unused portions of credit facilities to our current borrowers that represent no change in credit risk in our portfolio. Lines of credit generally have variable interest rates. The maximum potential amount of future payments we could be required to make is represented by the contractual amount of the commitment, less the amount of any advances made.

Letters of credit are conditional commitments issued by us to guarantee the performance of a client to a third party. In the event of nonperformance by the client in accordance with the terms of the agreement with the third party, we would be required to fund the commitment. If the commitment is funded, we would be entitled to seek recovery from the client from

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the underlying collateral, which can include commercial real estate, physical plant and property, inventory, receivables, cash or marketable securities.

Asset and Liability Management Committee

Members of senior management and our Board make up the asset and liability management committee, or ALCO. Senior management is responsible for ensuring that Board approved strategies and policies for managing and mitigating risks are appropriately executed within the designated lines of authority and responsibility in a timely manner.

ALCO oversees the establishment, approval, implementation, and review of interest rate risk, management, and mitigation strategies, ALM related policies, ALCO procedures and risk tolerances and appetite.

While some degree of Interest Rate Risk ("IRR") is inherent to the banking business, we believe our ALCO implements sound risk management practices to identify, quantify, monitor, and limit IRR exposures.

When assessing the scope of IRR exposure and impact on the consolidated balance sheet, cash flows and income statement, management considers both earnings and economic impacts. Asset price variations, deposit volatility and reduced earnings or outright losses could adversely affect the Company's liquidity, performance, and capital adequacy.

Income simulations are used to assess the impact of changing rates on earnings under different rates scenarios and time horizons. These simulations utilize both instantaneous and parallel changes in the level of interest rates, as well as non-parallel changes such as changing slopes (flat and steepening) and twists of the yield curve. Static simulation models are based on current exposures and assume a constant balance sheet with no new growth. Dynamic simulation is also utilized to have a more comprehensive assessment on IRR. This simulation relies on detailed assumptions outlined in our budget and strategic plan, and in assumptions regarding changes in existing lines of business, new business, management strategies and client expected behavior.

To have a more complete picture of IRR, the Company also evaluates the economic value of equity ("EVE"). This assessment allows us to measure the degree to which the economic values will change under different interest rate scenarios (parallel and non-parallel). The economic value approach focuses on a longer-term time horizon and captures all future cash flows expected from existing assets and liabilities. The economic value model utilizes a static approach in that the analysis does not incorporate new business; rather, the analysis shows a snapshot in time of the risk inherent in the balance sheet.

Market and Interest Rate Risk Management

According to our ALCO model, as of September 30, 2024, we had a neutral to slightly asset sensitive balance sheet both for year one and year two modeling, using the static modeling. Asset sensitivity indicates that our assets generally reprice faster than our liabilities, which results in a favorable impact to net interest income when market interest rates increase. Liability sensitivity indicates that our liabilities generally reprice faster than our assets, which results in a favorable impact to net interest income when market interest rates decrease. Many assumptions are used to calculate the impact of interest rate variations on our net interest income, such as asset prepayment speeds, non-maturity deposit price sensitivity (betas), pricing correlations, deposit truncations and decay rates, and key interest rate drivers.

Because of the inherent use of these estimates and assumptions in the model, our actual results may, and most likely will, differ from static measures results. In addition, static measures like EVE do not include actions that management may undertake to manage the risks in response to anticipated changes in interest rates or customer deposit behavior. As part of our ALM strategy and policy, management has the ability to modify the balance sheet to either increase asset duration and decrease liability duration to reduce asset sensitivity, or to decrease asset duration and increase liability duration in order to increase asset sensitivity.

According to our model, as of September 30, 2024, our balance sheet is neutral to slightly asset sensitive for both year one and year two under interest static rate scenarios (an increase or decrease of 400 basis points). This means that the impact of rates variations will be minimal to our NIM. Additionally, utilizing an EVE approach, we analyze the risk to capital from the effects of various interest rate scenarios through a long-term discounted cash flow model. This measures the difference between the economic value of our assets and the economic value of our liabilities, which is a proxy for liquidation value. According to our balance sheet composition, and as expected, our model stipulates that an increase in interest rates will have a negative impact on the EVE and lower rates, a positive impact. Results and analysis are presented quarterly to the ALCO, and strategies are reviewed and defined.

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Liquidity

Liquidity is defined as a Company's capacity to meet its cash and collateral obligations at a reasonable cost. Maintaining an adequate level of liquidity depends on the Company's ability to efficiently meet both expected and unexpected cash flow and collateral needs without adversely affecting either daily operations or the financial condition of the Company.

Liquidity risk is the risk that we will be unable to meet our short-term and long-term obligations as they become due because of an inability to liquidate assets or obtain relatively adequate funding. The Company's obligations, and the funding sources used to meet them, depend significantly on our business mix, balance sheet structure and composition, **quality** of our assets and the cash flow profiles of our on - and off-balance sheet obligations.

In managing inflows and outflows, management regularly monitors situations that can give rise to increased liquidity risk. These include funding mismatches, market constraints on the ability to convert assets (particularly investments) into cash or in accessing sources of funds (i.e., market liquidity), pledging of assets and contingent liquidity events.

Changes in macroeconomic conditions, as well as exposure to credit, market, operational, legal and reputational risks, such as cybersecurity risk, could have an unexpected impact on the Company's liquidity risk profile and are factored into the assessment of liquidity and the ALM framework.

Management has established a comprehensive and holistic management process for identifying, measuring, monitoring and mitigating liquidity risk. Due to its critical importance to the viability of the Company, liquidity risk management is integrated into our risk management processes, Contingency Funding Plan and ALM policy.

Critical elements of our liquidity risk management include: effective corporate governance consisting of oversight by the Board and active involvement of senior management; appropriate strategies, policies, procedures, and limits used to identify and mitigate liquidity risk; comprehensive liquidity risk measurement and monitoring systems (including assessments of the current and prospective cash flows or sources and uses of funds) that are commensurate with the complexity and business activities of the Company; 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, operational impediments, that can be used to meet liquidity needs in stressful situations; comprehensive contingency funding plans that sufficiently address potential adverse liquidity events and emergency cash flow requirements; and internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity risk management process.

We expect funds to be available from several basic banking activity sources, including the core deposit base, **repayment** and maturity of loans and investment security cash flows. Other potential funding sources include Federal Funds purchased, brokered certificates of deposit, listing services certificates of deposit, and draws from the Federal Reserve Bank of Atlanta discount window, and borrowings from the FHLB. Accordingly, we believe our liquidity resources **adequate** to fund loans and meet other cash needs as necessary.

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Capital Adequacy

As of September 30, 2024, the Bank was well capitalized under the FDIC's prompt corrective action framework. We also follow the capital conservation buffer framework, and as of September 30, 2024, we exceeded the capital conservation buffer in all capital ratios, according to our actual ratios. The following table presents the capital ratios for the Bank at the dates indicated (in thousands, except ratios).

	Actual		Minimum Capital Requirements		To be Well Capitalized Under Prompt Corrective Action	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2024						
Total risk-based capital	\$ 257,212	13.14 %	\$ 156,587	8.00 %	\$ 195,733	10.00 %
Tier 1 risk-based capital	\$ 233,606	11.93 %	\$ 117,440	6.00 %	\$ 156,587	8.00 %
Common equity tier 1 capital	\$ 233,606	11.93 %	\$ 88,080	4.50 %	\$ 127,227	6.50 %
Leverage ratio	\$ 233,606	9.28 %	\$ 100,700	4.00 %	\$ 125,874	5.00 %
December 31, 2023:						
Total risk-based capital	\$ 233,109	12.65 %	\$ 147,432	8.00 %	\$ 184,290	10.00 %
Tier 1 risk-based capital	\$ 211,645	11.48 %	\$ 110,574	6.00 %	\$ 147,432	8.00 %
Common equity tier 1 capital	\$ 211,645	11.48 %	\$ 82,931	4.50 %	\$ 119,789	6.50 %
Leverage ratio	\$ 211,645	9.17 %	\$ 92,328	4.00 %	\$ 115,410	5.00 %

The Company is not subject to regulatory capital ratios imposed by Basel III on bank holding companies because the Company is deemed to be a small bank holding company.

Impact of Inflation

Our Consolidated Financial Statements and related notes have been prepared in accordance with U.S. 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 most industrial companies, nearly all 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. Periods of high inflation are often accompanied by relatively higher interest rates, and periods of low inflation are accompanied by relatively lower interest rates.

Recently Issued Accounting Pronouncements

Recently issued accounting pronouncements are discussed in Note 1 "Summary of Significant Accounting Policies" to the unaudited Consolidated Financial Statements in Part 1 of this Form 10-Q.

Reconciliation and Management Explanation of Non -GAAP Financial Measures

Management has included these non-GAAP measures because it believes these measures may provide useful supplemental information for evaluating the Company's underlying performance trends. Further, management uses these measures in managing and evaluating the Company's business and intends to refer to them in discussions about operations and performance. Operating performance measures should be viewed in addition to, and not as an alternative to or substitute for, measures determined in accordance with GAAP, and are not necessarily comparable to non-GAAP measures that may be presented by other companies. The following table reconciles the non-GAAP financial measurement of operating net income available to common shareholders for the periods presented (in thousands, except per share data):

USCB FINANCIAL HOLDINGS, INC. NON-GAAP FINANCIAL MEASURES (UNAUDITED) (Dollars in thousands)

	As of or For the Three Months				
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023
Pre-tax pre-provision ("PTPP") income⁽¹⁾					
Net income	\$ 6,949	\$ 6,209	\$ 4,612	\$ 2,721	\$ 3,819
Plus: Provision for income taxes	2,213	1,967	1,426	787	1,250
Plus: Provision for credit losses	931	786	410	1,475	653
PTPP income	\$ 10,093	\$ 8,962	\$ 6,448	\$ 4,983	\$ 5,722
PTPP return on average assets⁽²⁾					
PTPP income	\$ 10,093	\$ 8,962	\$ 6,448	\$ 4,983	\$ 5,722
Average assets	\$ 2,485,434	\$ 2,479,222	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258
PTPP return on average assets ⁽²⁾	1.62%	1.45%	1.06%	0.87%	1.01%
Operating net income⁽¹⁾					
Net income	\$ 6,949	\$ 6,209	\$ 4,612	\$ 2,721	\$ 3,819
Less: Net gains (losses) on sale of securities	-	14	-	(883)	(955)
Less: Tax effect on sale of securities	-	(4)	-	224	242
Operating net income	\$ 6,949	\$ 6,199	\$ 4,612	\$ 3,380	\$ 4,532
Operating PTPP income⁽¹⁾					
PTPP income	\$ 10,093	\$ 8,962	\$ 6,448	\$ 4,983	\$ 5,722
Less: Net gains (losses) on sale of securities	-	14	-	(883)	(955)
Operating PTPP income	\$ 10,093	\$ 8,948	\$ 6,448	\$ 5,866	\$ 6,677
Operating PTPP return on average assets⁽¹⁾					
Operating PTPP income	\$ 10,093	\$ 8,948	\$ 6,448	\$ 5,866	\$ 6,677
Average assets	\$ 2,485,434	\$ 2,479,222	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258
Operating PTPP return on average assets ⁽²⁾	1.62%	1.45%	1.06%	1.03%	1.18%
Operating return on average assets⁽¹⁾					
Operating net income	\$ 6,949	\$ 6,199	\$ 4,612	\$ 3,380	\$ 4,532
Average assets	\$ 2,485,434	\$ 2,479,222	\$ 2,436,103	\$ 2,268,811	\$ 2,250,258
Operating return on average assets ⁽²⁾	1.11%	1.01%	0.76%	0.59%	0.80%
Operating return on average equity⁽¹⁾					
Operating net income	\$ 6,949	\$ 6,199	\$ 4,612	\$ 3,380	\$ 4,532
Average equity	\$ 206,641	\$ 197,755	\$ 193,092	\$ 183,629	\$ 184,901
Operating return on average equity ⁽²⁾	13.38%	12.61%	9.61%	7.30%	9.72%
Operating Revenue⁽¹⁾					
Interest income	\$ 18,109	\$ 17,311	\$ 15,158	\$ 14,376	\$ 14,022
Plus: Non-interest income	3,438	3,211	2,464	1,326	2,161
Less: Net gains (losses) on sale of securities	-	14	-	(883)	(955)
Operating revenue	\$ 21,547	\$ 20,508	\$ 17,622	\$ 16,585	\$ 17,138
Operating Efficiency Ratio⁽¹⁾					
Total non-interest expense	\$ 11,454	\$ 11,560	\$ 11,174	\$ 10,719	\$ 10,461
Operating revenue	\$ 21,547	\$ 20,508	\$ 17,622	\$ 16,585	\$ 17,138
Operating efficiency ratio	53.16%	56.37%	63.41%	64.63%	61.04%

(1) The Company believes these non-GAAP measurements are key indicators of the ongoing earnings power of the Company.

(2) Annualized.

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USCB FINANCIAL HOLDINGS, INC.
NON-GAAP FINANCIAL MEASURES (UNAUDITED)
(Dollars in thousands, except per share data)

	As of or For the Three Months				
	9/30/2024	6/30/2024	3/31/2024	12/31/2023	9/30/2023
Tangible book value per common share (at period-end):					
Total stockholders' equity	\$ 213,916	\$ 201,020	\$ 195,011	\$ 191,968	\$ 182,884
Less: Intangible assets	-	-	-	-	-
Tangible stockholders' equity	\$ 213,916	\$ 201,020	\$ 195,011	\$ 191,968	\$ 182,884
Total shares issued and outstanding (at period-end):					
Total common shares issued and outstanding	19,620,632	19,630,632	19,650,463	19,575,435	19,542,290
Tangible book value per common share ⁽²⁾	\$ 10.90	\$ 10.24	\$ 9.92	\$ 9.81	\$ 9.36
Operating diluted net income per common share ⁽¹⁾					
Operating net income	\$ 6,949	\$ 6,199	\$ 4,612	\$ 3,380	\$ 4,532
Total weighted average diluted shares of common stock	19,825,211	19,717,167	19,698,258	19,573,350	19,611,897
Operating diluted net income per common share:	\$ 0.35	\$ 0.31	\$ 0.23	\$ 0.17	\$ 0.23
Tangible Common Equity/Tangible Assets⁽³⁾					
Tangible stockholders' equity	\$ 213,916	\$ 201,020	\$ 195,011	\$ 191,968	\$ 182,884
Tangible total assets ⁽³⁾	\$ 2,503,954	\$ 2,458,270	\$ 2,489,142	\$ 2,339,093	\$ 2,244,602
Tangible Common Equity/Tangible Assets	8.54%	8.18%	7.83%	8.21%	8.15%

(1) The Company believes these non-GAAP measurements are key indicators of the ongoing earnings power of the Company.

(2) Excludes the dilutive effect, if any, of shares of common stock issuable upon exercise of outstanding stock options.

(3) Since the Company has no intangible assets, tangible total assets is the same amount as total assets calculated under GAAP.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a smaller reporting company, we are not required to provide the information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our President and Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2024. Based on that evaluation, management believes that, as of the end of the period covered by this Form 10-Q, the Company's disclosure controls and procedures were effective to collect, process, and disclose the information required to be disclosed in the reports filed or submitted under the Exchange Act within the required time periods.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

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, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II

Item 1. Legal Proceedings

The Company previously disclosed that litigation (the "Litigation") had been commenced on July 13, 2023 by three individuals who were shareholders of the Bank prior to the Bank's reorganization into the holding company form organization in 2021 (the "Plaintiffs") against six persons, all of whom were directors of the Bank at the relevant time (the "Defendants"), in the Circuit Court, Eleventh Judicial Circuit for Miami-Dade County, Florida (the "Court") (Benes et al. v. de la Aguilera et al.) alleging the Defendants (i) caused the Bank, as directors thereof, to engage in ultra vires conduct by approving and approving the exchange transaction effected in July 2021 pursuant to which the Bank's then outstanding Class C and Class D preferred stock was exchanged for shares of Class A voting common stock in the Bank (the "Exchange Transaction"), which action the Plaintiffs allege was not permitted by the Bank's Articles of Incorporation, and (ii) breached their fiduciary duty as directors of the Bank by approving and engaging in the Exchange Transaction. The Plaintiffs sought the Court to certify the action as a class action and to award damages in an amount to be proven at trial. The Plaintiffs sought damages exceeding \$750,000 plus attorney's fees and costs as well as such other relief as the Court determined to award.

The Defendants filed a motion to dismiss the Litigation with prejudice (the "Motion"). On December 27, 2023, the Court, after reviewing the Motion, the Plaintiff's response thereto and the Defendant's reply as well as the oral arguments presented by the parties on December 14, 2023, granted the Motion, dismissing the Litigation with prejudice and rendering judgment in favor of the Defendants (the "Order"). The Court reserved jurisdiction to award costs or grant any post-judgment relief.

On May 1, 2024, the Plaintiffs filed in the Third District Court of Appeal for the State of Florida (the "Appellate Court") an appeal (the "Appeal"), appealing the issuance of the Order and seeking a reversal of the Order. The Plaintiffs claimed the Court erred by concluding (i) the Exchange Transaction was not ultra vires, and (ii) that the Legacy Shareholders (which includes the Plaintiffs) lacked direct standing. The Plaintiffs filed their initial brief and the Defendants filed on July 1, 2024 their answer brief ("Answer Brief") responding to the allegations contained in the Appeal. The Plaintiffs have the ability to file a Reply Brief responding to the Defendant's Answer Brief but have not done so as of the date hereof. The Plaintiff's have requested oral argument.

The Company believes that the positions in the Appeal are legally and factually without merit, and it intends to vigorously defend against the Appeal, pursue any potential counterclaims against the Plaintiffs as it deems appropriate, and seek coverage from its insurance carriers. However, there can be no assurance that the Appeal will be resolved favorably. Moreover, there is also no assurance that we will be able to secure coverage from our insurance carriers for any expenses incurred by us in connection with defending against the Appeal. The Appellate Court could grant the Plaintiff's motion to reverse the Order and remand the case to the Court.

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

In addition to the foregoing, we are from time to time subject to claims and litigation arising in the ordinary course of business. These claims and litigation may include, among other things, allegations of violation of banking and applicable regulations, competition law, labor laws and consumer protection laws, as well as claims or litigation relating to intellectual property, securities, breach of contract and tort. We intend to defend ourselves vigorously against any pending or future claims and litigation.

There can be no assurance that any future legal proceedings to which we are a party will not be decided adversely to our interests and have a material adverse effect on our financial condition and operations.

Item 1A. Risk Factors

For detailed information about certain risk factors that could materially affect our business, financial condition, or future results, see "Part I, Item 1A – Risk Factors" of the 2023 Form 10-K.

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

(a) None.

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(b) Not applicable.

(c) The Company's repurchases of equity securities for the quarter ended September 30, 2024 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid Share	Total Number of Shares Repurchased Pursuant to Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Be Repurchased Pursuant to Plans or Programs (1)
July 1 - 31, 2024	10,000	\$ 11.99	10,000	537,980
August 1 -31, 2024	-	\$ -	-	537,980
September 1 - 30, 2024	-	\$ -	-	537,980

On April 22, 2024, the Company announced the adoption of a second repurchase program to repurchase up to 500,000 shares of Class A common stock, which repurchase program will commence upon completion of its first repurchase program.

Item 3. Defaults Upon Senior Securities

- (a) Not applicable
- (b) Not applicable

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

- (a) Not applicable
- (b) Not applicable
- (c) During the three months ended September 30, 2024, none of the Company's directors or Section 16 reporting persons adopted or terminated any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of the SEC's Regulation S-K).

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Item 6. Exhibits

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Share Exchange, dated December 27, 2021, by and between U.S. Century Bank and USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
3.1	Articles of Incorporation, as amended, of USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 (File No. 001-41196) filed with the Securities and Exchange Commission on August 11, 2023).
3.2	Amended and Restated Bylaws of USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on July 26, 2023).
4.1	Letter Agreement, dated December 30, 2021, between USCB Financial Holdings, Inc., U.S. Century Bank, Priam Capital Fund II, LP, Patriot Financial Partners II, L.P., and Patriot Financial Partners Parallel II, L.P. (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.2	Registration Rights Agreement, dated March 17, 2015, between U.S. Century Bank, Priam Capital Fund II, LP, Patriot Financial Partners II, L.P., Patriot Financial Partners Parallel II, L.P., and certain other shareholders of U.S. Century Bank (incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.3	Assignment and Assumption of Agreement, dated December 30, 2021, between U.S. Century Bank and USCB Financial Holdings, Inc. (incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K (File No. 001-41196) filed with the Securities and Exchange Commission on December 30, 2021).
4.4	Description of USCB Financial Holdings, Inc.'s securities (incorporated by reference to Exhibit 4.4 to the Registrant's Report on Form 10-K (File No. 001-41196) filed with the Securities and Exchange Commission on March 22, 2023).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. *
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934. *
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. **
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. **
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 formatted in Inline XBRL: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Stockholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), (vi) Notes to Consolidated Financial Statements (unaudited).
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
** Furnished herby.

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.

USCB FINANCIAL HOLDINGS, INC.
(Registrant)

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Luis de la Aguilera</u> Luis de la Aguilera	Chairman, President and Chief Executive Officer (Principal Executive Officer)	November 12, 2024
<u>/s/ Robert Anderson</u> Robert Anderson	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	November 12, 2024

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Luis de la Aguilera, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of USCB Financial Holdings, Inc.;
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, its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period 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 ensure that material information relating to the registrant, its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period this report is being prepared;

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Robert Anderson, certify that:

1.
I have reviewed this Quarterly Report on Form 10-Q of USCB Financial Holdings, Inc.;
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
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
its
consolidated subsidiaries, is made known to us by others within those entities, particularly during the
which
this report is being prepared;

b)

Exhibit 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**

In connection with the Quarterly Report of USCB Financial Holdings, Inc. (the "Company") on Form 10-Q
quarter

ended September 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the
"Report"), I, Luis

de la Aguilera, as President and Chief Executive Officer of the Company, certify, to the best of my knowledge
pursuant to

18 U.S.C. §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), as applicable,
Securities

Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial
and

results of operations of the Company.

/s/ Luis de la Aguilera

Luis de la Aguilera

Chairman, President and Chief Executive Officer

Date: November 12, 2024

Exhibit 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**

In connection with the Quarterly Report of USCB Financial Holdings, Inc. (the "Company") on Form 10-Q
quarter

ended September 30, 2024, as filed with the Securities and Exchange Commission on the date here
(the "Report"), I,

Robert Anderson, as Chief Financial Officer of the Company, certify, to the best of my knowledge, pursuant
18 U.S.C.

§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), as applicable,
Securities

Exchange Act of 1934; and

2) The information contained in the Report fairly presents, in all material respects, the financial
and

results of operations of the Company.

/s/ Robert Anderson

Robert Anderson

Chief Financial Officer

Date: November 12, 2024

